



Inquiry into the Economic Structure and Performance of the Australian Retail Industry

A response from the Council of Small Business Organisations of Australia

The Productivity Commission was requested to examine a range of issues for the retail sector by the government in late 2010. COSBOA welcomes this inquiry as we believe that retail is not only important to the national economy but also to all the small economies to be found throughout Australia. The retail sector is experiencing comprehensive structural change coming from the impact of increased pressure from internet sales and other issues.

The people and families involved in the retail are also experiencing pressure and stress coming from these changes.

We will not elaborate on the place the retail sector has in the economy except to say it is not only of vital importance for employment and also for the social fabric of our society and this is documented in many Treasury and financial statements and papers.

Evolutionary Change in Retail

The current changes in retail are evolutionary and will make a profound impact on the way we buy, on manufacturing and on communications. In the recent past we could view retail as mainly Bricks and Mortar (B&M) stores connected to wholesalers with a component of small, medium and large retailers. There are various sectors within retail based on certain products including groceries, toys, giftware, newsagents, books, music, hardware, clothing, second hand goods, electronics, white goods, automotive products, pharmacists, convenience stores and the list goes on. Each of these sectors would and could in the main deal with changes as they occurred. These changes were normally based around new products, cheaper products, the change in value of the Australian dollar, or a change in government policy. Changes would also happen at the local level as a large local employer downsized or expanded operations. In most cases these changes would be limited to one or two sectors or would have a long lead time and the industry or sectors would have time to prepare for changes (the GST being a good example). The government could also respond with adjustment packages or assistance with retraining.

The sector also consisted of itinerant retailers who travel around the country with their products or have businesses based on fetes and fairs, but in the main retail was store based.

The changes that have impacted on B&M retail in the past, and that many policy makers and industry associations have focused on during this time, are those around the control of retail leasing by the large landlords and control of much of the retail market by the Coles and Woolworths duopoly. These issues have been important and have certainly caused business closures and a decrease in profit for smaller retailers, but it did not destroy the industry, rather it gave control of profits and choice to a smaller group of people. As

much as we believe this was detrimental to choice for consumers and to prices, which went up particularly in the grocery sector, B&M retail has continued to grow.

During the last 20 years the internet had some impact on B&M retailers but that impact was manageable and the change was slow. Retailers had time to refocus their business. The impact was on certain sectors, particularly music, and was not an industry wide phenomenon.

This has now changed and the more recent changes have been dramatic and rapid. The internet is having a profound effect upon the retail industry and the way consumers purchase their goods and products. This will also impact on local manufacturers, landlords and urban planning. It will also change employment patterns and the type of skills needed in the retail sector.

The main catalyst is definitely the continuing growth of on-line purchases but there are other less obvious reasons that each, by itself, does not have a big impact but when put together increases the pressure on B&M retail. This includes:

- The ease of access to the internet

- The ease of purchasing on line

- The speed of delivery of purchased goods has improved

- The growth of social media has allowed for new ways and increased ways of advertising online

- The current level of the Australian dollar makes purchasing from overseas sites even more attractive

- The continuing increase in lease and rent for retailers makes B&M retail even less profitable and less sustainable

- The nature of town planning in many locations makes it difficult to reinvent a shop around new products and processes

- The nature of big business that is always slow to react to change

- The pressure of interest rates

- The change in behaviour of the Australian consumer who appears to be in a saving pattern

- The growing reluctance by a growing number of consumers to visit large shopping malls with their parking problems and complex shopping requirements

- The ease with which information on products can be accessed from a range of websites and the ease with which prices and services can be compared.

- The use of technology such as ipods and ipads as well as ebook readers and other technology that is emerging rapidly as needs are created.

This is compounded for B&M retailers who find that customers can now compare prices from within their shops with online stores and even order, online, what they have seen in a shop environment. Some consumers have tested goods in a shop or tried them on to get their size and then order the goods online. This might be a good thing for the consumer but it does not auger well for the shop owner who spends valuable time assisting online retailers with their sales.

The impact of GST on sales

There has been much debate about the GST and the impact on sales figures of non collection of GST on goods purchased overseas. It is our opinion that this has a minor impact on sales as quite often overseas products are much more than 10% cheaper. It is also our opinion that this issue is impacting on tax receipts and will continue to do so and that impact will grow over time. Even a small impact is a considerable amount of lost revenue for government.

We believe that GST should be charged on all sales made from Australia. This then continues the approach of the whole GST policy which is to collect a tax at time of purchase.

There is a way of cheaply collecting the GST and that is from Credit organisations. Credit Cards, EFTPOS, Paypal etc can be asked to collect GST the same as other retailers.

