

# Submission of Wholesale Diving Supplies Pty Ltd

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Trading as Adreno Scuba Centre

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**Business number: 07 3391 2299**

## ABOUT WHOLESALE DIVING SUPPLIES PTY LTD

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Wholesale Diving Supplies Pty Ltd (WDS) operates on three tiers. It is an import wholesale distributor; bricks and mortar retailer and online retailer with six online retail stores.

WDS is Australia's largest retailer of scuba diving and spearfishing equipment. WDS has been in business for ten years and started its first online store in 2002, which was quite early for online retailing in Australia. WDS is the exclusive importer and distributor of a number of popular diving equipment brands in the Australian market and, through its wholesale division, supplies other retail dive stores around Australia.

Early in our trading history we recognised and forecast a trend by consumers to move from bricks and mortar retailing to the convenience of online shopping. As a result of this, we have invested more than \$1 million in building our online presence to capitalise on this growing trend and have been very successful in our venture. However, we are increasingly under pressure from low cost foreign competitors with minimum wages, rents and other overheads less than half of ours. This problem is even more detrimental to our wholesale customers (retail stores) who rely on us to supply them goods as they do not have the capacity or cash flow to import products directly. This is forcing us to make drastic changes to our whole business structure in the next 12 months.

WDS currently employs 23 staff. However, we expect to reduce this to 19 staff after we close our wholesale division in the next 12 months.

WDS experienced a substantial increase in the number of online orders about two years ago. However, in the last few months, with the Australian dollar approaching US\$1.10, we have noticed a rapid decline in orders with an increasing number of customers comparing our prices to foreign websites and then choosing to buy offshore to save money. The only area that we can seriously compete online is where we go straight from import to retail and cut out our wholesale margin.

## HOW WE ARE AFFECTED

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### a) Wholesale

Our wholesale business is really struggling, with other retailers of dive equipment unable to compete with overseas online stores, in most cases because they have very little investment in online retailing. Unfortunately, we have made a decision that we will be closing our wholesale division and retrenching three staff as a result of this division closing at the end of the financial year. This business model is simply not viable with the current GST import duty low value loophole.

We have received a great amount of feedback from our wholesale division, after visiting or talking to almost every dive store retailer in Australia. Their feedback can be summarised in the below 8 points:

1) Retailers have expressed that they would like to have an e-commerce store and sell online, but are unwilling to invest in such an online business as they cannot possibly compete. The low value threshold acts like a tariff in reverse to Australian online retailers, even if it is only a psychological barrier the fact that they know that the overseas competitors have got an unfair advantage in their favour in the beginning, this is sometimes all it takes to prevent the investment.

2) They have stated that they would invest in online retailing if they could at least get close to the price, within 20 or 30% of our overseas. We recognise that, by removing the low value threshold, our overseas competitors will still have a major advantage with far lower costs, but our ability to close the gap will be far greater.

3) They are simply sick of stocking certain products just to have customers come into the store, try it on for sizing, and then go away and buy it online. This is a common problem and unfortunately the only solution to this is again closing the gap in price between our overseas online retailers and our price. Simply put, consumers will pay more for the service in store, but they will not pay double.

4) Retailers have frustration in the fact that if they do not have a product in stock the customer can buy it from the US and have it delivered to their door quicker than the local retailer could buy it from us in Brisbane, have it shipped to Melbourne and then supplied to the customer. As the volume of freight from the US has increased over the last couple of years the price and service seems to have dropped dramatically but our experience is that back freighting goods to the US is still almost double the price. Therefore, Australian online retailers do not really get the opportunity to export their goods to other markets as the back freight is far too high.

5) Retailers are constantly being asked by customers to honour warranties, even though the customer bought the product from overseas. In some cases, retailers have to honour the warranty or face losing their reputation and having their business and other services shunned completely. Closing the low value loophole will not fix this problem, but if it helps decrease the amount of overseas goods sneaking into our market it will at least help to reduce this burden.

6) They do not want to buy our product because their cash flow is so severely affected as a result of losing 10-20% of their equipment sales to offshore retailers. In some cases this has completely wiped their profits for this financial years trading and many of them face the prospect of retrenching their

staff and closing their doors for good as they simply cannot remain profitable. This is a reality for so many retailers, skimming 10-20% of your turnover does not take 10-20% of your profit it sometimes take 50-100% of your net profit. This factor depends on how much reliance their business has on equipment sales, some businesses are lucky to have other profit centres that are overseas e-commerce safe such as training and dive excursions.

7) Under Australian consumer law the importer is deemed the manufacturer to protect the Australian consumer from faulty or dangerous products. As such these Australian importers have product liability insurance to cover any expenses associated as a result of equipment failure or faulty manufacture. The consumers are being placed in potential danger by being lured into buying cheaper goods from fly-by-night overseas websites. If someone is killed or injured by faulty scuba equipment purchased online from overseas who will held responsible and who will pay for damages?

8) Finally, it is known that Australian consumers used to be scared to buy online and have a fear of being ripped off. However, with the consumer now having had some good experiences, this is no longer a worry to them. They are basically shopping online with CONFIDENCE.

