



SUBMISSION

Prepared by the
New Zealand Retailers Association

For the
Australian Productivity Commission

In respect of
**Inquiry into Economic Structure and Performance
of the Australian Retail Industry**

May 2011

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Introduction

These submissions are presented by the New Zealand Retailers Association.

The Association is the largest trade association involved in the retail industry in New Zealand.

We represent an industry that has annual sales of \$66 billion and which employs 325,000 people (approx 20% of the New Zealand workforce) in more than 49,000 outlets throughout New Zealand.

Our national membership includes general merchandise chains, specialised chains, traditional department stores, grocery stores, supermarkets and thousands of owner operators spread throughout the country.

The membership also includes a number of specialised trade groups representing manufacturers, distributors and retailers in the plumbing materials, metal fastener, pet, equestrian, jewellery, bicycle and sporting goods sectors.

Across all store types and areas we have some 6,000 members and they in turn operate some 14,000 shop fronts. Our membership would account for 65% – 70% of total retail expenditure (excluding the motor vehicle sector).

We also represent a number of Australian chains with stores throughout New Zealand, and New Zealand stores who operate in Australia.

General Submission

The Association feels it is appropriate to make a submission on this inquiry despite the fact that the Commission's task is essentially to 'undertake a public inquiry into the economic structure and performance of the (Australian) retail industry.

Many of the retailers that operate in New Zealand today are owned by Australian interests and conversely there are a range of New Zealand retailers that operate in Australia solely or in Australia as part of their global offshore operations.

Retailers today in New Zealand largely operate in a free and open commercial environment that is less regulated than Australia.

However, many of these companies that operate on both sides of the Tasman sell general merchandise that is affected by the trading rules of the CER Agreement which has been in place for nearly 30 years or sell food that is governed by similar rules that apply in both jurisdictions which are administered by Food Standards Australia New Zealand.

Approach to Submission

The Association has endeavoured to present a New Zealand retail viewpoint on the four main items that contain various questions outlined in the Commissions Issues paper which we trust will be useful to the Commission

In particular we have presented:

- An overview of the New Zealand retail industry and some comment on current trends in the retail trade and drivers of structural change within the New Zealand retail industry (Section two of the Commissions' Issues Paper);

- Comment on on-line trading in New Zealand: Opportunities and Challenges (Section three of the Commission's issues paper);
- Comment on the appropriateness of Current Indirect Tax Arrangements (Section four of the Commission's issues paper);
- Comment on some of the other issues impacting upon the performance and efficiency of the retail industry in New Zealand (Section five of the Commission's issues paper).

Overview of the New Zealand Retail Industry

A copy of our 2010 report on the Retail Market in New Zealand is included as Appendix 1 to this submission.

As is the case in Australia, the global economic downturn has introduced uncertainty into the retail industry in New Zealand and the industry generally remains weak with only very modest growth being achieved in 2010 and a similar flat trend likely to be evident in 2011.

Similarly to Australian households, greater preference for saving, the deflation of prices and squeezing of margins, along with pressures from the two recent earthquakes in Christchurch have all adversely affected the retail industry in New Zealand.

Anecdotal evidence of the growth of orders from offshore online retailers has also had some detrimental effect upon New Zealand based retailers.

Looking towards the future:

- New Zealand retail has seen the decline of high street retailing and the rise of the shopping mall with the three major malls owners being Westfield Group, Kiwi Income Properties Trust and AMP Properties Ltd;
- Growth in malls have been particularly evident in Auckland as well as Christchurch which currently has some 15 malls catering for a pre earthquake population of some 300,000 people;
- New Zealand retail has been less exposed to increased international competition than Australia however many Australian brands are represented this side of the Tasman;
- New Zealand has experienced some growth in big box retailing but activities are more evident in the major metropolitan cities rather than rural areas;
- There has been some limited growth in up-market high street shopping in areas such as Newmarket in Auckland where fashion apparel endeavoured to develop a niche in Nuffield Street;
- Franchising, like Australia, is now firmly a part of the New Zealand retail landscape, however the industry is not regulated in the same way as Australia;
- As in Australia, the traditional separation of manufacturer, wholesaler, importer and retailer no longer exists as a general principle in New Zealand with many firms undertaking several of these functions – e.g. supermarkets are now becoming general merchandise as well as traditional food retailers, and are increasing the use of house brands as a mechanism of increasing choice profit margins;
- As stated in the introduction a reasonable number of Australian brands have operations in New Zealand but some New Zealand retailers also operate in Australia and a few also operate internationally.

Looking to the next 20 years the largest factor likely to influence New Zealand retail is online trading largely driven by the channel preferences of generation X and Y to buy online.

Smaller bricks and mortar retailers will continue to face hurdles in competing with the major chain stores and will need to concentrate on niche marketing and service delivery rather than trying to trade on a price advantage to remain competitive.

