

Some comparisons on overseas Internet purchasing - Australia and other countries, most commonly the USA.

What is apparent in the media in this area is the often selective, misleading and frequently completely inaccurate nature of the comments on pricing and retail situations in Australia compared to other countries.

There is no general rule. The issues should be approached on a case-by-case basis.

My area is consumer electronics in the audio visual sector.

1) **Statement:**

**Australia lags behind in other countries in its use of the internet for retail sales.**

**Fact:**

You can find poor examples and good examples of Internet usage in different comparable countries.

There are tax and cultural factors that account for a large part of American internet usage.

In America they have local taxes which go from towards 10% to 12.5 %. The taxes are not applicable when shipped interstate. I can't say how much this was a factor in the start of Amazon but it was surely a very important one.

This is a clear additional incentive in America compared to Australia:

Imagine when goods were shipped interstate from Victoria to New South Wales or other states and there was no GST. This would create a massive incentive for Internet sales.

As a major American cultural factor which is very different to the Australian situation- Amazon is an internet-age version of what was the Sears Roebuck US catalogue started in the 1890s, except that Amazon's catalogue is on line. Sears Roebuck was an American cultural institution. Their catalogues came in the mail every month. Internet shopping took off much earlier in the US than here as it was a natural extension of something Americans had been doing for a century. Catalogue shopping has not been popular in Australia.

This is before we go into the relative efficiencies due to America's large population compared to its area.

2) **Statement:**

**Australian retailers are ineffective and inefficient compared to other countries.**

**Fact:**

There are a wide variety of retailers standards. I can think of plenty of audio shops in the USA that would be laughed at here and ones in Australia that are the equal or superior compared to some internationally known American stores. If you look at it overall Australia is in the same general category. And let's not forget that so many Australian costs such as labour are far higher.

3) **Statement:**

**Australian retailers charge too much and make large profits. They should drastically cut their prices.**

**Fact:**

Overall retailers average net profit is in a lower single figure percentage. Most retailers would go out of business rapidly if they reduced their selling prices by 5% without other changes.

4) **Statement:**

**The internet will dramatically cut costs.**

**Fact:**

There can be no 100% rules, but it is simple enough.

If Harvey Norman as a major example decides to have a big internet sales operation they still have to pay for their general costs such as leases, staff advertising and so on. And of course doing a good Internet operation is not a free lunch. If they and other retailers cut down their outlets, staff and move to far cheaper rental areas, employ less people and less experienced staff of course they can cut costs, but it won't be a popular move.

Most people like to look at relatively expensive items in a convenient area before purchasing.

Many people who consider themselves to be ethical still think it is quite reasonable to waste the time of a helpful retail salesperson and then purchase on the overseas internet.

5) **Statement:**

**The unhelpful major retail shop staff members and the helpful internet providers have been mentioned in the media.**

**Fact:**

This does happen at times. I can then point out the helpful retail shop staff members and the unhelpful internet providers.

6) **Statement:**

**Australia is more expensive than other countries.**

**Fact:**

It depends on the examples chosen. And let's not forget the voltage and other standards that are different in Australia to other countries and the higher cost of international shipping to Australia. If you go into a major category such as LCD's and plasma 's they overall cost less in Australia as compared to Europe and comparable with, sometimes lower than the USA (which has a different TV system). I am assuming you pay the local taxes!

Some examples are attached. A short time ago I saw an example from a supposedly prestige source quoted in the Green Guide of \$400 for a 40" Panasonic in the USA as compared to a \$1000 in Australia. Apart from the fact they can't be the same model due

to different broadcasting standards, I couldn't find either after looking carefully the same day. It sounded impressive but very few people check these statements carefully.

**7) Statement:**

**Importers in Australia pay the same price as importers overseas.**

**Fact:**

It is case-by-case depending on the individual market. In general, if I were buying 20 times the quantity of products (based on the US population level) and couldn't get a better price I should be pensioned off. Australian importers often pay substantially more because of their lower volumes.

**8) Statement:**

**It is too expensive to collect GST and customs duties on online purchases under \$1000.**

**Fact:**

Various European countries such as the United Kingdom don't follow the Australian model. Each country has its policies based on different considerations. Whether stated or not cutting down imports of this kind and allowing local retailers to compete on a more level playing field will be a factor.

And there is an immutable law that when you put in a tax anomaly it creates a market distortion and then there is a question of the potential detriment in shifting Australian jobs offshore.

**9)** A company in America may send its goods directly from its warehouses to its dealers in America. To supply another country means that country will have to accept the higher freight cost, set up its own warehouse, distribution network, advertising and all the costs of running a separate business.

**10)** There is apparently some form of wishful thinking that people will purchase more on the internet because of lower prices. To a certain extent it will change the purchasing patterns, though not as quickly as imagined, at least in the short term.

There is a zero-sum game involved. People are unlikely to buy two large flat panel TVs for their main room. They will not buy two washing machines, two dishwashers and so on. There will be particular product niches where sales will increase greatly from a low base [often at the expense of another area] but they will not be the main retail factors.

**11)** My pricing examples will be based on an integral part of Australian households - a flat panel TV. These quotes were all within 30 minutes of each other.

I chose Amazon as the best known internet seller of its kind. The US price does not include local taxes which can be 12.5%.

I can't know what the currency rates were at the time the units were imported in each case, but the final prices are similar. Models are a little different country to country to fit in with the local standards, but would be regarded as similar by purchasers.

In the past Australian flat panel prices have sometimes been lower than the UK but change is constant. There are no consistently very large differences.

I am sure people will find other products that are cheaper in one country or another especially when you get to items such as clothing (which have duties as well as GST), cosmetics and books. The assumption that Australian prices are always far higher is a myth.

The yellow highlighted area in the attachment indicates a blatant example of understating the costs. Real-life examples of undervaluing by the Australian importer are common.

We know what would happen to driving speeds if we didn't have policemen and speed cameras. Not policing thresholds encourages people to be liars. It has been said that the majority of parcels are under \$100, so to accept a low threshold of say \$100 for overseas Internet sales is an appropriate compromise. It needs to be made clear that undervaluing means losing the goods, a fine and a court appearance. This would cause a dramatic decrease in such abuses.

12) Unrealistic consumer expectations. We have to factor in.

On occasions we have people who contact us about equipment purchased on the internet that has arrived damaged, has been used, they can't work out how to operate it, it is unsuitable for their use and expect us to sort out their problems at no charge because we handle the equipment.

Highly intelligent, professional people can be shocked when we politely tell them that we are only responsible for what has been sold through us.

13) Misunderstanding the effect of changes in exchange rates.

This is a complex subject but a few points need recognition. When the \$A improves it doesn't have an immediate affect. The importer may have paid for the goods say 8 months before [it takes time to make the goods and ship]. There are a variety of arrangements. The importer may have currency hedges of one form or another, say the exchange rate a year before.

Banks often advise hedging as a desirable policy.

Costs don't automatically change in line with exchange rates. Running a warehouse, paying staff, advertising, servicing and other operational costs are not directly affected exchange rates they are a very substantial part of the costs of business.

14) I notice a frequently punitive tone when talking about billionaire retailers and huge profits. The vast mass of retailers are smaller operations. They stock commonly required products but they don't stock every conceivable product and can't be expected to.

I would like to have explained in financial/accounting terms how the desired model Internet savvy electrical retailer as an example, selling a wide variety of goods from different manufacturers should operate to compete.

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