

**Economic Structure and Performance in the Australian  
Retail Industry Inquiry**

**Online Retail and Small Businesses in the  
Australian Retail Industry**

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## 1.0 Introduction

Established four and a half years ago Sporting Edge Australia is an online business that sells sport and fitness training equipment across Australia. Although the business is based in Newcastle, NSW, we have quite a large customer base in Western Australia. Goods are imported to Australia from New Zealand, but all business aspects of operations are run locally.

We have prepared this submission in response to the first term of reference regarding the current structure, performance and efficiency of the retail sector. We have chosen to focus on the area of online retail and small business as Sporting Edge Australia falls into these categories within the retail industry.

There are a number of factors that affect online retail and how successful it can be. These factors range from the costs associated with running an online business and the issues associated with the importing of goods into Australia, to the difficulties marketing an online business. However, online retail businesses can also be seen to be having an influence on the Australian economy and the community through the employment they offer.

## 2.0 Background

The Australian retail sector is large and diverse, making it difficult to define its exact parameters. According to the Australian Bureau of Statistics (ABS) the retail industry in Australia includes “units mainly engaged in the purchase and onselling, commission based buying, and commission based selling of goods, without significant transformation, to the general public” (Cited in Pech, Nelms, Yuen, & Bolton, 2009). Under the 2006 Australian and New Zealand Standard Industrial Classification (ANZSIC) system the retail sector was divided into five subdivisions, these are:

- Motor vehicle and motor vehicle parts retailing;
- Fuels retailing;
- Food retailing;
- Other store based retailing; and
- Non-store retailing and retail commission based buying and/or selling (Pech, Nelms, Yuen, & Bolton, 2009).

In 2005-2006 the non-store based retailing and retail commission based buying and/or selling sector accounted for 1.5% of the value added to the economy by the retail sector as a whole (Pech, Nelms, Yuen, & Bolton, 2009). In other terms non-store retailing made \$731 million of the total \$49,724 million produced by the retail industry. A key branch of this subdivision is online retail. While there is no definite data relating to the size

of the online retail sector in Australia it has been estimated to range from 3 to 6 per cent of total retail sales (Productivity Commission, 2011).

## 3.0 The Online Retail Landscape

### 3.1 Cost

The costs associated with running and maintaining an online business can become quite high when you consider the fees associated with online retail as well as those of running a business. To register a business name applicants are required to pay a fee of \$129 (Business Names Regulation 2004 (NSW), under Business Names Act 2002 (NSW)). This business name must then be renewed every three years for a fee of \$99 (Business Names Regulation 2004 (NSW), under Business Names Act 2002 (NSW)). On top of this businesses must also register company names and domain names. To register *Sporting Edge Australia* in all of the necessary categories can cost up to \$600, and this must be paid every three years.

For a business to operate largely online places a great deal of focus on their website. It is important for the website to be up to date and able to accommodate online purchases. We are currently preparing to spend \$15,000 updating our website in order to expand capabilities and meet demands.

In order to facilitate online purchases websites need to include a shopping cart, which allows customers to select products and pay for purchases online. This must be set up through a bank, which mediates the transaction and charges a percentage of the sale. Contracts with banks last a number of years and banks also charge a percentage of gross monthly sales. This eats into profits greatly, but is a necessity and therefore businesses cannot afford to go without. On average businesses in the retail industry tend to have the smallest profit margins of all industries (Pech, Nelms, Yuen, & Bolton, 2009).

### 3.2 Freight/ Importing

The goods Sporting Edge Australia distributes are made and imported from New Zealand. There are a number of issues associated with importing that make operation difficult for online businesses. When importing goods to Australia businesses pay 15% or higher on protection duty rates. This does not include the goods and services tax (GST), which is 10% of the value of the imported goods (ATO). There is also a financial loss involved in converting money to purchase goods from New Zealand. Goods are purchased in New Zealand dollars through bank transactions, the bank charges 8% of each of these transactions to convert Australian dollars to New Zealand dollars.

