



Submission by the
Retail Cycle Traders Australia
to the
Inquiry into the Economic Structure and Performance of the
Australian Retail Industry

1.0 Summary

1.1 Principles

As proprietors of retail bicycle shops, RCTA members are well versed in dealing with competitive pressures and changing environments.

Essentially, all we ask is to start on equal terms with the shop 'down the road' and we will take responsibility for flourishing or failing.

With globalisation, 'down the road' can be on the other side of the world.

We can and we will compete effectively, but we need our Government to stop giving 'free kicks' to our competitors and imposing burdens on us which our competitors do not face.

We also want our loyal customers not to face an impost of 15 to 20% when they are supporting us, as they are paying their fair share of tax.

We want bicycle riding consumers across Australia to know that whatever they buy, however they buy it, and from whomever, it will meet standards set by Australian authorities.

This is not just about the GST, it is about a system that is inconsistent, inequitable and can easily be circumvented. It is about jobs, and it is about economic benefits to the country as a whole.

It is about equal access to products from all ranges and groups in our society; for online shoppers and for those who either cannot or choose not to shop online.

1.2 Recommendations

The RCTA therefore recommends the following actions to help create better and fairer conditions for the bicycle retailers and consumers of Australia.

- * Removal of the low value importation threshold
- * Enforcement of Australian Standards, on products sold and distributed into the Australian consumer market, regardless of the point of origin
- * Branding of domestic e-tailers as 'Australian'
- * Transition funding and education for domestic retailers to better engage in the digital economy

2.0 Introduction

The specialist bicycle retailer is struggling against the tide of imports, and if this trend continues there will be store closures and job losses. Parts and Accessories are a key part of the sales made by, and profitability of, bicycle shops, and it is these smaller items that are most easily purchased from overseas online retailers.

The Retail Cycle Traders Australia represents bicycle retailers across Australia. We are a part of the Australian bicycle industry, which consists of approximately 500 importers, manufacturers and wholesalers, along with about 1000 specialist bicycle retailers, some on-line stores and a range of associated businesses.

The industry has annual sales worth an estimated \$1 billion and employs around 6,000 people directly in the specialist area, and many more in large chains of stores, in transport and in logistics.

All major brands of bicycles and parts and accessories are manufactured overseas and imported into Australia. In 2007, the number of bicycle imported reached a record high of over 1.43 million units, before falling to 1.1 million in 2008 and 1.2 million in 2009.

In the 2009/2010 financial year, one overseas online bicycle and parts distributor reported that approximately 40% of their annual sales figure of £100m (\$A154m) was sold directly to Australia based consumers.

This is more than 5% of the Australian bicycle and parts market. The Australian bicycle market has been identified as extremely lucrative for offshore online retailers and is directly targeted by a number of major bicycle online retailers in the UK and the USA who are competing for the Australian market.

The Government, in waiving GST and import duties, is giving international traders a price discount advantage of 15-20% over Australian businesses; that is, 10% GST and 5-10% duties. Because of this, Australian retailers do not compete on an equitable basis in an otherwise competitive market.

A survey undertaken last year by the Bicycles Network found that, in terms of price only, nearly 90% of respondents would purchase locally rather than online overseas if the price differential was less than 20%, and 70% would purchase locally if the differential was less than 10%. Thus the addition of GST to all overseas purchases would significantly aid local retailers.

3.0 Responses

In the Issues Paper produced by the Productivity Commission in March 2011, a number of questions are posed, and those that may be relevant to bicycle retailers are looked at here.

Trends in retail trade and drivers of structural change

To what extent has competition from overseas and Australian online retailers contributed to falling revenue growth experienced by Australian bricks and mortar retailers?

The cannibalisation of retail sales by online sales is widely regarded as the single biggest challenge to the continued growth and sustainability of the bicycle industry in Australia. Whilst there are a small number of Australian e-tailers, the vast majority of the online sales are going to a handful of extremely large, successful online retailers in the UK and USA. Not only is the quantity of sales being adversely affected, revenue growth is also being slowed by increased downward price pressure on remaining sales as retailers are forced to price match with online retailers that have dramatically lower cost structures due to their business model, scale and location.

Quantitative data to support this trend is scarce, but recent years have seen a dramatic increase in online sales in the bicycle industry. Anecdotal evidence is strong (as in many other retail industries) and the limited data available paints a grim picture. Stories abound of bicycle retailers spending large amounts of time assisting customers ascertain what products they need, only to have them buy them online. A study conducted on online sales by the Bicycle Network (not affiliated with the bicycle industry) found that in 2009, 92% of the survey respondents had purchased bicycle products online, "...and astoundingly 50% of their expenditure (in the last 12 months) was with online shops".

