



30 May 2013

Members
Commerce Committee

Inquiry into purchasing online: Supporting modern consumerism

The Commerce Committee has been asked to conduct an inquiry into: “purchasing online: supporting modern consumerism”. This paper has been prepared to assist the Committee with its examination. The paper identifies issues and provides possible lines of inquiry for the Committee to consider. The Committee may also wish to raise these matters with the witnesses who have been asked to appear before the Committee to give evidence on this inquiry.

What is online purchasing?

Online shopping or online retailing is a form of electronic commerce that allows consumers to buy goods or services directly from a seller over the internet. Online shoppers commonly use a credit card or a PayPal account¹ to make payments. Purchases can be delivered through electronic form, such as downloading music or email confirmation of a purchase through a code or attachment, to standard shipping of purchases. According to a survey by leading market research company Nielsen, the most popular products and services in 2012 were airline tickets with 50 per cent of online shoppers purchasing these, followed by clothing/shoes/accessories (32 per cent), books/magazines (29 per cent), entertainment tickets (27 per cent) and travel related services such as accommodation and car hire (24 per cent). Other names for an online shop include: e-shop, e-store, Internet shop, web-shop, web-store, online store, and virtual store.

Online shopping is significantly changing the retail landscape and the way consumers purchase goods and services.

Some key facts are:

- New Zealanders spent an estimated \$3.19 billion on online shopping in 2012 accounting for around 5.9 per cent of all retail sales in New Zealand. By 2016, online spending is expected to grow to \$5.37 billion.
- Around 35 per cent of online spending in 2012 went to foreign-based companies.
- In 2011, the number of online shoppers in New Zealand reached over 1.6 million or 49 per cent of the total population aged over 18 years. This compares to 10 per cent in 2001.

¹ PayPal is a global e-commerce business which allows payments and money transfers to be made through the internet without sharing financial information. It is a safe alternative to using credit cards or other electronic financial transactions.

- The number of purchases each individual is making has also increased. For example, the number of people buying six or more items in 2011 increased by 21 per cent compared to 2010, and the number of people buying 11 or more items grew by 38 per cent.

Advantages of online shopping for consumers

The drivers of online shopping include competitive prices, convenience, and the range of choice available online compared to traditional retail stores. Improved search engine functionality, price comparison sites, smart phone apps and barcode scanning are all assisting consumers to purchase products or services at the cheapest price available. For example, one smartphone app can read a product's barcode and provide pricing information for buying it online. Recently, Trade Me had a similar app designed which allows the user to find out the price of buying books on Trade Me. Low pricing was the most important reason stated by 15 to 25 year olds for shopping online; however, other studies suggest that consumers do not select the cheapest offer and appear to use store branding as a proxy for credibility.

Some companies are making it easier to shop from overseas. New Zealand Post has introduced two new services:

- You Shop: this service makes it easier to shop for products over the Internet where sellers in the United States (US) do not ship to New Zealand or have expensive postage rates. The service delivers products to a US address before shipping them to New Zealand
- Loaded Everyday: this is a prepaid Visa debit card that consumers can use for online and in store shopping internationally. The card is available to anyone aged 10 years and over and provides security as the card is not linked to the user's other bank accounts.

Risks for consumers

Fraud and security

While online shopping has a number of advantages, issues with fraud and security can be problematic. Phishing, shortened from "password harvesting fishing", is a method of online identity theft. While this form of theft normally occurs through proactively targeting² and trying to deceive a person into giving out their bank account or other personal details, consumers also have other security concerns with online purchasing.

An Australian study³ found that 88 per cent of those surveyed who did not shop online cited security concerns as a barrier. Some of their concerns are valid as the same study found that:

- only 33 per cent of Small to Medium sized Enterprises⁴ (SMEs) have a risk management procedure in place in the event of a security breach where customers' personal details could be compromised
- less than half of SMEs offered PayPal as a payment option even though 59 per cent of consumers surveyed use PayPal when shopping online

² The person is normally contacted through phone, SMS, email, letter, via the Internet and/or in person.

³ *Consumer and SMB attitudes to online shopping and awareness of security measures*, 2012.

⁴ SMEs are generally defined as businesses which employ 20 workers or less.

- only 52 per cent of SMEs in the study offered 'https' which denotes a secure website even though 68 per cent were aware of it.

SMEs may have less knowledge and awareness of website and online security compared to larger firms; however, it could also show a potential gap in retailers' responsiveness to consumer concerns about security.

