

Submission to Productivity
Commission Inquiry into
The Economic Structure and
Performance of the Australian
Retail Industry

from

Gilmour's Pty Ltd.
trading as
Gilmour's Comfort Shoes

Our Main Pleas:

Unleash retail competition by eliminating arbitrary and un-enforced Bulky Goods zoning anomalies.

Leave Internet retailing unfettered – it may seem unfair but consumers benefit – and, surprisingly, so do retailers because they are forced to be more efficient.

Simplify regulations, abandon GST exemptions, adopt uniform data collection forms and conventions for taxes at Federal and State levels

Who are We?

Gilmour's Pty Ltd operating as Gilmour's Comfort Shoes is a small, specialist footwear retailer, operating six shops (three in Melbourne, one in Sydney and two in Brisbane). We are what the shoe trade calls a "sit and fit" retailer, where there is a concentration on specialised fitting and personal service. The business is family owned, and now managed by the great grandsons of the founder who established it in 1919.

We would like to make three points for consideration by the Commission.

1. The current zoning of retailing premises into General Retailing and Bulky Goods retailing is an arbitrary and restrictive limitation on expansion of specialist individual retailers, reinforcing the oligopoly of Australian retailing.
2. Internet sales are a factor limiting growth of traditional retailers, but it is good for consumers, retailers need competition to force us to improve our service, and we want the opportunity to become "on-line" retailers ourselves.
3. There are some Administrative Issues which now limit efficiency – too many "authorities" seeking information from businesses in too many different formats. Reports demanded by Federal and State taxing authorities are extracted from the same data, but they all want it in different formats.

Zoning

When the world has converted largely to self-service retailing, the "sit and fit" retailer may seem an anachronism. But there is a small and consistent demand for specialised fitting services, particularly those services where a wide range of fittings and sizes is available. Gilmour's shops carry shoes from very narrow to very wide and from tiny to large. This is a stock-intensive and consequently a capital intensive business. Where a normal shoe shop might carry a top-selling line in 12 or 15 sizes, perhaps 30 pairs altogether, Gilmour's carries its top shoes in five widths and 18 sizes - that's 90 variations, and allowing for duplications in the more popular sizes/widths, the stock holding to show just one style often exceeds 150 pairs.

Despite the capital demands, this business has been relatively strong for some years and has been anxious to expand into more states and more cities.

However, there is a grave restriction on our expansion. Gilmour's smallest shop requires at least 8,000 pairs of shoes (compared with a 'normal' shop which might have 2,000 pairs), and the stock turns are not high. To house such large stocks requires large premises – and the economics of the lower stock turns in our business mean that large premises are rarely available with the zoning appropriate to footwear retailing at an economic cost. We submit that the need to carry such large stocks makes us a Bulky Goods business. But we are not. If footwear retailing was classified as a trade appropriate to Bulky Goods zoning, we could expand our business and consequently our employment and our contribution to the general revenue much more quickly than we have.

There are ways to 'get around' the classification issue, according to some advice we have received.

If we were to expand our range of products to include luggage, for instance, we might gain Bulky Goods status. There are many examples of other retailers with small stock units and certainly smaller quantities than ours operating in such zonings, clearly contrary to the zonings laws; but they trade freely, suggesting that the laws are either being breached easily or not being policed at all. In one case in Melbourne, a confectionary retailer trades in a Bulky Goods zoning, and clothing retailers trade in others – both specialists which are supposed not to be Bulky Goods retailers. Whenever we have sought to obtain occupancy of areas in Bulky Goods zonings we have been urged to “give it a go and see what happens” or “tell them you are selling luggage” . When we are continually exhorting our staff to deal ethically and fairly with customers, such a subterfuge risks undermining the professional standards to which we aspire. Further, like most businesses, we have agreements with such as banks where loan documents require us not to breach laws.

Put simply – the classification of retailing into normal retailing and Bulky Goods is restrictive and inhibiting of expansion in our niche. No doubt it is also an issue with many other retailers. The very concentrated nature of retailing in Australia (consider major shopping centres, food, petroleum, hardware) is exacerbated by this zoning anomaly; outside the command economies, few major developed nations have such oligopolies in retailing. We would plead for the Commission to recommend an overhaul of the anachronistic differentials in retail zoning.

Internet Sales

There is no question we have lost some business to Internet sales. We have no figures to support this assertion, but we believe it is obvious when customers use our fitting service and then make notes about the best fittings and the prices and even tell us they are planning to buy on-line. We have also been informed by retailers whom we meet at shoe fairs in the US that they are making sales to Australian customers. We are not particularly concerned about this because many of the shoes we sell are not available on-line and the specialised nature of our fitting services means shoes actually have to be tried. We still like to test fit any pair of shoes we sell, even if the customer is purchasing the the same brand, style and fitting as bought many times previously, because shoes vary from pair to pair as a result of the natural materials from which they are made, the different atmospheric conditions at different times in manufacture, and the human element in shoemaking.

We also endorse competition in our business, even some unfair competition because we have learned time and time again that our business benefits from having competitors. At the risk of a punning metaphor, it is our contention that competition keeps us on our toes. In the last decade, our business has designed and built point-of-sale and inventory management software which is at the leading edge of footwear retailing practice globally. We frequently receive visits from footwear industry operators in Europe and the US who want to see how our system works. We would not have been stimulated to build this competitive advantage had we not faced vigorous competition.