Time is an often unseen cost to retail businesses. When a consumer takes time to discuss their requirements and to try on product such as shoes or clothing, and then does not buy at that shop it can be an hour of unpaid work that has taken place. If the effort goes to help an online business on the other side of the world which is not contributing financially to the Australian community then a degree of frustration will be particularly evident.

This affects those already more vulnerable regional areas to a greater extent. One Shepparton bicycle shop reported a considerable interest from customers in a particular model of cycling shoe, but with no resulting sales. Co-incidentally, he noticed that many of the keen riders in the town, including many of his customers, were wearing this model shoe which they had purchased from an o/s online retailer.

There has been a big growth in online retail presently affecting more the mid to high end range of goods. There is an equity issue involved, as online shoppers are often higher paid people better able to evade paying GST and duty by shopping online.

How have retailers responded to changing demand conditions in regard to staff employment?

As sales growth is lost to o/s online retailers, the bicycle industry will continue to see an increase in the number of casual and part time employees; permanent full time employment is dropping.

What are the current impacts and likely future impacts of the growth of online shopping for employment, including regional employment, in the retail industry?

Regional retailers are especially hard hit by the rise of online trading. Freight rates in Australia are much higher than overseas rates, and that fact already has an effect on a shop's ability to quickly service orders for non-stock items. The rolling out of the National Broadband Network will make it easier for consumers to place orders directly with overseas based suppliers and impact the local shops even harder.

Online trading: opportunities and challenges

Why have Australian retailers been relatively slow to take-up online trading?

Setting up an online shop requires time and a commitment that many local shops simply do not have. There is often no value in doing so, nor any useful 'operating space' for the shop. The major online operators overseas have been in business for a considerable time, and so dominate the market internationally, that there is no compelling reason for local shops to go online, other than to provide a convenience to their customers. Some have done this, but they are not selling into the overseas markets as restrictions such as freight costs and the Australian wages structure work against such a move.

In respect to their overseas based competition, Australian online retailers retain the disadvantages of bricks and mortar retailing (GST, staff wage levels and working conditions and lease/utility costs), with none of the advantages (service and customer interaction).

Are there any logistic concerns that have impeded the take up of online shopping?

Local freight rates do not compare well with overseas rates. For all but the smallest and lightest items freight from the UK is considerably cheaper than Australian rates, especially considering the distance involved. When it comes to larger and bulkier items the comparisons are even further in the favour of overseas dealers.

How significant is the impact of online trading on domestic retail businesses?

The stock in a bicycle store is not only bicycles. At least half of all sales are of parts and accessories (P&A), on which there is often a higher margin. Partly due to shipping difficulties there are not many bicycles being bought online, and an average consumer spends far more on P&A in a lifetime than on bicycles. The reduced sales figures and thus reduced income from lower P&A sales will impact on the bottom line of the shop. It will also affect the viability of wholesalers and importers and may lead to a decision to not carry such a line of product. This will reduce the choices available to businesses and ultimately consumers.

The growth of online sales looks set to continue. The Bicycle Network study found that 35% of respondents intended on purchasing exclusively online in the near future.

What is the extent of international price differentiation in the global marketing of branded products which impacts on Australia?

ITEM	ONLINE inc (Freight)	W/Sale inc Frght & GST	W/Sale GST	RETAIL inc GST	Retail ex GST	Retail/ Online	Retail ex GST/ Online
Mavic Ksyrium Equipe Wset	\$420 (Free)	\$450	\$45	\$659	\$599	156%	142%
Shimano 105 FH 5700 Hub	\$63.31 (\$8)	\$55	\$5	\$95	\$86.40	154%	140%
Kryptonite Lock with Brkt 4x9	\$51.90 (\$16)	\$27.45	\$2.49	\$50	\$45	96%	86%
Schwalbe Tyre Racing Ralph 26 2.25 UST pr.	170.62 (\$32)	\$110	\$10	\$230	\$204	135%	120%
Ortlieb Panniers - Back Roller	\$209.08 (\$72.25)	\$118.40	\$11.80	\$249	\$226.40	120%	108%

What other factors explain the differences in prices between domestically and overseas sourced identical products?

