

27 May 2011

Retail Industry Inquiry
Productivity Commission
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Canberra City, ACT 2601
retail@pc.gov.au

Dear Commissioner,

Thank you for the opportunity to provide a submission on the Productivity Commission's (**Commission**) Economic Structure and Performance of the Australian Retail Industry issues paper.

This submission is made of behalf of Myer Holdings Ltd (**Myer**). Myer supports the submission made by the Australian National Retail Association (**ANRA**) and the recommendations made by ANRA. This paper supplements ANRA's submission and presents a number of issues from Myer's perspective.

As background, Myer is Australia's largest department store retailer with 67 Stores across the country and plans to grow to 80 Stores in Australia by 2015. Last year, Myer generated sales of over \$3.2 billion. Since 2006, Myer has invested over \$600 million in capital to build a world-class retail platform and reinvigorate its store portfolio.

Myer is one of the largest private sector employers in Australia, with over 13,000 team members throughout the country. We plan to employ a further 2,500 new teams members to support the growth of our business. With a work force comprised of almost 80% female team members, Myer was proud to be the first major Australian retailer to introduce paid parental leave in 2009.

Our team members make a difference to their communities through their active involvement in the Myer Stores Community Fund, raising money for over 80 charities nationwide. In 2010, the Myer Stores Community Fund raised almost \$1.5 million, and \$850,000 was also allocated to local community initiatives nominated by Stores.

Myer understands the aim of the issues paper is to seek stakeholder views on the implications of the globalisation of the retail industry, and factors impacting the productivity and competitiveness of the retail industry in Australia. Myer supports the Commission's work in understanding the challenges faced by Australian retailers and supports the Commission's efforts to simplify compliance, reduce cost and unnecessary burden on business, and ensure the ongoing competitiveness and success of retail industry in Australia.

In Myer's view, of primary concern is the cost and compliance burden that is associated with inconsistencies between State and Territories in creating and enforcing legislation. As a national retailer, legislative inconsistencies impact on operational areas including trading hours and days, planning and development, workers' compensation and occupational health and safety requirements and the administration of Long Service leave provisions.

As one of the biggest employers in Australia's largest sector, we are also concerned about the challenges retailers face in attracting and retaining quality staff. Our submission addresses some of the key barriers to a competitive and prosperous Australian retail sector, which is a critical part of the overall health of the economy generally.

Myer's other major concern is the absence of a level playing field in regards to domestic e-commerce when compared to overseas online retailers. There are many factors contributing to an increase in online purchasing in Australia, including domestic cost structure impediments, a strengthened Australian dollar and increasing access to mobile Internet technology as well as broadband rollout. We propose reducing the low value import threshold from the current level of \$1,000 to \$100, a value still high when compared to other countries including the United Kingdom, United States, Canada and the European Union.

Our key recommendations, discussed in more detail in our submission, include:

- Harmonisation of State-based trading hours and trading days across Australia;
- Harmonisation of all State and territory-based legislative requirements in areas such as workers' compensation, occupational health and safety, public liability, as well as State-based regulations such as for payroll tax, licensing and Long Service Leave provisions, providing such changes are revenue neutral;
- The facilitation of an appropriate optional sales commission based remuneration system as a means of offsetting a proportion of the current 'fixed' cost system;
- Removal of parallel import restrictions on all products;
- Provision of full transparency around the representation of ABS department store data by retailers, including any adjustments made, a review of the timing of the reporting of such data having regard to continuous disclosure rules for listed companies;
- Investment by Government in retail industry training partnerships and a review of the appropriateness of the current apprenticeship program structure; and
- Provision of greater guidance for the retail sector on the detail and likely impact of the proposed Carbon Tax.

Myer also recommends that the Government establish a Retail Advisory Panel, similar to the Mining and Resource Panel. The Panel would represent the views of one of the largest employing industries, and provide feedback to the Government on the implementation of policy and the various changes to Government legislation on behalf of retailers.

Thank you again for the opportunity to respond to the issues paper. Please don't hesitate to contact me to further discuss any aspect of this submission.

Yours sincerely,

Bernie Brookes

Chief Executive Officer

Table of Contents:

1. Current State of the Retail Sector	4
Cyclical influences impacting performance	4
Structural influences impacting performance	7
2. Online, e-commerce and Digital	8
Online trends and issues.....	8
Shopping centre culture.....	8
Online retail trends	8
International online retailers in Australia.....	10
Tax System: Threshold Reduction.....	10
3. Barriers to a Competitive Retail Sector	13
Trading hours and days.....	13
Labour market structure.....	13
Sales commission based payments.....	15
Training and apprenticeships.....	15
Consumer protection	16
Parallel importing restrictions	16
Planning and property	16
Occupational Health & Safety.....	17
Harmonisation of OHS legislation.....	17
Application of existing OHS legislation	17
Licensing obligations.....	17
4. The Future Prospects for the Retail Industry.....	19
Sustainability.....	19
Sustainability - Government and retail partnerships	19
Energy efficiency in retail spaces.....	19
Carbon tax impact.....	19

1. Current State of the Retail Sector

The Commission's Issues Paper¹ and the ANRA submission comprehensively discuss the current trends in retailing and the influences impacting performance. The commentary below seeks to build on the information provided in the Commission and ANRA papers with further detail specific to Myer.

