

## Economic Structure and Performance of the Australian Retail Industry

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Classique on Brook, Local Fashion Boutique

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**“Give small business owners a fair go”**

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Inquiry into Australian Retail Industry  
Productivity Commission  
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To who to may concern

Enclosed is a copy of our submission to the Current Economic Structure and Performance of The Australian Retail Industry Inquiry. Entitled “Go small business owners a fair go.” This inquiry has been written in response to the third and fourth terms of reference within the inquiry.

*The broader issues which are contributing to an increase in online purchasing by Australian consumers and the role of online purchasing in providing consumers with greater choice, access and convenience **and the** sustainability and appropriateness of the current indirect tax arrangements in this environment, including the impact on Commonwealth and State and Territory budgets, and the extent to which technology could reduce the administrative costs of collecting indirect taxes and duty on imported goods.*

We have provided information, some discussion and recommendations on issues faced by small business owners. We feel that with the growing online retailing business and indirect tax and thresholds in place for Australian retailers have providing barriers and problems that pose threats to the survival of traditional retailers.

The recommendations provided our coming from our opinions of affects in the current industry that directly affect small business owners. As we are a located in a remote area, we believe that we have the appropriate insight into problems caused by the changing economy and market and how this directly affects traditional retailers.

Names have been blocked for privacy purposes.

Sincerely,

Morgan Bates, *on behalf of* Classique on Brook

## Economic structure and Performance of the Australian Retail Industry Inquiry

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## 1.0 Introduction

As a small business located in the rural area of Muswellbrook in the Upper Hunter, we experience first hand some problems faced by traditional retailers and deal with problems related to the current structure of the Retail Industry. We have prepared this submission in order to voice problems and concerns as a small retail business.

This submission has been prepared in response to the two Terms Of Reference by the Productivity Commission in the public inquiry into the Economic Structure and Performance of the Australian Retail Industry.

These include:

*3. The broader issues, which are contributing to an increase in online purchasing by Australian consumers and the role of online purchasing in providing consumers with greater choice, access and convenience*

*4. The sustainability and appropriateness of the current indirect tax arrangements in this environment, including the impact on Commonwealth and State and Territory budgets, and the extent to which technology could reduce the administrative costs of collecting indirect taxes and duty on imported goods*

We are of opinion that these issues directly affect our business as a fashion retailer; therefore it is our intention to address the current advances in online demand and the recent budget and tax arrangements in this submission, as they are vital and currently major players affecting traditional retailers.

## 1.0 Background

The broad range of retail stakeholders involved in processes directly affect changes to economic structure and performance of the retail industry are vast and the ability to implement affective change needs to be addressed adequately in order to provide real results for Australia business owners.

Since the introduction of the Internet as a shopping tool was available to consumers this has had a major affect the retail industry. In Australian and Internationally the Internet has grown immensely and is now a large contributor to retail all over the world.

In Australia for online retailing it is estimated that:

- Online retail sales by Australians in 2009 totalled between \$19 and \$24 billion, or around three per cent of sales. It is likely 50 to 80 per cent of that amount was spent with Australian online retail outlets. (Australian Government 2011)
- Domestic online retail sales for all sectors of the economy in 2009 are estimated to have totalled between \$19-\$24 billion, or around 3% of the total. With 20% - 50% - was spent via international retailers. (Access Economics 2010)

Consumers are using online space as a way to seek many benefits that the Internet can supply such as discounted prices, time saving, accessibility and convenience. There are still many perceived risk associated with online retailing for consumers and businesses. Indirect taxes, threshold, National Broadband Network, overseas competitors and limited knowledge or understanding of online content, marketing strategies and business compliance in relation to online retailing pose threats to the survival of many local Australian retailers.

## 2.0 Terms of Reference

### **Online Retail and Indirect Tax of the Australian Retail Industry**

#### *3.1 Indirect Tax and Threshold*

We believe that the composition of Australia's indirect tax system has changed considerably throughout history, there is now less reliance on custom duties and an increase of alternative indirect taxes, and broad based consumption taxes are on the rise.

One current issue facing Australian retailers includes the current threshold of overseas purchases. The current Australian threshold is AU\$1,000 which has been in place since 2005, the relative strength of the Australian dollar has resulted in a recent surge in overseas purchases. (Deloitte 2011)

In order to affect the majority of transactions there should be a significant reduction or removal of the threshold.

*"The Customs Act sets import thresholds below which a formal customs entry is not required. This approach recognises that there is a value below which the additional costs to transporters and to Customs of formal entry procedures outweigh the revenue that would be collected."* (Deloitte 2011)

This domestic supply of goods to an Australian customer is, in general, a 'taxable source' and is subject to GST. This means that the same item being sold from overseas competitors are sold at a 10% discount, as GST does not apply.

As a matter of equity, Australian "bricks and mortar" retailers should not be forced to compete against overseas retailers whilst they have an unfair advantage. It is our business belief that there should be a GST imposed by the Australian Government on all overseas purchases. Although this is only one adverse factor facing Australian Retailers it would help and encourage small business to be willing to move to online retailing where there is a fair playing field.

### *3.2 Online Retail*

Our business would be more inclined to move to online retailing if there were guarantees of equality and fairness between retailers in the online market. Although this action would increase administrative costs to the Government, it should not be focused on solely benefiting the Australian Government it should focus on the struggling retail business and providing security and equity to Australian business owners.

As we are a rural retail fashion boutique we have a specific consumer base and the limits and costs our business face in dealing with the growing consumer market are increased as there is a higher demand for online content at lower prices. Statistics provided by ABS (2008) provide information about the growing Internet usage in Australian households from 1998 to 2008. Reporting that in 2008 67 percent of Australian households had Internet access and 75 percent of households having a computer. (See Appendix 1)

As a small operating business we recognize the ability of online marketing to threaten the retailing economy and to traditional retailers such as ourselves. As the increase of online consumer confidence grows the concerns for offline retailers are increased and more risks are posed to our businesses survival.

