California Department of Tax and Fee Administration
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Bricks and Clicks

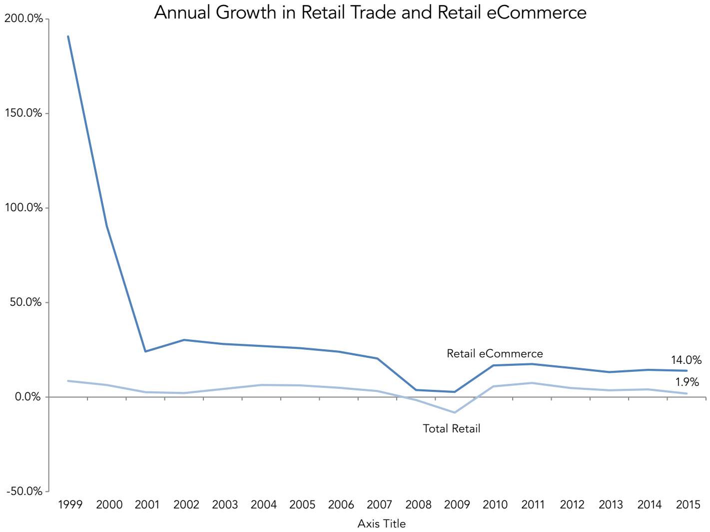
Dramatic Changes in Retail Trade

With the rise of the Internet, the retail landscape has changed dramatically in the past 20 years and continues to evolve. This newsletter reviews changes in retail trade and electronic commerce statistics provided by the U.S. Census Bureau.[1]

Long Term Trends

As shown in Chart 1, annual growth in U.S retail electronic commerce has been at or above double-digit rates since the Census Bureau starting tracking it in the late 1990s. Growth rates have been far above increases in total U.S. retail trade. In 2015, total retail trade rose 1.9 percent while electronic commerce sales increased 14.0 percent.

CHART 1
Annual Growth in Retail Trade and Retail eCommerce



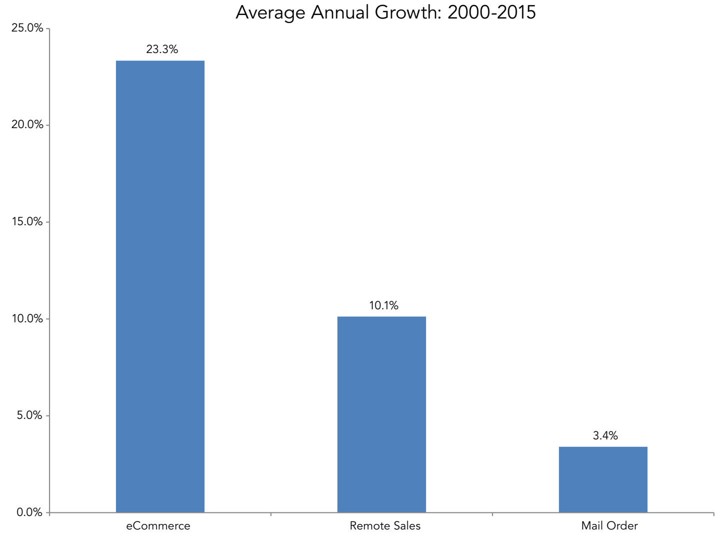
Electronic Commerce Important to Tax Administration

Electronic commerce is important to sales and use tax administration because many out-of-state electronic commerce retailers are not required to register with the California Department of Tax and Fee Administration (CDTFA) (formerly the Board of Equalization), and do not collect taxes on sales to California customers.[2] Many traditional mail order retailers similarly are not required to register with the CDTFA. Quite a few retailers make sales both through traditional mail order and electronic methods. "Remote sales" is the term used to indicate the combination of traditional mail order and electronic sales.

Electronic Commerce and Mail Order Sales

Average annual sales growth from 2000 to 2015 for purchases made using electronic commerce, mail order, and their combined total remote sales are displayed in Chart 2. Electronic commerce sales growth increased an average of 23.3 percent per year since 2000. Mail order sales averaged much lower growth, 3.4 percent. Remote sales averaged 10.1 percent.