Cyclical influences impacting performance

As stated in our 1H 2011 results announcement, trading in the first six months of the 2011 financial year was characterised by ongoing fragile consumer confidence and a highly competitive market with widespread discounting. We view the factors currently impacting the performance of the retail sector as cyclical in nature, rather than structural, but note that the effect on consumer confidence of factors described here has been significant.

Over the past six months, like other discretionary retailers, we have observed a consumer who is not only more cautious to spend and has an increasing tendency to save but is concerned about a variety of cost imposts on household disposable expenditure such as higher costs of utilities, health care, education and petrol, increasing interest rates, as well as the prospect of additional taxes.

Households are saving more of their discretionary income than they have for decades. The household savings ratio is currently at around 10 percent, up from negative 2 percent in 2003².

Sales across many of our categories were impacted by price deflation as a result of increased discounting in the competitive environment, as well as the strong Australian dollar, which made purchasing from overseas more attractive to consumers.

Extreme weather and natural disasters have further impacted sentiment and sales during the past six months. The estimated sales impact to Myer from the Queensland and Victorian floods and Cyclone Yasi totalled around \$11 million. Stores located in popular Queensland tourism areas such as Cairns, Maroochydore and Pacific Fair were also impacted by a reduction in overseas tourism.

We note the Westpac-Melbourne Institute Consumer Sentiment Report April 2011 described consumer confidence as lacklustre³. Positive influences to sentiment included; no increase in interest rates for the fifth consecutive month, the Australian dollar at parity with the USD, and an unemployment rate of 4.9 percent. Negative influences were listed as: the recent events in Japan and ongoing turmoil in the Middle East and North Africa. These influences have seen significant increases in the price of crude oil and local petrol prices have risen 13 percent since the beginning of the year. The Westpac-Melbourne Institute index indicated that overall, even with the strong purchasing position due to the strength of the Australian dollar, respondents are still reluctant to spend.

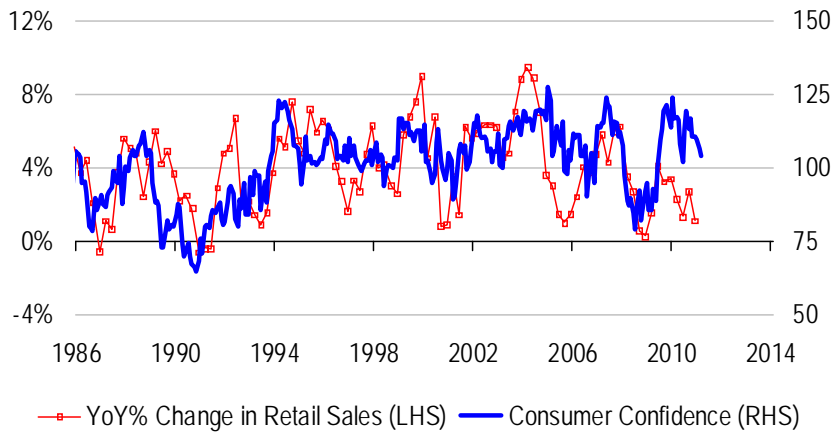
¹ Productivity Commission (2011) *Economic Structure and Performance of the Australian Retail Industry*

² RBA 2011, *Statement on Monetary Policy February 2011*, Sydney

³ Westpac-Melbourne Institute 2011, *Consumer Sentiment Index April 2011*, Sydney

Until recently, there has been a strong link between changes in consumer sentiment and retail spending.

