

Cover Letter for Retail Inquiry Submission

18-05-2011

Red Herring Surf is a privately owned independent chain of surf stores in Tasmania. We have operated since 1971 and currently have 4 stores across the state, a warehouse and a Head Office site.

Retail has never been as tough as it is now, with revenue falling, margins shrinking and costs rising dramatically. The impact of online offshore sales has seen the biggest turnaround for our company since we began.

We have begun to lay off staff and cut costs as our sales are going overseas at prices we don't even buy these goods at.

There is a double barrel effect to this as GST revenue falls for the Government as well so they can no longer afford the services to the community as they should.

I have gone through the list of questions posed in the issues paper and answered as many of these as I can for you. I hope that this format is suitable.

If you require further detail in any areas I am happy to provide it, however I cannot reiterate strongly enough how the retail landscape is changing so rapidly at the moment and the next 2 years will see a dramatic change in how we do business. The consumer has changed how and where they shop and the flow on effect of this through communities will be radical. I can only liken it to how technology changed so many things we did in the past and some jobs (ie typists) became obsolete.

Regards

Victor Tilley

General Manager

Retail Industry Inquiry

To what extent is current retail performance a result of structural rather than cyclical change? If it is structural change what are the implications and evidence of this? *I believe it is a structural change as shoppers habits change, no longer is it necessary to shop in a bricks and mortar shop*

What further evidence from the market is available in support, or otherwise, of the view that many categories of retail goods are continuing to grow in terms of volume but that prices have decreased, thus squeezing margins? What specific categories of goods are affected and what factors other than the strength of the Australian dollar are bringing about this price deflation? *Our market is a premium end and there is no growth in volume sales or margin in fact both are going backwards as sales slow and we are driven to discount to achieve turnover.*

To what extent has competition from overseas and Australian online retailers contributed to falling revenue growth experienced by Australian bricks and mortar retailers? What data supports this? Is this a trend which will continue? *This has significantly impacted on us, right across all product lines but particularly wetsuits (down 30% in turnover April 2010 compared to April 2009 and continuing to head downwards) but also watches/sunglasses/footwear/clothing. Yes it is a trend which will continue whilst the dollar is so high*

What are the major factors influencing the profitability of retail businesses in Australia? Why are some retail sub sectors more profitable than others? *Cost of doing business- wages/rents/services. The rise of category killer stores like Anaconda, Kathmandu etc big box developments, online sales overseas, DFO type developments on airport land that avoid so many local regulations/wage cases etc*

Where both costs and profits are high by international comparison does this inevitably mean consumers in Australia are paying higher prices? If so, is this a likely permanent position? If not, what are the forces which are likely to change it? *Yes Australian consumers are paying a higher price, it is the price they have to pay if they want high wages/good living conditions. It would take a major shift in many areas to change this. This is why Zara and similar stores want to come to Australia, it is a premium market where you can achieve a higher price for goods, but you also have*

to be prepared to pay higher wages/rents etc. The only thing I could see changing this is a major global upheaval (depression?) that changes radically how business is done.

How is the growth in online selling impacting on retail profits? What is the quantitative evidence for this? 30% down in wetsuit sales, online store in the US (cleanlines.com) selling “12 suits a day” into our market. I have endless websites all across the world doing the same thing with many of our categories

How have retailers responded to changing demand conditions in regard to staff employment? Thought very, very carefully about whether to hire any more staff or just make do with current staff members

What are the current impacts and likely future impacts of the growth of online shopping for employment, including regional employment, in the retail industry? It has already affected us and we have been laying off staff as sales stop, this is a critical issue and will have massive implications over the next 12/24 months Australia wide

How is the structure and character of the retail industry likely to change in the next 20 years? Online is here to stay, we will all be competing in a global market. Store fronts will become more the way to go, like a portal to ordering the goods you want. Jobs in retail will disappear. CBD areas across the world will radically change from shopping destinations to meeting places/parks/cafes

What factors are likely to drive changes in the structure of retailing in the next 20 years? Online, cost of doing business

Which retail models are likely to survive and which are likely to struggle given current industry trends? Vertical retail models with high margin will survive, independent stores will go except for some niche areas, shopping centres will struggle

Why have Australian retailers been relatively slow to take-up online trading? What impediments are there to the greater use of online trading by Australian retailers? Are there impediments (other than consumer protection issues — see later) to the use of online retailing by Australian consumers? Australian retailers have been slow because of the massive price differences, why invest in an online presence when the same item is so much cheaper from an overseas site? There are no impediments for

Australian consumers, but again why buy local when it is cheaper from overseas?