CHART 2
Average Annual Growth: 2000-2015



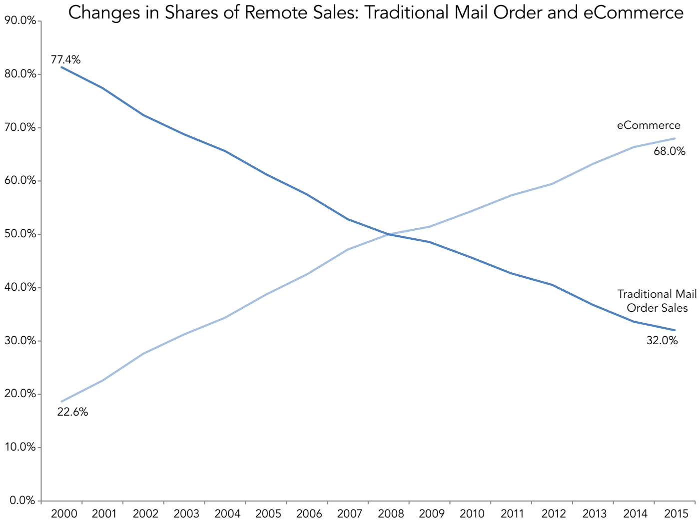
Mail Order Declining as a Share of Remote Sales

Trends in shares of electronic commerce and mail order sales are shown in Chart 3. In 2000, mail order constituted 77.4 percent of all remote retail sales, while the remaining 22.6 percent of sales were electronic. By 2015, shares have nearly been reversed. Electronic commerce accounted for 68.0 percent of remote sales, while mail order comprised 32.0 percent.

[1] U.S. Census Bureau *Annual Retail Trade Survey*, *https://www.census.gov/retail/index.html*

[2] Board of Equalization estimates of revenue losses from electronic commerce and mail order sales are discussed in *http://www.boe.ca.gov/legdiv/pdf/e-commerce-2017F.pdf*

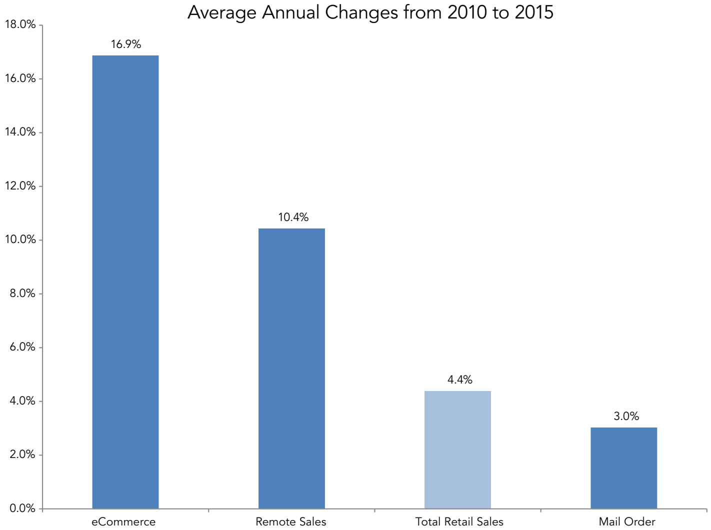
CHART 3
Changes in Shares of Remote Sales: Traditional Mail Order and eCommerce



Trends Since 2010

Tabulations of recent data indicate that mail order sales are still increasing, though at much lower growth rates than electronic commerce. From 2010 to 2015, mail order sales rose 3.0 percent per year, while electronic commerce increased 16.9 percent. Total retail trade increased an average of 4.4 percent (See Chart 4).

CHART 4
Average Annual Changes from 2010 to 2015



Remote Sales Shares of Total Sales

Remote sales constituted 9.2 percent of the total 2015 U.S. retail sales, as indicated in Chart 5. Traditional brick and mortar stores selling cars, food, general merchandise, and gasoline had higher shares of total sales. As shown in Chart 6, from 1998 to 2015, sales made by nonstore retailers (a large proportion of which are remote sales) increased their share of total retail sales by 5.6 percent. Shares of total retail sales also increased for stores selling gasoline, health care products, and general merchandise, while shares of sales by all other types of stores declined since 1998.