As a result of these issues, our wholesale business model is in serious trouble and we would expect to have three or four less staff and a much bigger reliance on importing our products directly and then retailing. Even if the low value exemption was removed it is probably too late to save this part of the business.

#### b) Retail

The problems outlined above by our wholesale buyers are also being experienced by WDS at a retail level in our bricks and mortar store.

c) Online

Our online business consists of six websites. They are:

[www.spearfishing.com.au](http://www.spearfishing.com.au);



[www.scubadiving.com.au](http://www.scubadiving.com.au);



[www.wetsuitwarehouse.com.au](http://www.wetsuitwarehouse.com.au);



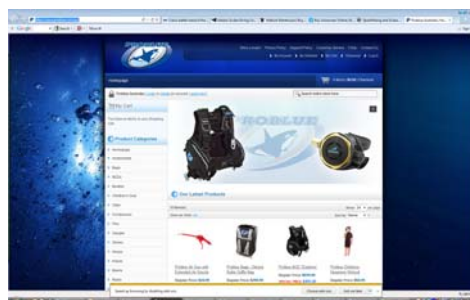
[www.swimwearshack.com.au](http://www.swimwearshack.com.au);



[www.beuchat.com.au](http://www.beuchat.com.au);



[www.problue.com.au](http://www.problue.com.au).



Our online sales were strongest when the dollar was trading around 80c to the US dollar and below. However, we have been noticing an incremental drop off in our domestic online sales as the dollar has increased, and when our dollar moved above parity it became extremely obvious that this was the cause of the drop off in sales. We are very concerned that the Australian dollar may move even higher after reading an article published in the Australian Newspaper in early May suggesting that it could go as high as 1.70 US. If this were to happen it could have dire consequences to our online

strategy if measures are not put in place by the Australian government to at least level the playing field.

When buying online the consumer can take advantage of exchange rate movements within hours or minutes of the exchange moving. With sophisticated online stores now containing built in exchange calculators that remove their local GST or VAT and convert to Australian dollars, the consumer can now take immediate advantage of cheaper pricing. Australian retailers have to wait 6 to 12 months for the flow on effect and benefit of exchange rate movements because it takes this long to get the goods from the manufacturer, shipped through the wholesaler and then to the retailer. This time lag is working in reverse and benefiting a lot of our overseas competitors whose currencies have dropped, it is taking 6 to 12 months for their corresponding prices to increase. If our dollar stays stable around these levels we would expect that within 6-12 months that the gap between our overseas competitors and our Australian website prices will narrow significantly. However, this gap will always be exaggerated because of the low value threshold exempting duty and GST.

A further factor exaggerating the price difference is that because the US is still in recession and US consumers spending is at extremely low levels, there is an enormous amount of 'dumping' going on. US retailers are seeing Australia as a market opportunity to clear their redundant inventory and the US retailers are waking up to the fact that we have the tax loophole which they are happy to exploit.

Our online business is profitable and is Australia's most successful in the dive industry, but the opportunities for us to grow this business and expand enough to export to other countries is limited because of the low value loophole. The incentive for us to invest extra money and develop more online stores has also been limited knowing psychologically that our overseas competitors have got everything stacked in their favour. Once again, if the low value threshold were removed it would be further incentive for our business to invest more in expansion opportunities.

## THE SOLUTION

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We believe the following action is needed to help protect Australian retailers *and* Australian jobs. We would recommend the removal of the low value exemption and a simple user pays philosophy implemented. If it is going to cost the government money to collect this GST and duty, then the people exploiting and taking advantage of this service need to pay. Maybe a simple \$5 handling fee is all it would take to cover the costs in retrieving the GST and duty. But really, the cost of collecting the GST and duty should be irrelevant. It should be absorbed into the total cost of GST collection and not singled out as a potentially un-economical aspect of this collection - basically you have to take the good with the bad.

Allowing this loophole to exist is just begging the consumer to exploit it and it should be the governments obligation to collect the applicable tax, thereby protecting Australian business and ultimately jobs. For this very reason, the then government excluded tobacco and alcohol from this exemption because they knew that if the loophole was left it would be exploited! Unfortunately, they were not forward thinking enough to realise that the exchange rate could move so rapidly and that e-commerce was about to explode beyond anyone's forecast thus creating the "perfect storm". In hindsight, if they knew what they know now this loophole would never have been created.

We know that e-commerce is here to stay and that in the future most retail transactions will be done this way and that overseas competitors with real wages less than half ours, and other costs of running the business such as rent, insurance etc. also less than half of ours. However, there will still be cost savings and reasons such as variety of product available, range and choice that will entice the consumer to shop overseas, but by closing the low value loophole, Australian retailers will at least have the OPPORTUNITY to compete.

Businesses like WDS who have already established a proven track record of online retailing will have the added confidence to employ more people allowing them to rapidly expand their online operation. This will therefore benefit the Australian consumer and community by collecting and paying more taxes and ultimately giving more Australians jobs.

*If possible, we would like the opportunity to meet with you to discuss the issues raised in this submission in more detail. We are happy to delve into more confidential aspects of the business, such as turnover, in a face to face meeting.*