The same study found that 47 per cent of consumers were aware of 'https' and 11 per cent were aware of the 'padlock symbol' which also indicates a secure site suggesting consumer awareness may be low.

Another potential issue is where unauthorised charges occur. This can happen when a child purchases a product, for example an app on a mobile device, without the knowledge or consent of their parent or guardian.

Consumers' rights when purchasing online

A further implication for consumers purchasing online is that they do not necessarily have the same rights as when purchasing from a store. Under current New Zealand law, the Consumer Guarantees Act (CG Act) does not apply to goods sold at auction (or by competitive tender). Since the emergence of online sales through sites like Trade Me, some traders have been using online 'auctions' to avoid CG Act responsibilities. At the moment a trader selling on Trade Me using 'buy now' has obligations under the CG Act. A trader using a bidding process (commonly called an 'auction' on Trade Me) does not, even though it is the same website.

It is currently unclear who is liable when goods do not arrive or arrive damaged. Currently, consumers may be caught between the retailer and courier company if neither takes responsibility.

Compliance with New Zealand standards

Overseas purchases can also be problematic where consumers buy products that do not comply with New Zealand standards.

What does online shopping mean for New Zealand retailers?

As noted above, around 35 per cent of all online purchases made from New Zealand in 2012 were through foreign-based websites. This trend is expected to continue over the short term and is primarily due to competitive pricing, the strong New Zealand dollar, and access to a greater variety of goods. In addition, a number of international retailers have no shipping fee to New Zealand whereas many New Zealand retailers tend to charge postage. Regardless of specific reasons, online purchasing is a worldwide phenomenon⁵ and many retailers are now competing on a global scale.

No GST on good less than \$400

While the New Zealand dollar plays a role in creating competitive pricing, not having to pay Goods and Services Tax (GST) or duty on products that have a total cost (including shipping) of no more than NZ\$400 means overseas companies have an advantage over New Zealand retailers. This is a high threshold compared to other countries except Australia.

⁵ Online shopping as a percentage of total sales is higher in the United States (7.3 per cent) and United Kingdom (10.7 per cent) than New Zealand (5.9 per cent).

Some consider this a form of 'tax break' for online shoppers which creates an unfair playing field for traditional retail stores and distorts consumer choice. Some argue that the government also loses revenue from reduced company and personal income tax with one estimate suggesting up to \$300 million in tax revenue is lost each year. The Australian Government has recently come under pressure to reduce the current AU\$1,000 exemption from GST on online purchases but has ruled out any immediate reduction.

In addition, New Zealand operates a minimum duties/GST payable limit where imports are not taxed if the combined duty/GST payable is less than \$60. Only some goods attract a tariff⁶ with the amount depending on the type of good and where it is made, for example. As such, an online purchase between \$226 and \$399 could be taxed depending on whether it attracts a tariff. This creates confusion and is different from how other countries operate where the tax threshold is based on the cost of the purchase.

Use of technology to assist retailers to be more competitive

According to a 2011 US survey, 33 per cent of shoppers will leave a store without buying what they wanted due to the product not being in stock, lack of selection, and retail staff not satisfying customer expectations. While there are a range of additional factors making it difficult for New Zealand retailers, advances in technology, which include online purchasing, combined with traditional retail allow them to compete more effectively in a global economy and respond to modern consumer needs.

This new approach is known as 'multi-channel retail'⁷ and acknowledges that consumers are shopping in different ways and across a number of channels. The advantage of a multi-channel approach is that it captures the best of both worlds, giving retailers an advantage over those who solely operate through the Internet. It also contributes to building the company brand.

Part of the multi-channel retail approach focuses on retailers redefining their value proposition to create a stronger in-store customer experience by having skilled staff who understand the product and can enrich the customer's experience. For example, Unity, a Wellington based independent bookseller, has made use of parallel importing allowing them to undertake special orders for customers. They are also purchasing items at cheaper prices by buying direct from the US if local suppliers' prices are too expensive.

Technology is also being used to assist store staff or the customer with their shopping experience. The use of mobile point-of-sale (MPOS) systems allows in-store staff to use a mobile device to access information about available stock and store products. MPOS also enables staff to make a sale anywhere in the store similar to how mobile EFTPOS machines are used in bars and restaurants.

Alternatively, the use of information or pricing kiosks tells customers exactly what a product will cost and smartphone apps are being designed that allow customers to scan their own items for purchase as they move through a store. For young people who have grown up with smartphones, this is considered a natural shift.