CHART 5
Shares of Total 2015 Retail Spending by Type of Outlet

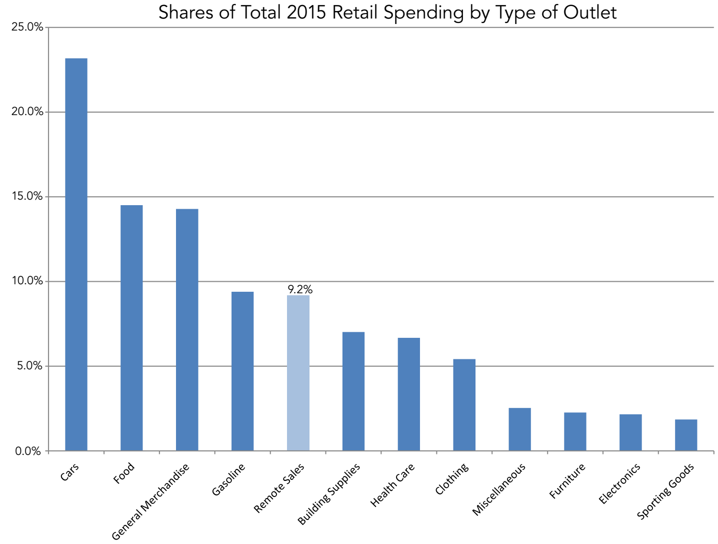
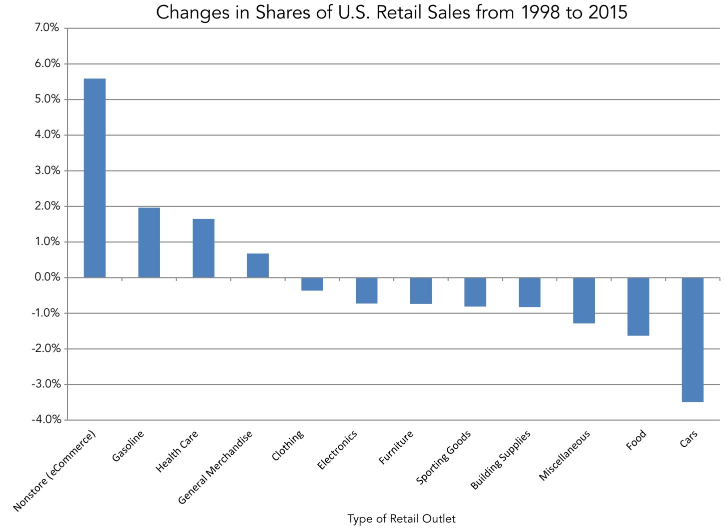


CHART 6
Changes in Shares of U.S. Retail Sales from 1998 to 2015



Electronic Shopping Industry Dominates Other Retailers

Chart 7 shows electronic commerce sales made by type of retailer. The vast majority of electronic commerce, 87 percent, is from firms in North American Industry Classification Code 4541, Electronic Shopping and Mail Order Houses. Electronic sales made by other retail industries are relatively small, as indicated in Chart 7. Car sellers are a distant second place, with nine percent of electronic commerce. The remaining four percent of electronic sales are scattered among several industries.

CHART 7
Shares of Total Retail eCommerce Sales by Industry in 2015

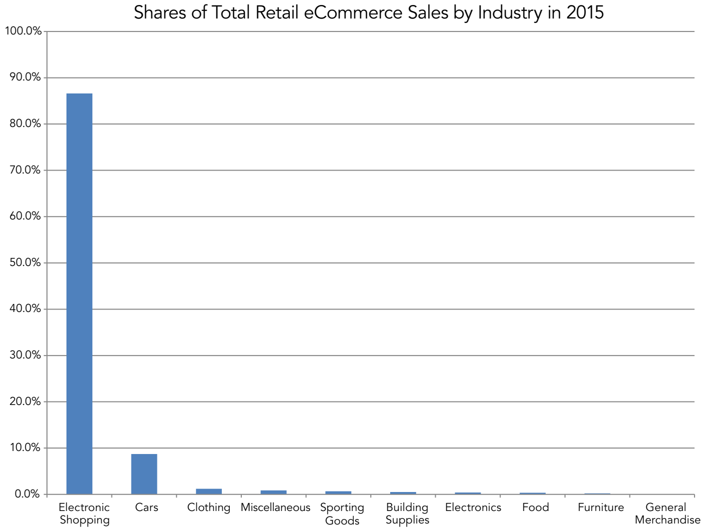
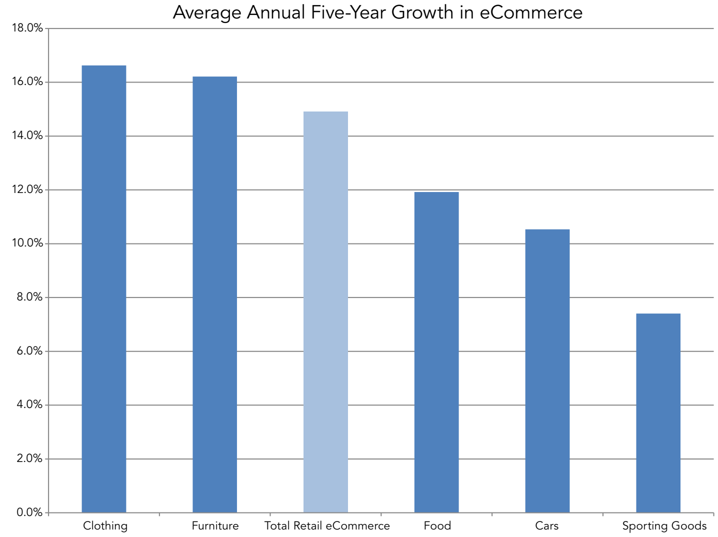