We understand that the credit industry will complain and say it will take too much work but that is exactly the same for retailers so that rationale is not valid. The credit facilities already collect an international credit fee for themselves so it appears the mechanism is already in place. Simply put GST should be collected on all valid purchases made from within Australia when the good or service is to be used within Australia, which is similar to the process that operated successfully during the days of wholesale sales tax.

Long term impacts of change

The continuing change in the purchasing habits has potential to impact on communities and industries in many positive and negative ways

Impact on Choice and Price

There is no doubt that in the short term there are cheaper products available on line and there is a greater choice that cannot be met in a shop. It is also obvious that a B&M retailer cannot compete on price due to the major overhead associated with rental costs. The B&M retailers will need to change and create improved reason for consumers to visit their shops by making them more attractive as a destination. This will mean either some or all of the following:

- decreased prices on products
- new products that are not available online, which will be likely to be based on food, events and hospitality
- a high level of service that cannot be found online
- a mix of online and store based products and services
- mixing products, events and service.

These approaches are being embraced by many retailers but impediments remain. The main impediment is the continuing increase in lease costs or, where it happens, lease decreases that does not really assist. There are also issues around compliance in changing purpose of lease clauses and change management in general for individuals who are under stress.

In the end there can only be so many coffee shops and food outlets, the cost of rent must drop or shops will be empty. The cost of change must be managed or compliance problems will grow.

Collection of better data and information

Many of the submissions made to this enquiry, including our own, do not have hard data or substantial supporting statistics that provide information on specific sectors. This is one of the problems facing retail and one reason why the larger retailers and the landlords have been able to control the market place and force inefficiencies onto smaller players, who make up the bulk of retailers.

We need to collect better data and make informed decisions based on that data and also better predict the ongoing impact of online purchases and the change in purchasing behaviour of consumers.

The questions we need to answer include:

Will B&M retail decrease and if so what does that mean – and we believe it will decrease and it will change

What products will be purchased online

What will be the level of increase of online purchases

What will be the impact on leases and on B&M retailers

Will competition policy (which has in our opinion failed consumers) need to be better managed or changed

Can overseas retailers disadvantage local retailers through unfair practices and can that be managed or controlled

Will overseas governments subsidise their online retailers to the detriment of Australian retailers and consumers

What impact will these changes have on employment patterns

Can online retailers employ the same number of employees as B&M retailers

What other industry sectors will be impacted by the change in buying habits and increased purchases off shore. For example will there be an increase in opportunities for the courier and transport sector and a decrease in income for retail landlords

If there is a decrease in the income of landlords what will the impact on property trusts and superannuation investments

What will the profit profile of retail look like as time passes

How many businesses will close, grow, contract and be created

Will the GST be charged on all purchases made online and if not what are the projected short falls in the budget and where will savings be made or what new taxes will be introduced to cover that shortfall

Opportunities

There are obvious opportunities for retailers. Many people and businesses have already been selling online for many years, and doing so successfully. Opportunities will

continue to grow in this area and the profit of non B&M retailers will be likely to grow. The low cost of rent when selling online and the ability to quickly take advantage of changes in technology also adds to the capacity of this sector to thrive and expand.

Threats

Some of these online businesses now face a threat from cheaper offshore goods due to the high value of the Australian dollar and also the cheaper price of overseas goods. The cost of labour in Australia is higher than many other countries and this is also placing pressure on these retailers. We do need more information to inform policy and comment.

Threat of an unfair internet

Already in the current environment there is much unfairness for small retailers and in the end for consumers. This has occurred as the big landlords control retail leasing to the point where real choice for consumers is removed and small retailers are forced to close or move into the big malls where business is much more difficult and where opportunity for innovation is limited. Our concern is that as the internet takes over that the big search engines and the big retailers will join forces to ensure that only their sites can be found. This is an area where we believe the Productivity Commission should recommend a greater focus by the ACCC on the internet and ensuring it remains competitive and does limit or inhibit choice. We do not want a situation where in 5 years time we identify a problem that is out of control.

In summary it is fair to say we have a retail sector in major flux. The big retailers are feeling the heat of change and the landlords have yet to feel the worst. Small retailers in Bricks and Mortar are unsure of a future, those who are internet savvy have still some way to go before they can compete with overseas prices. What we need is a plan that highlights the opportunities and the threats. We also need someone to facilitate the coming together of the landlords and the retail sector to develop a better partnership in managing these changes. This is probably not possible as we believe that the big landlords still haven't got the message and still believe they can continue as is without too much impact.

In the end many retailers will close and many will downsize. The small business people will also take advantage of new opportunity if allowed to and if the internet remains a fair place for trade. Many small business people will also suffer losses and at worst insolvency.

We need to manage these changes to limit the impact on families and communities and to ensure opportunities can be identified and converted. A retail restructuring package can be compelling, relatively cheap and provide impetus to manage change and embrace new opportunities.

We recommend a plan, a strategy and an industry adjustment package.

COSBOA.