There are a number of factors that create differences in prices, other than the GST itself. Regulatory costs such as the costs associated with bicycle helmet certification are one, the physical overheads related to running a business in Australia, the cost of skilled staff as opposed to pickers in a warehouse, wages and general conditions of trading including public holiday loadings and the fact that Australia is a small market and that the benefits of scale cannot be readily realised all contribute to higher prices.

Are there any significant examples of problems with regard to the safety, quality or performance of goods purchased by Australians from overseas online traders?

Local bicycle retailers are required to comply with standards established by Standards Australia in relation to bicycles and some bicycle accessories. The mandatory product safety standards include standards relating to bicycles and helmets.

According to the Australian Standard AS/NZS 1927:2010 Pedal Bicycles, *The objective of this Standard is to provide manufacturers and suppliers of bicycles together with authorities concerned with consumer safety with a set of performance requirements both for the bicycle as a whole and for the individual components and assemblies upon which the safety of the user is dependent*

The AS/NZS 2063:2008 Bicycle helmets standard states *The objective of this Standard is to provide helmet wearers with lightweight helmets that provide protection against, and reduce the severity of, head injury from hazards associated with cycling*

Both of these standards are mandatory and are policed by the consumer safety authorities, and bicycle retailers are required to comply with these standards of performance requirements under the threat of heavy fines. There is a substantial cost to certify helmets

to the standard, Bicycle Industries Australia Ltd has produced detailed figures on the costings, and this is evident in the price at the point of sale.

Local retailers provide warranty and after sales services on the physical products. This has a direct influence on the personal safety of consumers when using such products.

There are also issues with products that have been incorrectly installed, sometimes resulting in damage to the item that may not at first be obvious. Forks and drivetrain components are technical items that must be installed correctly or failure can result.

Appropriateness of current indirect tax arrangements

What evidence is there that Australian retail businesses are being adversely impacted by the low value importation?

Most bicycle parts and accessories are under \$1000 so the low value importation threshold gives overseas online retailers a 15%-20% price advantage on the vast majority of products sold.

Consequently, overseas online retailers are actively targeting Australian consumers; local forums, message boards and online communities are increasingly filled with advertising from these large retailers. These local forums have traditionally been focused on the local riding scene and advertising has been for local bike shops.

Print magazines have up until this point resisted including advertising from international retailers, but the pressure is building for them to start advertising for these companies.

The presence of these international retailers in these traditionally local spaces indicates that they view Australia as a viable market and are prepared to invest in advertising that is specific to Australia.

As stated earlier, the experiences of bicycle retailers and the limited quantitative data available suggest that a significant portion of the purchases of bicycle parts and accessories by Australians is being lost to overseas online retailers, in part due to the 15%-20% price advantage provided by the low value importation threshold.

What is the potential impact on government revenue and the integrity of the tax system of sustained growth in the total value of low value items entering Australia without having GST or customs duty paid?

Apart from the loss of GST revenue in the first instance, as shops fail and workers hours are reduced there will be a lower tax take from the workforce. Not everyone can be retrained into a tourist venture, and the bicycle industry employs many people who are not happy unless working with their hands and being obviously 'productive'. Their future and the future of their income tax contributions would be uncertain if the rise of imports were to continue in the manner in which it is currently happening.

What technological developments could be employed to reduce administrative collection costs, particularly given international postal agreements?

Online payment systems are common, and tax can be applied at the point of sale for items based on their destination. Many US stores do this for the state tax regime in place in the US. Some countries place an administrative charge on personal imports to offset costs.

A self assessment system with spot checks and high penalties for understating the value of the shipment is another option. This model is successfully used in Australia for income tax assessments, a few high profile catches would be a deterrent to dodging any tax. Many users are not concerned by the GST component as much as the sheer price difference and would not be unhappy to pay the GST on their shipment.

Other issues impacting on the performance and efficiency of the industry

Are there any significant and enduring skill shortages in the retail industry?

Bicycle mechanics/technicians are an area where skills shortages are evident. Retailers will be more reluctant to invest in training their staff as the profitability of their business is eroded.

Are current training arrangements sufficient to satisfy future skills requirements in the industry?

Training is available in most states and territories but the consistency and quality varies, depending on the commitment of the body delivering the training. The delivery is very much state based, with TaFE in some states, the Motor Traders groups in others and at least two private training providers. A consistent federal approach would help overcome this and produce more consistent training outcomes.

Retail and management training is also available but there is a reluctance to take up such training within the bicycle retail sector.