How significant is the impact of online trading on domestic retail businesses? Massive, I can't state clearly or loudly enough how much of an impact this has had on my business, I am constantly being asked to 'price match' with overseas sites, we lose sales to them each and every day

What factors explain Australian consumers' willingness or reluctance to purchase online from overseas suppliers? What is the relative significance of these factors? Australians, like everyone else, just want a bargain, and they are willing and able to do it on overseas sites every day. The only reluctance I see is the threat of online security, but the cheap goods far outweighs any thought of this.

How significant will online trading be for the Australian retail industry in the future? Is it likely that Australia will realise similar growth in market share for online retailing to that seen in the USA and Europe? What retail sectors are likely to be impacted the most by the growth of online trading? What new business models might be created by online trading? Online trading will grow within Australia, particularly when the dollar drops below 70US cents and we can then be price competitive. All stores that want to be competitive in the market place will have to have an online presence.

What is the extent of international price differentiation in the global marketing of branded products which impacts on Australia? What other factors explain the differences in prices between domestically and overseas sourced identical products? Here is one example, I can give you many others. A RipCurl Dawn patrol wetsuit that wholesales in Australia to me for \$147 Australian is bought by a US surf shop for \$95 US. This is having a massive impact- I simply cannot compete. I cannot explain the difference and neither can any wholesaler that I ask give me a decent answer.

Is the parallel importing of identical or very similar products from overseas suppliers an effective and sustainable strategy for local retailers to reduce their costs and allow them to compete more effectively with offshore online providers? In the future, will the much greater ability of both consumers and retailers to import directly from overseas, tend to erode the degree of regional price discrimination by international brand owners in certain product categories? At this stage we cannot import direct from overseas,

even though as stated in answer to other questions the wholesale price is considerably less. If we could import direct it would mean that the wholesalers in Australia would become irrelevant and you would lose a lot of jobs in this area. Yes, if we could import direct at a cheaper price, we would then sell the goods at a cheaper price.

Are there additional measures that could be taken by industry or governments to increase consumer confidence in the security of purchasing online? Continued toughening of laws relating to online crime, but both the legal and illegal side of the online industry is growing so quickly it is almost impossible to keep up.

What impacts have the consumer guarantee provisions of the new Australian Consumer Law had on the ability of consumers to obtain an appropriate remedy (for example refund, exchange or repair) when they experience a problem? The consumer guarantees are heavily weighted in the consumers favour and we basically give a refund almost no matter what the circumstances. This is absolutely wrong and the retailer has no provision for any feedback or redress where as the consumer has endless ways to affect a business through letters to the local paper, radio talkback, facebook posts etc etc. Whilst there is the Australian Consumer Law where is there any justice for the retailers?

How have the new provisions impacted on retailer costs and is the impact consistent with that anticipated when the new laws were being developed? As above, we basically have to refund no matter what and then donate the goods to charity usually, so the bottom line impact is massive.

Are there any significant examples of problems with regard to the safety, quality or performance of goods purchased by Australians from overseas online traders? Where problems are experienced with online trading, what avenues of redress have been pursued and how successful have consumers been in obtaining a satisfactory outcome? We get a number of customers in store who have purchased online and not got what they want or had problems with returns/repairs- where possible we help out in the interests of customer service but again there is no monetary return for us

Are there adequate protections for Australian consumers purchasing goods from overseas websites online? If not, what can be done to improve consumer protection for online purchases from overseas websites or to

better educate consumers to help them avoid detriment? *Better educate the customers to shop locally!*

Should imported intangible goods be brought into the Australian tax base? If so, how could this be accomplished? *Yes they should, either you have a GST on goods or not*