Considering an online presence

Having an online presence to complement the in-store experience is also part of any package with leading experts suggesting retailers should treat a web presence in the same way as opening a new store. Some low-end websites provide details of the retailer's

⁶ A tariff is a duty levied by a government on imported or exported goods.

⁷ This is also called 'consumer adaptive retail'.

philosophy, product and sites but may not have an option to purchase online. This excludes retailers from a potential market of customers, including overseas buyers.

One study suggests that mobile devices are a key enabler to growth in online shopping with 36 per cent of New Zealanders using a mobile device to shop online in 2011.

What is the appropriate role for government in online purchasing?

The Advice, Information and Education Team at the Ministry of Business Innovation and Employment already provides educational information to increase consumer awareness of some of the potential pitfalls when buying online. There are also government supported initiatives, such as Scamwatch, to report and prevent scams and phishing.

The Government has addressed some online purchasing issues through the Consumer Law Reform Bill. When enacted all trader to consumer transactions will be subject to the CG Act including auctions. This will address the current issue that traders use online 'auctions' to avoid their responsibilities under the CG Act.

The Bill will require online traders to declare if they are a trader, so consumers will know if the CG Act applies. Only sellers who are traders are required to comply with responsibilities outlined in the CG Act. Consumers who buy goods from other consumers (e.g. at a garage sale or through Trade Me) are not protected by the CG Act. In an online environment it can be difficult to tell whether a seller is a trader or not.

In addition, there will be a new guarantee relating to the delivery of goods. The CG Act guarantee of 'acceptable quality' will apply from when goods are received by consumers. The retailer will be responsible for responding to any issues the consumer has raised, including not receiving the goods in a reasonable time or if the goods arrive damaged. The retailer will also be responsible for liaising with the courier company on behalf of the consumer.

The changes in these areas are both supportive of online purchasing and aim to modernise trading laws in response to the changing retail environment.

Some OECD countries are developing specific laws for online purchasing, and for electronic goods (for example, music downloads). New Zealand has not taken this approach; goods purchased online or electronic goods, have the same status as goods purchased in a store.

Further analysis could be done by the Ministry of Business, Innovation and Employment, Inland Revenue and Customs to consider how overseas purchases, where no GST is collected, affect New Zealand retailers.

Report to the House

The Committee is required to report its findings on this inquiry to the House. The purpose of your report is first to inform the House and stimulate debate. In doing so your report should reflect both the oral and written evidence the Committee received, the issues the Committee considered in-depth, and the views of the members. From these the Committee should develop conclusions and recommendations to the Government.

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Members may wish to ask:

- Is enough being done to raise awareness of the 'https' and the padlock symbol indicating a secure website?
- Is enough being done to promote Scamwatch and raise awareness of security and scams?
- Has the new legislation gone far enough to protect consumers' rights when purchasing online?
- Does online purchasing from overseas retailers pose a significant threat to traditional retailers in New Zealand?
- Is there a case to reduce the NZ\$60 amount of GST and duty collected from customs to make it fairer to New Zealand retailers?
- Should New Zealand align with international practice and tax goods based on the cost of the good rather than the amount of tax and duty the product is subject to?
- How open should New Zealand retailers be to new modes of retailing, such as multi-channel retail or 'consumer adaptive retail'?
- What role can government play in assisting retailers to develop an online presence?

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Stuff, *Online purchase duty under scrutiny*, 4 December 2012:
<http://www.stuff.co.nz/business/money/8031779/Online-purchase-duty-under-scrutiny>

The rapid growth of online shopping is driving structural changes in the retail model:
<http://www.pwc.com.au/industry/retail-consumer/assets/Digital-Media-Research-Jul12.pdf>

'*The Rise in Foreign Retailing and New Zealand's GST Exemption: Time for a Change?*' co-presented with NZ Booksellers & NZ Chair in Public Finance:
<http://www.iscr.org.nz/n857.html>

Further Reading and weblinks

Suggested keywords and phrases for internet search engines:

- Online shopping
- Online purchasing
- <http://www.consumeraffairs.govt.nz/scams/about-scamwatch>
- <http://tvnz.co.nz/business-news/global-online-shopping-frenzy-hits-local-sales-5233579/video>
- [http://www.radionz.co.nz/news/business/111660/nzers-online-shopping-expected-to-reach-\\$5-billion-by-2016](http://www.radionz.co.nz/news/business/111660/nzers-online-shopping-expected-to-reach-$5-billion-by-2016)
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