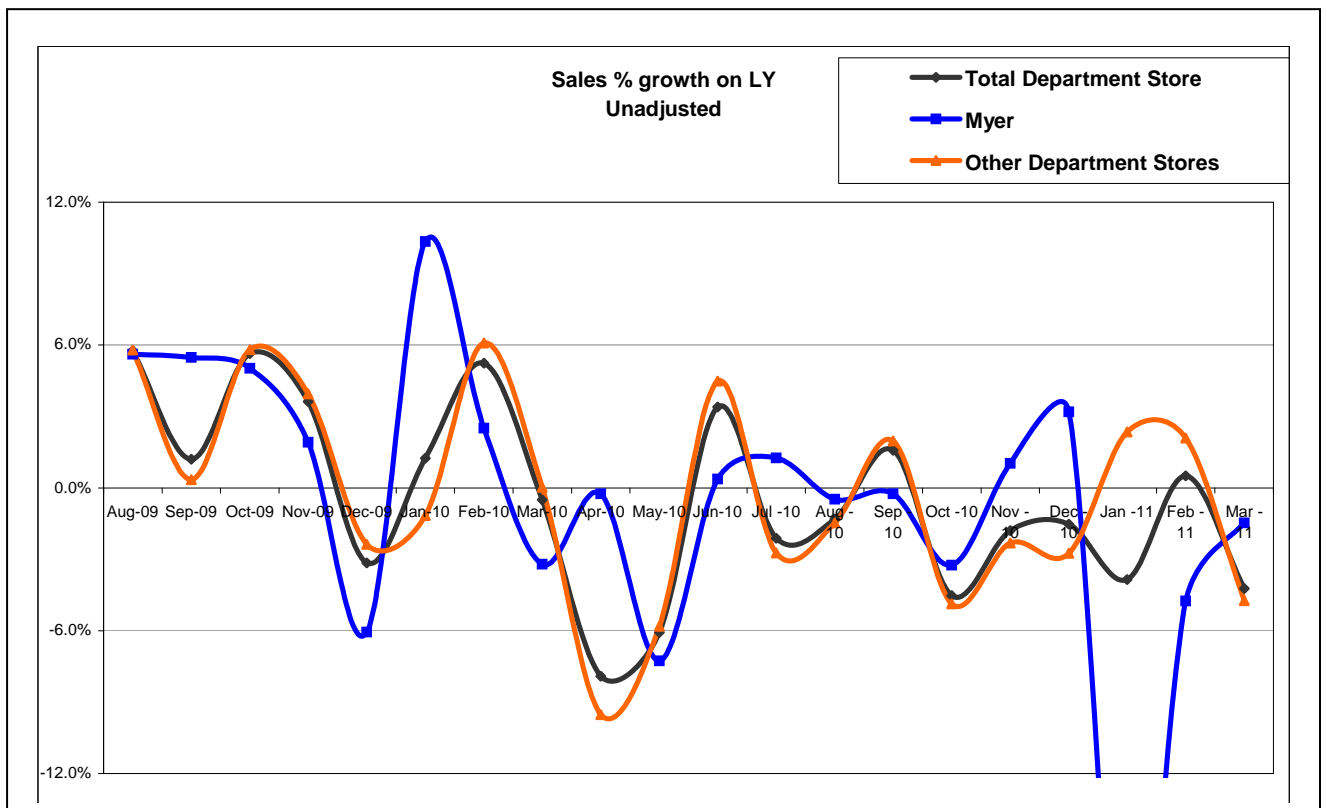
Figure 1.1: Consumer Confidence and Retail Sales⁴



The ABS retail sales for March 2011 for Department Stores, specifically when compared to last year showed:

- Department Stores sales fell 4.2%
- Myer sales fell 1.5%
- Other Department Store sales fell 4.7%

Figure 1.2: ABS RETAIL SALES May 2011⁵



⁴ Citigroup Investment Research 2011, *What's in Store?* Issue 34, 10 February 2011

⁵ Australian Bureau of Statistics 2011, *Retail Trade Report*, 5 May 2011

The release of the March 2011 Department Store Index created a number of issues for Myer:

1. The March data could be compared to quarterly sales numbers released by Big W, Kmart and Target covering January, February and March (which were reported in mid April).
2. The market attempted to “estimate” sales data for the two remaining listed department stores (David Jones and Myer), for the months of February and March based on the department store index data. David Jones and Myer reported Q3 sales in mid May (covering February, March and April).
3. Ahead of the Q3 sales release in mid May, the market became concerned that David Jones and Myer’s Q3 sales numbers were likely to disappoint when they compared the March data to actual sales data released by Big W, Kmart and Target.

The reporting of ABS data on a monthly basis creates some confusion, and potential disclosure issues for listed department store operators (that is, all department stores in Australia excluding Harris Scarfe), given the different reporting cycles adopted by each company. In Myer’s view, the consistency, accuracy and usefulness of quarterly department store reporting would be improved if it followed ASX quarterly sales releases.

We further believe that retailers and investors would benefit from more disclosure around the adjustments made to both the headline and seasonal numbers. Our view is that provision of such information would greatly enhance the market’s understanding of the data and reduce misinformation or false assumptions.

Myer recommends: that full transparency is provided on which retailers represent the ABS Department Store data, and the adjustments made to the headline and seasonal numbers and different reporting periods. In addition, Myer requests a review of the timing of the reporting of such data due to challenges associated with continuous disclosure rules for listed companies.

Price deflation

The retail sector has experienced significant price deflation across many categories over the past 12-24 months. The recent key drivers of price deflation have been the knock on effect of the strong Australian dollar and heavy discounting in a highly competitive retail environment.

Price deflation has been particularly pronounced in our electrical department, and in particular in flat screen televisions and in gaming and consoles.