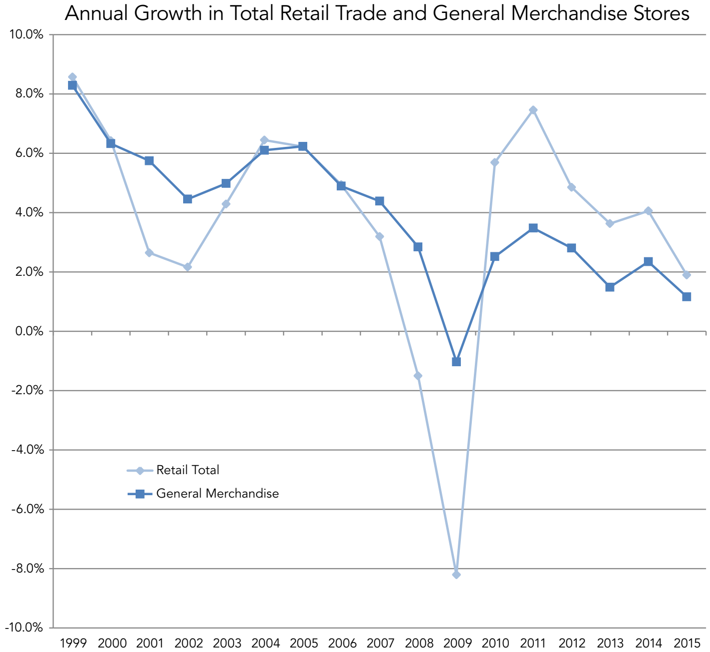
CHART 9
Average Annual Five-Year Growth in eCommerce



General Merchandise and Total Sales

Many consumers have substituted purchases formerly made at general merchandise stores (which include department stores and "big box" stores) for electronic purchasing. Comparisons of sales from general merchandise stores and total retail trade confirm this trend. Chart 8 compares annual growth in total retail trade and general merchandise trade. In the early 2000s, general merchandise store sales rose faster than total retail sales. In the mid-2000s, general merchandise sales rose at rates close to total sales until the great recession started in 2008. Since 2010, retail sales have risen faster than general merchandise store sales.

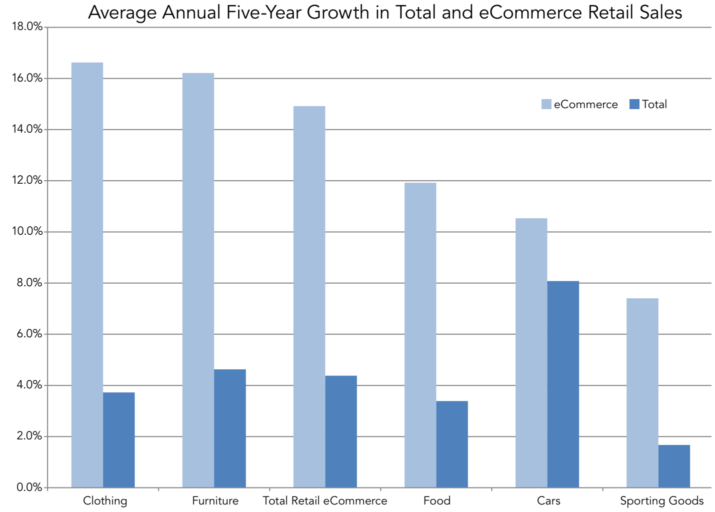
CHART 8
Annual Growth in Total Retail Trade and General Merchandise Stores



Electronic Sales by Industry

Chart 9 shows average electronic commerce growth from 2011 to 2015 for selected industries. Electronic commerce has grown faster than average for clothing and furniture. Electronic sales of food, cars, and sporting goods have risen slower than average.

CHART 10
Average Annual Five-Year Growth in Total and eCommerce Retail Sales



Electronic and Total Sales by Industry

Chart 10 shows both electronic and total sales for the same industries. Electronic sales have grown faster than total sales in all these industries.

Summary

- Electronic commerce has grown at double-digit annual rates for nearly two decades, and shows no sign of slowing.
- Traditional mail order sales continues to increase, though at much slower rates than electronic commerce.
- Despite rapid growth in electronic commerce, sales made by traditional retail outlets such as car dealers, grocery stores, general merchandise stores, and gas stations dominate retail spending.
- General merchandise sales are experiencing below-average growth, as electronic commerce sales substitute for department store and big box store sales.
- Electronic sales of clothing and furniture are growing faster than average.

Contact Us

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http://www.boe.ca.gov/legdiv/legresearch.htm#Reports_Resources

Online Resources

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U.S. Bureau of Labor Statistics
http://www.bls.gov/

U.S. Bureau of Economic Analysis
www.bea.gov

U.S. Census Bureau
www.census.gov