Is there any evidence that owners of major retail complexes in Australia exert market power to command higher rental and occupancy costs than are experienced in many overseas markets? *Just look at the price we are paying here compared to overseas, it is not rocket science, Australia is an expensive place to do business*

Is it inevitable that Australian retailers must pay higher rental and occupancy costs as a proportion of sales than offshore counterparts? If so, why and what factors cause this? Does this mean that Australian retailers will have to charge higher prices to maintain reasonable levels of profitability? *yes, we will pay more rent etc to fund our way of life, and so it follows that we must charge more for goods to maintain margin*

Are there any significant and enduring skill shortages in the retail industry? Which sectors or regions are affected? Are current training arrangements sufficient to satisfy future skill requirements in the industry?

Staff dedicated to customer service perhaps is the strongest issue when it comes to recruiting staff. There are plenty of industry training institutions offering retail training certificates, however retail is not often perceived as a career choice for some and people often work in retail to get themselves through Uni or for extra pocket money. This can be extremely hard for Retail employers to manage/balance.

What are the current and future implications of the growth of online shopping for skills development and training requirements in the retail industry? *This will have to change as customer service no longer becomes face to face but online, so it is more like call centre training.*

What are the major pressures driving wage costs and to what extent are productivity improvements offsetting the effects of wage increases? *Wages are rising rapidly with no increase in productivity, wages are being driven by inflation*

Wage budgets have remained fairly constant but with an increase in provisions from financial year 09/10-10/11 due to changes in fair work legislation impacting wages across the board. Annual wage costs an average of \$1.5 and provision of \$1.6 in 10/11. There will be some wage freezes put into place for financial year 11/12 due to retail industry forecasts. Another reason for increases is that we have experienced a workforce overbalanced towards casual staff which chews up extra costs as we are paying higher penalty rates and then not being able to retain or train casual staff as they have greater flexibility to come/go.

How are current workplace legislation, awards and other institutional factors impacting on the retail sector, in particular: the level and structure of employment; wage outcomes; penalty rates, labour market flexibility and productivity performance?

The new Award changes are quite frankly a mess and complicated to input due to incremental changes to all rates over the next 4 years. This legislation was supposed to make it easy for employers and employees alike to digest the changes however it is just creating greater ambiguity and confusion for all. There are many different interpretations out there between Fair Work and Employer Bodies nothing appears easy and this makes it even harder to forecast wage budgets for upcoming financial years.

Are there any significant remaining differences in labour market laws operating across Australian jurisdictions. If so, what are the implications of these differences for labour market costs, flexibility and mobility?

With the introduction of Fair Work it seems to be fairly consistent now, probably one of the few benefits of the new legislation is that we know we are paying industry standard in Australia. There may be still some variations due to old workchoices legislation transitions and some enterprise agreements.

What are the implications for employees and employers, and for efficiency and productivity in the sector, of the current use, or lack of use, of commission-based remuneration and incentive payments in the retail sector?

Our wages budgets have increased in part due to the introduction of bonus incentives to our Store Managers in order to drive productivity further. This comes with both benefits and draw backs, the benefits of a quarterly bonus

incentive is that it gives senior managers more clout when they give instructions and ensures some/most expectations are fulfilled. However it is costly and time consuming in regards to administration and due to the volatile retail conditions most benchmarks are not being reached hence no incentive payments available which can create some frustration amongst the Store Managers.

Is it inevitable that Australian retailers will always on average have higher labour costs as a percentage of sales than their offshore counterparts? If not, why not? Does this mean Australian consumers will necessarily always pay higher prices? Does this mean online sellers from overseas will always have a competitive advantage? Yes our wages will always be higher because of our cost of living, all areas will have to change for one to change. So yes, this does mean that Australian prices will be higher and that online overseas sellers will have an advantage

To support a case for change, the Commission invites participants to provide information, including quantitative information where this is possible, to shed light on the nature and extent of any unnecessary regulatory burdens impacting on the retail sector.

Wages/Sales percentages have increased over the past 3 years by an average of 1-1.5%. We are now looking an annual average of 13.7%