Further, although we have been slow to move into on-line trade, we expect to be doing so in 2012 and are now testing software to this end. There is a substantial cost hurdle for on-line Australian retailers to overcome compared with those in the US. These include freight, duty and local handling charges on wholesale imports, and of course GST; but we consider the burden of meeting these costs a better alternative than the imposition of any form of bureaucratic compensatory mechanism. In our view **bureaucratic intervention is usually inefficient and stifles the animal spirits of enterprise.**

Dealing with the Australian Customs authorities on a wholesale import shipment worth \$A100,000 is already trying; the prospect of such rigmarole attached to a multitude of \$A500 or \$A900 shipments could bog the system down for months. To gain some idea of the complexity of the paperwork involved in importing goods, we attach a copy of an invoice received from our customs agents in respect of a single recent shipment which had a total value of around \$30,000. It shows no fewer than 14 separate cost items calculated and applied to this shipment AFTER we had arranged payment to the overseas supplier. In addition to these item charges from our customs agent, the agent completed Customs Office forms with no fewer than 35 information fields.

It has been proposed by some retail organisations that some form of GST impost should be imposed on on-line purchases by Australian consumers in the interests of establishing a level playing field. The absence of a level playing field in other jurisdictions does not seem to have substantially harmed retailers there. In the United States, retail sales tax rates vary from zero in New Hampshire and some other states to an average of around 8.25 per cent in California (where different rates are even levied by different counties), resulting in a playing field that is far from level, but this has not seriously affected the vigour of US retailing which remains innovative and dynamic. Various VAT rates – from 15% to 25% - in Europe prevented their retailers from being innovative and achieving rapid growth. Dare we ask whether the absence of a level playing field has forced retailers in those areas to become more effective?

Administrative Issues and Tax Collection

There are several items which we would urge the Commissioners to consider under the general issues of economic efficiency of the retail industry.

- **Exemptions to the GST are a nightmare.** We believe the cost of administering exemptions exceeds any benefits which they are said to bestow on the parties who are supposed to enjoy them. In our own case, there is scope for our dealing in some footwear as being Orthopaedic or Medical Grade, but the definitions are difficult to specify and even more difficult to implement. As a result, since the introduction of GST we have accepted GST charges on all footwear we buy and imposed GST on all we sell, even though we know that some retailers are not doing so. In more than a decade since adopting this practice, we cannot list a single complaint from customers or the authorities. Even when we acted as a contractor supplying footwear to clients of the Department of Veterans' Affairs, we charged GST on shoes supplied, even though the Department's own specifications for some of the shoes would have defined them as Medical Grade or Orthopaedic. We withdrew from the Veterans' Affairs contract because we considered the Department's definitions inappropriate and out of touch with 21st century therapeutic practice. **We would recommend application of GST to the sale of ALL goods and services.**
- **Business needs harmonisation of the data collection and tax imposts imposed on businesses in Australia which trade in more than one jurisdiction.** We plead for a uniform system of payroll tax in all states. Different on-line lodgement and payment systems in all states, different rates, different levels of exemption all reduce efficiency and increase costs. Lodgement deadlines for all tax returns and payments should be harmonised. Payroll taxes for one month are due on the 7th of the following month, BAS lodgements and returns vary during the year, for quarterly BAS returns, sometimes by three weeks from the end of the month, sometimes six or more weeks.

- The forms used to lodge data and the conventions adopted by the various taxing authorities vary. Each state payroll tax organisation seeks data in a different form, and the Australian Tax Office is different again; each workers' compensation authority in each state demands returns in different forms. Even the data fields from each jurisdiction are different; for instance, the on-line return to the NSW Office of State Revenue, requires that blank fields be filled with zeroes, but the Federal Tax Office demands they be left blank; the Queensland Office of State Revenue has a most complex Payroll Tax Lodgement system. Motor car manufacturers learned decades ago that they all benefit by placing the pedals in the order "clutch, brake, accelerator"; surely tax authorities could adopt some uniform conventions to the benefit of all.

We submit that **thousands of businesses would benefit and employment would be boosted if the Australian Tax Office, the state payroll tax offices, and the workers' compensation authorities in each state could agree on a uniform form of regular report** which meets all their needs. The Auskey system has shown some of the benefit of standardisation, but it only relates to identifying business entities, not to reporting formats.

- **Superannuation Choice is a Costly Option.** The proliferation of Superannuation Funds has resulted in even a small business like Gilmour's Comfort Shoes having to produce multiple and increasing numbers of different returns for many funds. We have around 50 employees and a low staff turnover, but we are continually adding new superannuation funds to our reporting obligations and dropping off others. Each new fund involves a change in the reports suite of our accounting software. Some funds demand that we enter into contractual arrangements which are not required by law, and though we successfully resist such efforts by fund 'head prefects', doing so takes time and energy which we would prefer to devote to our customers. **The complexity and paperwork involved in allowing employees choice of superannuation funds is a substantial cost – far more worrying to us than the leakage of retail sales to on-line traders.**

The number of different reports demanded by various authorities is so great that even a small business like Gilmour's Comfort Shoes has to produce about fifteen different reports every month (and we have a check list for these) all accessing the same basic data.

We hope that the Commission may be able to consider some of the above material in its deliberations. If required we would be able to provide additional comment or documentation on any matters raised.

John J W Gilmour
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Attachment follows: - Invoice for a simple import shipment, showing the complexity of charges; a similar complex imposition on small Internet transactions would bog down the country with paperwork.