The following is an example of recent price deflation of two top selling televisions:

1. Panasonic 50" Neo Plasma TV

May 2009 launch price \$3,299

June 2010 replacement model \$2,499

March 2011 Current Price \$1,599

The price of a comparable, updated model has declined over 51 percent.

2. Samsung 58" Plasma TV

May 2009 launch price \$4,999 (no 3D)

June 2010 replacement model \$3,499 with 3D

March 2011 market price \$1,999

April 2011 new 3D model \$2,399

The price of a comparable, updated model has declined 60 percent, and the price for the latest technology 3D model is 52 percent less than the 2D model from two years earlier.

Structural influences impacting performance

As a department store Myer seeks to offer customers a whole 'home solution'. The use of floor selling space is driven by customer demands. Changing consumer tastes and trends as well as technology innovation dictate the returns enjoyed from allocated selling space. Other changes to the structure of the retail market have also driven reallocation of shop floor space.

As a result of declining margins and the emergence of 'category killers' in the bulky whitegoods sector, Myer took the decision in financial year 2010 to exit whitegoods, and to allocate that space to categories that give a higher return including apparel and furniture.

We have also consciously reduced the total floor space allocated to the electrical business in our Stores. Rapidly changing technology has led to allocation of space to new products and categories in the electrical business and the gradual or complete exit of other categories.

For example;

- Decreasing the space allocated to music as consumers move to purchasing music online
- GPS navigation systems were made available in Myer Stores recently, however, now that these systems are commonly available on smart phones and installed in some cars, we are considering moving this product to our e-commerce business

The implications of the National Broadband Network (NBN) rollout to the retail industry are significant. The increasing availability of the Internet has the potential to encourage the proliferation of online retail communities, forever changing the way in which consumers interact with the retail industry. Myer is building capability to meet the rapidly changing online environment. Our online strategy is discussed in more detail in the next section, 'Online, e-Commerce, and Digital'.

2. Online, e-commerce and Digital

Online trends and issues

Shopping centre culture

We recognise that our customers enjoy the theatre and experience of shopping in our Stores as well as the convenience of shopping online. Whether it's choosing the perfect gift through **myer.com.au** or finding a great pair of designer jeans at a bargain price on our new **myfind.com** website, we are excited about the opportunities to expand our offering for customers in the digital environment.

The Australian consumer response to the growing online retail market has been measured, when directly compared to other international markets. This trend has been influenced by a number of cultural factors that relate specifically to Australia.

There is a significant shopping centre culture within Australian society, with over 1,300 shopping centres nationally. Shopping centres are also large employers with around 475,000 people employed, or 1 in 20 of the Australian workforce⁶.

Shopping centres in Australia facilitate the 'shopping day out' as a recreational activity as centres often comprise one or two department stores, discount department stores, specialty retailers, food outlets, a cinema, as well as supermarkets and other essential service providers. This culture is not common globally, with only a few countries including the United Arab Emirates and India having a similar 'shopping day out' culture.

The Chadstone (VIC) and Bondi (NSW) shopping centres are in the top 10 largest centres in the world by turnover. Myer customer shopping behaviour clearly illustrates that climate plays a role in this shopping centre culture. During high temperature periods there is a significant increase in foot traffic and sales in Myer Stores located in shopping centres, as customers use the air-conditioned centres to escape the heat.

The convenience of shopping centres has also been paramount to their success in Australia, with many located in prime real estate within a city CBD or in easily accessible suburban and regional centres.

Online retail trends

As outlined in ANRA's paper, as a result of the disaggregated nature of online sales it is hard to get an overall understanding of the specific Australian online sales dollars, however Access Economics⁷ suggests that domestic online retail sales for all sectors of the economy in 2009 are estimated to have totalled between \$19-\$24 billion, or around 3 percent. It is likely that at least 20 percent of this amount, and up to as much as 50 percent, was spent via international retailers.

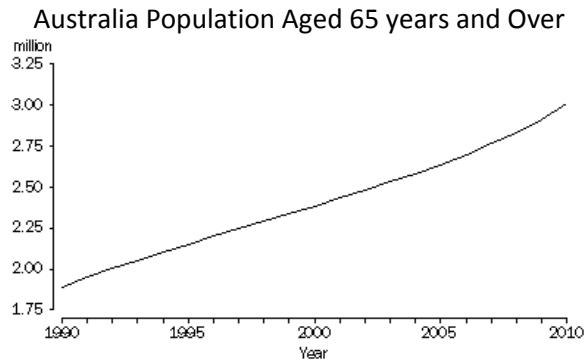
It has been suggested that Australian retailers have been slow in their uptake of e-commerce despite the new technologies available to consumers. However, it is the target customer demographic of Myer and other department stores that has impeded online acceptance and tempered early demand.

