

17 May 2011

Inquiry into Australian Retail Industry  
Productivity Commission  
GPO Box 1428,  
Canberra City ACT 2601

Dear Members,

We are a retail specialty bicycle shop located in suburban Sydney. Whilst we represent only one of the many hundreds of bicycle shops and outlets across Australia who collectively generate about \$1 billion p.a. in sales revenue I believe we are a fairly typical Australian bicycle shop. We sell across a range of products and markets including cycling gear for the local family market as well as for the cycling enthusiast.

We have been in business for 18 years. By way of background, although I do not represent these organisations, I have served as the past Chairman of Bicycle NSW, the state's peak cycling organisation, and as the national retail representative to the Cycling Promotion Fund which is the national not-for-profit organisation dedicated to promoting cycling. I am also a member of the Institute of Chartered Accountants in Australia.

Our industry is being challenged by offshore on-line shopping websites. It is well known that a significant percentage of our industry's sales of component ensembles, racing wheel sets, higher-end road tyres, cycle clothing, and cycling shoes are being lost offshore. Anecdotally, I would estimate that between 5-20% of these categories and possibly 3-5% of overall sales is being lost. The percentages are growing steadily. Part of the reason for this is the expansive choice afforded by international websites. Price structure advantages are a major factor too. To date our industry has not adequately responded to these challenges by effectively communicating *and* providing the advantages of buying from Australian retailers.

These advantages include:

- The ability to see and try products before buying.
- Having product features and benefits explained by knowledgeable sales people.
- The ease of return when required.
- The practical ability to pursue warranty claims.
- Having product liability protection should a product fail.
- The ability to use the product immediately.
- The knowledge that products purchased are genuine.
- The ability to have a product (e.g., a bicycle) fitted and customised for use.
- Having the mechanical operation and safety features of a bicycle and its components explained.
- Complimentary after-sales service.

Some of these advantages also apply to on-line Australian shopping sites of Australian retailers.

***"Best Bike Shop in NSW"***

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As voted by the readers of *Bicycling Australia* & *Australian Mountain Biking* magazines

The reason I believe that our industry has not done a good job in these areas is that many bicycle retailers compete on price instead of value. This tends to commoditize certain products in consumers' minds - especially those described above. The other drawback to an industry that collectively focuses on price is that all savings are passed on to the consumer. Ultimately these profits that might be retained in the industry for training, expansion, innovation, etc. are lost forever. This makes competing on value even harder. In the case of sales lost offshore, the moneys are also lost to Australia forever.

As an industry we are trying to meet these challenges. There is no doubt that offshore on-line websites are generally cheaper than even discount retail "bricks and mortar" operations here. This ultimately will put pressure on these local retailers to continue to trade in the absence of a clear point of difference that negates the price advantages of buying overseas. Over time, all specialty retail bicycle shops here have to communicate and provide the aforementioned advantages to survive and prosper. It is vital that we do so as our industry has the ability to positively impact health, transport, environment, tourism and communities here in Australia.

In the meantime, the current \$1,000 threshold on the imposition of GST exacerbates the points of difference between offshore on-line shopping websites and Australian retailers. It provides an unfair playing field. It does so in two ways. Firstly, is the obvious savings to the consumer of the GST itself. Whilst some argue that this is not an important difference, it is insofar as every purchase decision takes into account the attributes important to each consumer. Every factor considered is weighed up and a decision is made. Even if the imposition of GST does not make a product purchased offshore more expensive than that offered at an Australian retailer, the additional cost still may be enough to sway one to purchase through the Australian retailer after a consideration of all factors. The second reason is that when GST is levied on products purchased overseas then those products often take an extra day or two for GST to be collected prior to delivering the product to the consumer. When GST is not collected, the advantage that retailers have in being able to supply customers with a product for immediate use is mitigated.

GST is designed to be a tax on goods consumed in Australia. The recent public discussions are an attempt to redirect the conversation from *how* GST should be collected to *who* should collect GST. The argument often given is that it is too difficult from an administrative standpoint to collect the GST on overseas purchases. All Australian businesses have invested time and money to capture, record and report GST. In my opinion, it is inappropriate for the government to expect us to be encumbered by GST and at the same time confer a favourable GST imposition structure on overseas suppliers. Certainly the wherewithal is there for import points (Australia Post, etc.) to employ people and systems to collect the GST for a nominal fee.

Ultimately if the current structure is not rectified, then profits and Australian jobs will be lost. I suspect that the value of commercial retail premises will also decline along with a corresponding loss of rental income and capital gains tax in the long term. From a social policy view, the GST always was meant to be an equitable tax based on consumption. To the extent that GST is avoided by



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purchasing goods offshore, then the lost GST, lost income tax on profits, lost capital gains tax, and indirect unemployment costs will have to be borne by the entire population in the future.

It would not be popular with on-line purchasers to reduce the threshold back to \$250 - or even to eliminate it. But it would be equitable to do so from both the general Australian population's and our industry's respective standpoints. I encourage you to recommend such action including the development of avenues and technologies to effectively and efficiently collect GST on these overseas purchases.

Yours faithfully,

/signed/

Josh Blake  
Managing Director

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