“Despite the recession, online retail sales will continue to grow, albeit at a slower rate and at the expense of physical stores.”(Forrester Research, 2009 cited in Barmakov 2009)

The introduction of the National Broadband Network has also posed risk for online retailing opportunities for our business, as Muswellbrook is a rural area located in NSW there are lower opportunity of this network to reach regions such as Muswellbrook in effectively providing fast broadband network to the region. The Government should focus on the ability of retailers in remote areas in receiving the National Broadband Network and how this will affect the ability of these traditional retailers to adapt to the changing society.

We have started our online initiatives through social marketing options; the use of Facebook to represent our business is the start point of us representing our products, discounts and availability of stock online. This is a vital tool in reaching a younger audience and staying connected through the use of the Internet. We recognise the ability of the Internet to provide growth of our business through online retailing although the concerns are focused on the size of our business and the ability to take on large competitors online.

### *3.3 Budget Considerations*

We also believe that the 2011 budget has not considered or changed sufficiently to meet the business costs for small retailers or provided new incentives for new investment. Australia's Retail Association's (ARA) state Executive Director Russell Zimmerman states "The reduction in the company tax rate to 29 per cent for incorporated small businesses as well as the tax write-offs for assets under \$5000 were announced firstly as part of the Henry Tax Review and then again in last year's budget announcement.

"These small business incentives have now been recycled twice over – there's not much that is new for retail in the 2011 Federal Budget announcement.

"As the changing market place is demanding Australian retailers deliver online shopping facilities, there is nothing in this budget that gives incentive for retailers to invest in the training or the infrastructure they need to provide best practice online service to Australian customers."

The Australian Government should recognise the amount of significant change that the current retail industry is undertaking, more focus should be provided to provide new incentives to small retail businesses in providing sustainability and conservation of local Australian businesses. Such as increased education for retail business owners with the indirect tax system and how online retailing will alter and change knowledge of benefits that retailers can receive. Traditional retailers need education when moving to online retailing in regards to website design, customer service, online marketing, analytics, branding and aesthetics and the multichannel aspect.



### **3.0 Conclusions**

This submission has been prepared to address some of the issues surrounding the Economic Structure and Performance of the Australian Retail Industry. Our experience in the retail industry is based on traditional forms of retail. Although we have recognised the constant changing and evolving elements of the retail industry in regards to online retail and globalisation, in effectively reviewing the current structure of this industry it is important to remember that retailers are all affected differently and need assistance to move forward into the online market.

We submit that any reform to the Australian Retail Industry should include:

- Change the current threshold for online consumers
- Review of Budget consideration for retailers
- Australian Government assistance needs to be improved in providing more financial assistance to small Australian businesses
- Improved education needs to be implemented to guide Australian business owners on how to adapt and learn about the changing market in order to sustain profitability and conservation of the Australian Retail Industry.

## 4.0 Recommendations

### Recommendation 1.

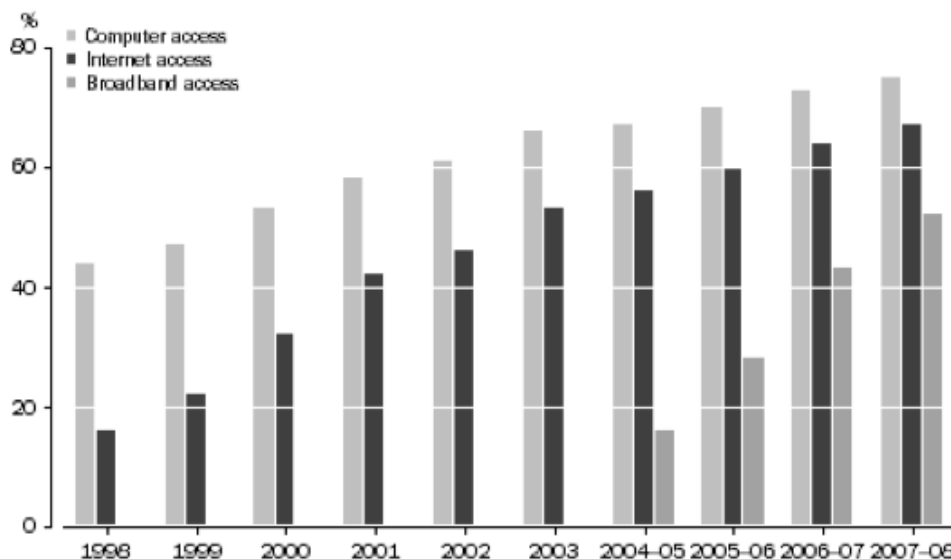
- Improved education and ability of remote areas of the Australian Retail Industry to be aware of the changing impacts of online retailing and provide assistance to those businesses that seek help. This may include Government funding courses for business owners, providing initiatives and advice in the benefits of online retailing to suit a particular type of business. (E.g.: Fashion)
  
- Government assisted payments to small retail business to provide financial assistance in establishing an online identity. These payments will only be provided to business that earns under the proposed cap and need the Governments help to ensure their business survival.
  
- Removal or reduction of the current threshold for purchasing online, providing a fair playing field of competition for overseas and domestic retail business.
  
- The government to provide insurance of the National Broadband Network in reaching all remote and rural areas for retail businesses that need the same accessibility and availability of this network in keeping a competitive edge. Small retail business wanting to be involved in the online retailing marketing should not be disadvantaged because of location.

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**Appendix 1.**

**Figure 1. Household Computer or Internet Access**



Source: ABS, 2008