In Australia, the proportion of the population aged 65 years and over increased from 11.1 to 13.5 percent between 30 June 1990 and 30 June 2010.

⁶ Shopping Centre Council Australia 2011, www.scca.org.au *Vital Statistics*, cited 15 April 2011

⁷ Access Economics (2010) *Household E-Commerce Activity and Trends in Australia*, November 2010

Figure 2.2: Australia's ageing population⁸



The Baby Boomer generation, one of Myer's key target demographics, places low importance on emerging digital shopping channels, preferring to shop in the traditional store channel⁹. The relationship between age and trust of the online shopping environment can be explained in part by a combination of less experience with the Internet and more scepticism towards technology.

However, we see this changing as more Australians across all demographics adapt to Internet and mobile Internet technology. We see e-commerce and digital marketing as dynamic and growing at a very rapid pace. As a result, Myer has invested significantly in developing a fully integrated digital and online offer for consumers.

We recently upgraded and relaunched our core website, **myer.com.au**, with an expanded product range and improved content. Further improvements are planned for late 2011 including customised promotion, search and mobile device enhancements.

Our **MYERone** program provides a unique opportunity to add value to the online shopping experience of our most loyal customers, and leverage the sales benefits.

Our new website **myfind.com** is still in a period of testing and refinement. This is an exciting new business targeting a different and growing consumer segment. **Myfind.com** is a value-focused online business that is quite different to the existing Myer department store and **myer.com.au** offering. The site also gives us the ability to test new merchandise and explore potential new product and range extensions and will give our customers access to a dynamic range of competitively priced products that are not necessarily available in store or elsewhere online.

At Myer we are growing our e-commerce offering through both websites and expect the online business to generate sales of about \$5 million in financial year 2011. We expect our online business to continue to grow and contribute sales equivalent to an average store within the next few years (around \$30 million). The two websites complement our 'bricks and mortar' Stores, offering convenience, ideas, inspiration and information or targeting a new customer seeking a great deal.

⁸ ABS 2010, *3201.0 Population by Age and Sex*, Australian States and Territories, June 2010, Canberra

⁹ The Australian Centre for Retail Studies, 2010, *Multichannel Retail: Value, Optimisation and Segmentation*, pp 80

International online retailers in Australia

We are acutely aware of the increasing presence of International retailers accessing the Australian market, including Amazon.com, bookdepository.co.uk, net-a-porter.com, Nordstrom.com, Asos.com, strawberry.net.com, and JohnLewis.com.

Many of these sites offer free delivery to Australia and are able to do so due to the significantly lower cost of goods, lower input costs and lower overheads. In addition to this, these retailers are not required to pay GST or duties in Australia. This creates an unfair advantage to overseas retailers that, in our view, should be urgently addressed.

Tax System: Threshold Reduction

Myer is concerned about the duty and GST loophole that provides overseas online retailers with a clear advantage over local retailers. We would very much like to see a level playing field on this front.

Other major economies including the UK, USA, Canada and China have created a “level playing field” by ensuring that both overseas retailers and local businesses are subject to the same regulation, the same VAT or GST impositions and the same Duties. Australia continues to provide a “free kick” to overseas retailers.

We, together with a number of other retailers, have determined that Australia’s low value import threshold is significantly higher by comparison to other developed economies. Indeed, our recommended threshold of \$100 in fact is far higher than any developed country equivalent.

If the costs, processes and requirements for an online product that is purchased by a customer are compared to that of a ‘bricks and mortar’ in-store purchase, the challenges facing Australian retailers are clearly illustrated.

In Australia, retailers pay higher fixed wages, penalties and conditions than in China, India and the UK. We pay higher rents than all the other major countries in the world and many of our infrastructure costs and taxes are significantly higher. As a result, our cost of doing business is higher and it is harder for Myer and other Australian retailers to compete on a world scale. Ultimately our higher cost structures and competitive limits represent a key risk to employment in the sector.

The following cost model compares the Myer in-store cost of a business shirt as against its cost to **myer.com.au** and to **myfind.com** (Myer’s website based in Hong Kong).

Figure: 2.1: Cost model, men's business shirt

	STORE (Myer)	DOMESTIC WEBSITE (myer.com.au)	INTERNATIONAL WEBSITE (myfind.com)
RETAIL	\$69.95	\$69.95	\$40.00
SUPPLIER COST	approximately \$28	approximately \$28	\$25.00 - \$27.50
ADDITIONAL COSTS	<ul style="list-style-type: none"> • Store rent • Store fixtures • Store utilities: light, power, water • Store sundries: bag, tissue paper • Team member wages • Team member payroll and administration • Team member superannuation • GST • Duties • Supply Chain costs to ship item to store • Distribution Centre costs • Store receive and put away • Store stock take • Shrinkage/Loss Prevention costs • Store systems infrastructure 	<ul style="list-style-type: none"> • Current cost structure as per store as fulfilled from a store • Future structure to include mix of store costs with warehouse efficiencies • Pick, pack and despatch per unit • Payment gateway, banking transaction fee • IT infrastructure • Returns 	<ul style="list-style-type: none"> • Payment gateway banking transaction fee • Receive and put away per unit • Warehouse rental space • Pick, pack and despatch per unit • IT infrastructure • Returns • No wage costs included in stock put away, rental and customer despatch