How are current workplace legislation, awards and other institutional factors impacting on the retail sector, in particular: the level and structure of employment; wage outcomes; penalty rates, labour market flexibility and productivity performance?

It is evident that the cost of running a business in Australia is higher than in many other parts of the world such the United States. Wages of employees have become a significant contribution to this making up an equivalent of 10% of sales and service income in 2008-09 (ABS 2010). The Productivity Commission Issues Paper for the retail industry inquiry (2011) identifies that for many businesses the costs associated with wages are increasing faster than the sales turnover.

Recent changes to the General Retail Award affect the costs of the business which then impacts on opening times of bicycle shops. Wages for bicycle shop workers start at \$16.45 per hour for normal hours with a 25% loading for Saturdays and a 100% loading for Sundays. Public holidays are then an additional \$150% on top of the regular wage. By comparison, the minimum wage in the state of California in the United States is approximately \$US8.00 per hour (California Department of Industrial Relations 2011), about half the equivalent rate for Australian workers.

Other factors such as superannuation and healthcare also add to the cost of running the business.

Such requirements and conditions do not exist for companies operating from overseas bases.

4.0 Recommendations

The Retail Cycle Traders Australia agrees with and supports the policy recommendations put forward by the Fair Imports Alliance in their submission. The RCTA supports competitive neutrality across all retailers regardless of their location and believe that Australian bicycle retailers and Australian e-tailers should be given the opportunity to compete with their overseas counterparts on a level 'playing field'.

In order to achieve this, the Retail Cycle Traders Australia would like to see consideration given to the following policy positions:

Removal of the low value importation threshold

The low value importation threshold is having the unwanted effect of 'gifting' foreign retailers with a price reduction of 15- 20% on products. Removal of this threshold will ensure that Australian retailers can compete on an even ground with offshore online retailers.

The alternative, if the low value importation is to remain as it is, is to remove GST and duties from all categories of domestic retail if their value is below \$1,000. Certainly, this would provide Australian retailers the opportunity to better compete with offshore online sellers and provide better products and services to customers.

Enforcement of Australian Standards, on products sold and distributed to the Australian consumer market, regardless of the point of origin

When the costs of achieving standards compliance are added into the basic cost of a helmet, the Australian market is at a real disadvantage when compared to overseas online stores.

Riders in Australia may put their lives at risk by wearing non complying helmets.

Transition funding and education for domestic retailers to help them engage in the digital economy

Many Australian retailers (particularly small and medium businesses) find the idea of the transition to an online economy rather daunting. Given that retailing affects a wide range of people within the Australian community, the Government needs to invest in training and educating the retail trade about the best way to manage transition and the best options for an effective online presence.

This is particularly critical in a globalised world where online economies are becoming the norm rather than the exception.

Branding of domestic e-tailers as 'Australian'

We support e-tailing and believe the Government has a role to play in supporting domestic e-tailers, particularly as consumers may not necessarily recognise the potential consequences of their purchases (for example, purchasing a product from an offshore online seller is a loss to the Australian economy).

The Government should examine an online version of the 'Australian Made' logo to readily show consumers whether their product is a value add to the economy or an export of wealth. While this may not discourage Australian consumers from shopping offshore and online, it may encourage them to think before they purchase and allow them to more easily make an informed decision.

5.0 About the Retail Cycle Traders Australia

The Retail Cycle Traders Australia is the national association for specialist bicycle shops in Australia. Membership is national, and the RCTA represents shops in all states and territories. We also have some wholesaler supporters, and we work with the national wholesaler's association (Bicycle Industries Australia Ltd) on important issues.

The mission of the RCTA is to enable Australian bicycle retailers to deliver better customer service more efficiently, profitably and sustainably. The RCTA is a member of the Fair Imports Alliance (FIA), which is a coalition of retail and wholesale associations providing a united voice on issues around the low value threshold of imported goods into Australia.

The RCTA's strategic objectives:

- To represent the specialist retail bicycle sector in matters such as
 - Fair imports and internet sales
 - Standards
 - Government legislation
 - Industrial matters
- To encourage and promote ethical standards in the retail bicycle sector
- To monitor and encourage learning in the bicycle industry
 - Mechanical and retail skills
 - Management
 - Standards compliance
 - Teaching
- To improve membership service and membership numbers
 - Improve level and types of service
 - Increase membership numbers
 - Monitor and inform wages and conditions of employment
 - Develop and adapt appropriate standards for the bicycle industry

6.0 References

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