The shipping of goods itself can also cause problems for small businesses. While the cost of shipping is going up, freight companies can still be unreliable and lose products. However, it is the business importing the goods that must deal with customers in these situations. Stock getting lost during freight is financially costly as it must be replaced, but it can also cost the business customer satisfaction and reduce the likelihood of repeat business. At Sporting Edge Australia two to three hours a week are spent tracking goods being imported and trying to find goods that have been misplaced. We feel that shipping companies should be made more

accountable for the goods they lose , and that perhaps this will encourage them to make their systems more reliable and efficient.

### **3.3 Advertising**

It is difficult to market an online business through traditional forms of advertisement. Sporting Edge Australia has tried a number of different advertising methods with varying success, including:

- Magazine advertisements;
- Newspaper advertisements;
- Call Connect;
- Online magazines;
- Email campaigns;
- Sporting gala days; and
- Search Engine Optimisation (SEO).

Advertising in newspapers and magazines proved to be expensive and did not make back the money spent on the campaigns. Similar results were achieved by advertising in online magazines and the use of “call connect”, free calls to the business.

The most successful marketing tool we have found to promote Sporting Edge Australia has been Search Engine Optimisation (SEO), which preferences your website in related web searches. We spend around \$2000 a year on SEO marketing, and it can be seen to bring in \$15-20,000. Other successful advertising has included taking products to events such as sporting gala days and demonstrating their uses to groups and individuals.

### **3.4 Benefits**

Local communities can benefit in a number of ways from small and online retail businesses. Small businesses contribute to the economy by generating and participating in earning and spending. Also small and online businesses employ people for a variety of different positions and often support other small businesses in the process. Unlike large businesses that have their own IT consultants and accountant, etc., small businesses tend to hire these people as they are needed, from outside of the business.

One benefit of online retail is that these benefits do not need to be centralized to metropolitan areas. In Australia Sydney, Melbourne and Brisbane have the highest rates of employment in the retail industry (Pech, Nelms, Yuen, & Bolton, 2009, p. 18). Sporting Edge Australia is an example of an online business that is not

based in one of these metropolitan centres, and as a result creates jobs in the Hunter region of New South Wales.

We feel these benefits could be improved by encouraging students in various fields of study to become involved with small businesses. By students working with businesses the cost of employing people will be reduced for the business and students will gain valuable experience in a real world setting.

## **4.0 Conclusion**

The Australian retail sector is a large and diverse industry at the present time. While non-store based retail only accounts for 1.5% of the total profit of the retail industry, online retail is an expanding market. The cost of maintaining an online retail business can become quite high, and there are a number of fees and charges associated with it. Some of the most significant fees come from banks, however, these fees are currently unavoidable for online retail businesses. There are a number of fees and charges attached to importing goods into Australia as well. It has been shown that when it comes to transporting goods the business having them shipped can be adversely affected if they are lost, even when it is not their fault.

As online retail is still relatively new in Australia there is still an element of trial and error associated with it as a business. This can be seen through the various methods of advertising used before one was found that actually returned what was spent on the campaign. While there is still a lot to learn about online retail it is evident that there are clear benefits to this online model of retail that reach beyond the individual business owner/operator. There are community and economic aspects as well.

## **Recommendations**

### **Recommendation 1**

- Implementation of measures to make shipping companies more accountable for the products they are hired to deliver.
  - This could encourage shipping companies to develop more reliable and efficient methods.
  - This could also reduce the strain placed on businesses by the loss of goods through shipping.

## **Recommendation 2**

- The introduction of some form of support or incentive program to encourage students to become involved in small business in their local area.
  - This would give students a chance to gain real workplace experience in a variety of fields, and in some cases gain a foot in the door of the industry.
  - This would also allow businesses to reduce the money spent on employing freelance employees from outside the company to complete certain tasks, such as web design, accountancy etc.

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