We accept that a price difference of 10 percent would not make some of the products Myer sells in Australia competitive when compared with products available from overseas websites. There are reports of cosmetics and electronics available online at half the price we can sell them for and apparel at 30-40 percent cheaper than the Myer price. Whether the products offered represent a 'like for like' brand or value proposition is open to further review however.

Some suppliers have a different price list for Europe, the Americas and Asia. As such, our **cost** prices are at times dearer than international web retailers **sell** prices.

An example that clearly illustrates this is in our cosmetics business:

Myer is the biggest cosmetics retailer in Australia. However, the impact of overseas online websites like strawberry.net.com that deliver lower priced cosmetics to Australian consumers cannot be ignored.

Traditionally, there has been a disparity with Australian and US pricing in cosmetics with much lower pricing offered in the US. Australia's geographic isolation has led it to be used as an outpost for cosmetics with significantly higher pricing demanded by distributors.

There are a number of options for securing cosmetics supply in Australia including:

- Purchase from local suppliers
- Source from grey market (distribution channels which, while legal, are unofficial, unauthorised, or unintended by the original manufacturer)
- Buy from the supplier via the US

We purchase our internationally branded cosmetics through local distributors and we have strong relationships with many of these suppliers. Myer and other retailers are supported by cosmetic suppliers through marketing, markdown funding, staffing support, and cosmetic counter fit-outs.

We cannot buy our full range from the grey market as we cannot be guaranteed continuous supply and some pricing is more expensive than our local suppliers.

It is unlikely that we could purchase from US suppliers, as despite being the biggest cosmetics retailer in Australia, our volumes relative to the US market are not significant.

Furthermore, if we were to purchase from either the grey market or through the US we would forgo the support of the local suppliers.

Figure 2.3: Cost comparison, Product X, a leading women’s cosmetic line

	MYER STORE	DOMESTIC WEBSITE (myer.com.au)	INTERNATIONAL WEBSITE (strawberrynet.com)
RETAIL (Australian dollar)	\$234-	\$234-	\$135.50
SUPPLIER COST	\$150-170	\$150-170	Estimated at around \$40

It is clear that the variation in price for the same *Product X* available to consumers from overseas websites is not insignificant. However, online sites are not able to replicate the in-store experience, theatre, **MYERone** rewards and events, nor our exclusive brands.

The following is an example of how we leveraged the exclusivity of an in-store event with our online business:

- We have had recent success with an exclusive pre-sell campaign integrating online, social media and a unique in-store experience. Myer customers were able to pre-order Katy Perry fragrance at **myer.com.au** with that purchase including a pass to an exclusive in-store appearance by Katy Perry at Myer Melbourne. Social media updates were broadcast through Twitter and facebook during the show and photos from the event are available online.

Finally, it is worth noting, the margin on our business after we deduct all our cost of doing business is around eight cents in the dollar, significantly below the margin earned by many international retailers.

Myer recommends: A reduction of the low value importation threshold from \$1,000 currently to \$100 to ensure a level playing field for Australian retailers competing in a global online environment. The redefined base still provides ample scope for online purchases of incremental items rather than the current limit, which encourages a wholesale shift to online at the unfair expense of domestic bricks and mortar retailers.

3. Barriers to a Competitive Retail Sector

Trading hours and days

Shop trading hours across Australia are administered by State Governments and this has resulted in rules that vary from State to State. This is particularly the case in Western Australia, Queensland and South Australia, while there is general consistency between Victoria, Tasmania, NSW and the ACT.

In Victoria, Tasmania, NSW and the ACT, where the opening hours have largely been deregulated, shops open according to local needs and customer demand.

As outlined in the Commission's Issues Paper, the current trading hours regime creates confusion for retailers and consumers and delivers an unfair competitive advantage to some smaller retailers who are less restricted.

The impact of differing retail trading hours on tourism is significant. Tourist buses and cruise ships are frequently unable to access our Stores due to restrictive trading hours.

For example:

- In March we had to seek special permission to trade in Adelaide City when two cruise ships were scheduled to be in port on a Sunday. Inflexible and inconsistent trading hours make it hard for tourism organisers to give accurate information to tourists.
- Over the recent Easter and ANZAC break, again in South Australia, our Stores were forced to close for four days out of the five-day break. Our Adelaide City store was able to trade on Tuesday (the ANZAC day public holiday) however this information was only clarified to retailers one week prior to the weekend.