However, pressures also affecting retailing include national and local body taxes and charges. Similarly high rental costs are a barrier to many smaller retailers gaining a market presence in shopping malls in urban areas.

Online Trading: Opportunities and Challenges

The Association notes that the discussion paper provides comments on the way in which retailing has changed significantly in some sectors in recent years due to the steady growth of online retail which has provided both opportunities and challenges to existing retail establishments.

A similar trend has been evident in New Zealand where more business is being conducted through the Internet which has included:

- Sales by 'bricks and mortar retailers through their own NZ based web sites;
- Sales by brick and mortar retailers through their own web site based outside of New Zealand;
- Online only retail operators in New Zealand;
- Online only retail operators based outside of New Zealand;
- Consumer to consumer transactions (e.g. Trade Me);
- Business to Consumer via websites such as Trade Me.

While no official figures are available it is estimated that online selling currently is around 2-3% of retail sales in New Zealand.

There is still a degree of reticence by some New Zealanders, particularly more mature people in buying online due to fears of payment security, and lack of confidence in what remedies might be available for consumers particularly if they are buying merchandise directly online from offshore suppliers.

New Zealand has recently undertaken a major review of its consumer laws and some changes are likely to recognise some of these concerns relating to online trading from a consumer perspective.

However, the Association is still awaiting the introduction of the new consumer legislation into Parliament and once this has occurred and once we have had a chance to study the legislative changes in more detail we will be in a better position to give the Commission a more informed opinion from a New Zealand retail perspective.

Current Indirect Tax Arrangements

The Association made a comprehensive submission to Customs New Zealand in respect of its review of the de minimis regime applying in New Zealand to imports in February 2011 and a copy is included as Appendix 2 to this submission.

This submission is based on the premise of equity in consumption tax – that consumption tax should be all inclusive.

We believe as a matter of principle that the current GST free regimes applying to low value parcels of merchandise imported from offshore suppliers in both countries should be abolished.

We recognise that is one matter that clearly will be considered by the Commission in an Australian context.

However, we also submit that it should be similarly be considered in a New Zealand or Australasian context given that many retailers undertake business activities on both sides of the Tasman and as such they share similar concerns that they are adversely affected by the non payment of GST on small parcel shipments entered into each country.

Other factors Impacting on the Performance and efficiency of the Industry

There are a number of concerns identified in the discussion document that would be shared by New Zealand as well as Australian retailers which include:

- Some retailers, particularly the larger supermarkets and general merchandise retailers have had some concerns that planning laws have acted as a barrier to the establishment of new retail businesses, particularly in metropolitan centres. We are unaware of any concerns arising from our foreign investment laws acting as a barrier to off shore owned retailers;
- New Zealand retailers remain concerned about their inability to trade on Easter Sunday but not on the other restricted days such as Christmas Day, Good Friday and ANZAC Day morning. Even so, we do not have the regional differentiations that are evident in various Australian states as all New Zealand retailers are able to trade 'around the clock' right throughout the year apart from these three and a half days. We point out that there are some exemptions for trading on these days which do serve to confuse, and a copy of the breakdown of those exemptions is attached as Appendix 3;
- New Zealand has no legislation that specifically governs retail tenancy leases. We retain a specialist staff member who is able to advise individual members of the Association on tenancy related issues;
- There are some skill shortages within middle management positions in some of the larger retailers operating in New Zealand. However, the Association is committed towards improving service delivery within the retail sector and to that end works closely with the Retail Institute that develops and assesses retail training standards and qualifications in New Zealand – see www.retailinstitute.org.nz
- Wage settlements in retail are not largely influenced by union pressures such as is the case in Australia. Employment relationships in New Zealand, both in retail as well as business generally are, in fact, largely governed by individual employment contracts that are negotiated directly between the employer and employee. More flexibility has also been introduced in to the New Zealand market place by the recent extension of a 90 days trial period for new employees in large as well as in small businesses (ie. was previously restricted to businesses with fewer than 20 employees).
- New Zealand is always striving to greater efficiency and effectiveness in regulatory controls and we are pleased that no new legislation can be introduced into New Zealand without the preparation of a cost benefit assessment.

Conclusion

The New Zealand Retailers Association have also read the submission of the Australian Retailers Association, and support their policy recommendations.

The Association is pleased to have been able to make a submission to the Commission and trust that our comments are helpful.

We would be delighted to discuss our submission in more detail should the Commission decide to visit New Zealand as part of its inquiry.

New Zealand Retailers Association

May 2011

Attached Appendices:

1. New Zealand Retail Market Analysis
2. NZRA Submission on De Minimis discussion paper issued by NZ Customs
3. Shop Trading Hours fact sheet