In fact, many of the decisions on trading hours are made close to the restricted day of trade. This makes it very difficult to get access to staff and communicate the decision to customers.

Myer's Customer Contact Centre fields a large number of calls from consumers unsure of trading hours and days, who are confused by the differing legislative requirements across the country.

Myer recommends: That trading hours be deregulated to allow retailers to trade in line with consumer demands. Public holiday trading restrictions should be uniform nationally and limited to Christmas Day, Good Friday and ANZAC day morning. Arbitrary differentiation of retailers who can or cannot trade on any day should be removed.

Labour market structure

The retail sector is the largest employer in Australia, with 11.0 percent of Australian employees working in retail in February 2010¹⁰.

Department store retailers have experienced a structural change in workforce composition over the past several decades. There has been some shift from full-time team members towards a more flexible workforce. This flexibility gives Myer store management the ability to adjust the workforce depending on demands of customers and fluctuations in sales.

Extended trading hours in some States has given Myer the ability to meet the needs of consumers wanting to shop at a time that suits their lifestyle. A part-time and flexible workforce enables us to roster employees on the days and at the times consumers want to shop. It also facilitates the desire of some of our workforce who also want the flexibility to work at differing times to the 'traditional' working week. This is particularly important to our 'student' workforce as well as to parents who want to work rosters planned around study, family and school obligations.

¹⁰ ABS 2011, *Labour Force, Australia, Detailed, Quarterly* February 2011, Cat. No. 6291.0.55.003, Canberra.

The composition of the Myer workforce is common to department store retailing but distinct from other major industries in Australia. Our team members are almost 80 percent female and we are committed to helping all employees to balance work and family responsibilities to enable them to have a long and fulfilling career at Myer. The current average length of service of a Myer team member is 17 years with an average age of 49 years old.

A significant benefit of long-serving sales employees is the wealth of product knowledge and sales experience that they possess.

Retailers also need the ability to react to macro-economic challenges, such as the Global Financial Crisis (GFC).

An example of this follows:

- Myer's Liverpool (NSW) store had an almost 100 percent permanent work force when the store experienced a 20 percent drop in sales during the GFC. As the store comprised only permanent team members, the Liverpool store was unable to react to the decline in customer demand and reduce the number of team members required. This caused a significant increase in operational costs as a percentage of sales, impacting Myer's profitability.

As outlined in the Commission's Issues Paper, labour costs are one of the largest individual components of overall costs for the retail industry. The labour market in Australia is a highly regulated environment with the majority of all employment relationships covered by the *Fair Work Act 2009*.

Recent changes through the application of new 'modern awards' to penalty rates for late night and weekend work require increases to sales force employee pay from July 2011 and additional increases phased over the following two years. The impact to Myer from a cost perspective will be an additional \$10-15 million per year to operational costs over the next three years. This additional expense is on top of any proposed wage adjustment, thereby having the potential to 'double' labour costs within the organisation. This has the potential to cause a structural review of the composition of the Myer sales workforce and further impacts on the permanent versus casual mix and long term careers in the industry for those seeking the certainty of a permanent role. There are clearly potential unintentional consequences of such changes for careers in the retail sector.

The following increases in penalty rates will be rolled out on 1 July of 2011, 2012 and 2013.

- 5, 10 then 15 percent - Monday to Friday after 1800. Currently Myer pay no penalties up to 2100.
- 5, 10, then 15 percent - Saturday from 0600 - 1800. Currently Myer pay no penalties on Saturday from 0600-1800
- 60, 70 then 80 percent - Sunday from 0800 - 1900. Currently Myer pays 50 percent penalty rates on Sundays

Currently the current casual loading rates are as follows:

- 20 percent during most ordinary hours (0900 - 1700)
- 35 percent after 1800 on Saturday
- 60 percent on Sunday

The following changes in Casual Loading rates will be rolled out on 1 July of 2011, 2012 and 2013.

- 21 to 22 to 23 percent – Monday to Friday
- 23 to 26 to 29 percent – Saturday
- 35 percent after 1800 Saturday (unchanged)
- 60 to 70 to 80 percent – Sunday

Retail sales across the industry are not growing in line with the increases in penalty rates that have been implemented through the application of the recent General Retail Award. Most of the sales that are achieved by Myer are during the higher penalty rate periods, when more customers are choosing to shop requiring more labour, proportionately, to be rostered during these higher cost periods adding to our cost base.

Myer also notes that the communication and implementation of any new regulation is required to come from the employer with the cost borne by the employer rather than at the Government level where the change originates.

For example:

- Myer was required to issue a *Fairwork Australia* information statement to over 13,000 team members in 67 Stores across the country. The cost of distributing such paperwork was approximately \$10,000.

Better utilisation of technology to reduce costs is also being accelerated as a response to the imposts.

An example of this follows:

- The application of point-of-sale (**POS**) transaction centres or clusters have been identified as an option to manage the additional costs, as well as increase team member productivity. Myer is currently trialling the consolidation of POS registers at a number of Stores.

Myer has also invested in the benefit structure of its workforce as a means of attracting and retaining skilled employees. Myer was proud to be the first major Australian retailer to offer paid parental leave for its permanent team members. The recently introduced Government Parental Leave Scheme will be implemented in addition to the current Myer scheme. However, the Government scheme also needs to be integrated by Myer to our own internal systems, which are currently configured to our own scheme, adding additional administration and payroll costs, as well as regulatory burden to ensure compliance.

Myer recommends: Government facilitate the Government-funded Paid Parental Leave Scheme using the existing payment system, Centrelink.

Sales commission based payments

As the Commission details in the Issues Paper, labour costs typically account for a higher percentage of sales revenue in the Australian retail industry than in many other developed countries.

Myer supports the facilitation of an appropriate optional sales commission based remuneration system offsetting a proportion of the current 'fixed' cost system as it is our view that this drives improved productivity.

Such a scheme will ensure Myer is more competitive on a global scale and will help to manage the increasing presence of online retailing in Australia.

Myer is currently trialling performance-based pay for selling team members related to productivity targets. The initial sales uplift as well as positive feedback from both customers and team members is encouraging.

Myer recommends: the facilitation of an appropriate optional sales commission based remuneration system as a means of offsetting a proportion of the current 'fixed' cost system.

Training and apprenticeships

Myer's philosophy is to grow talent from within by investing in skills development and leadership programs. These include our Store Management Development Program to build competency among high-potential senior Store team members to take on senior leadership positions at Myer.

We also have a Graduate Development Program with over 50 graduates successfully completing the program since 2007.

Myer also has established strong relationships with universities including RMIT and the Australian Centre for Retail Studies (**ACRS**) at Monash University.

We have employed a number of talented product development interns from RMIT in our buying and merchandise areas, while over 240 team members have gained valuable insights into key national and international retail trends through seminars, international study tours and training programs conducted by the ACRS.

We remain committed to training and development programs to ensure that our team members are proud to work at Myer and that they can contribute to the fullest extent of their abilities. However, it is our view that the Government should also play a role in training retail sector employees.

The TAFE apprenticeship program for fashion designers requires students to undertake a project that is onerous, lengthy and, in many cases, not commercially relevant. There is a significant opportunity for greater flexibility of the apprentices program.

Myer recommends: investment by Government in retail industry training partnerships and review of appropriateness of current apprenticeship program structure. This could involve the industry through the Retail Advisory Panel.

Consumer protection

Consumer protection is at risk as the retail industry becomes global. In certain circumstances, overseas retailers importing into the Australian market using the Internet are not regulated and subject to the same warranty, return, labelling and safety requirements that Australian retailers are required to meet. As a result, Australian consumers purchasing from overseas websites may not be protected in the same way they are when purchasing from domestic online or 'bricks and mortar' retailers.

Myer supports ANRA's recommendation: Australian Government takes steps urgently to ensure all goods being imported into Australia, including direct purchases by households, meet all Australian safety standards and labelling requirements.

Parallel importing restrictions

Advances in technology mean that retailers are now competing in a global marketplace, our examples listed in Section 2 depict this clearly.

Myer supports ANRA's recommendation: to remove parallel importing restrictions on all products. We also call for the cooperation of Customs in implementing stronger control of the importation of counterfeit apparel, footwear and other merchandise from Asia.

Planning and property

Myer is a tenant in all of our Stores except for three regional properties. However, as a tenant, not a landowner, we understandably work closely with property developers in the design and construction of our new Stores and refurbishments. As a result we are acutely aware of the inconsistencies in planning and property regulation across different States and Territories.

In Australia we have higher rental and occupancy costs as a proportion of sales than our overseas counterparts. Also, differences in Retail Tenancy laws between States means high compliance costs for retailers, particularly those with concessions.

Rates, taxes, treatment of outgoings as they relate to occupancy costs for lease management, also differ across States and Territories.

Myer recommends: Consistency across all State and Territory-based legislative requirements and regulations in areas such as planning, property and Retail Tenancy laws.

Occupational Health & Safety

Harmonisation of OHS legislation

Recent key wins in the harmonisation of State-based Occupational Health and Safety (**OHS**) legislation are due to take effect on 1 January 2012. Myer welcomes such harmonisation, as it will assist with productivity by delivering consistency across employer obligations and entitlements in all States/Territories reducing the need for duplicative effort across state boundaries for essentially the same purposes.

There is, however, currently limited consistency in Workers' Compensation and Public Liability legislation. This remains an extremely complex and frustrating issue for retailers as a result of inconsistent obligations across jurisdictions and has added to our compliance and license renewal costs.

One example of this is the *Regulatory Provision for Travel (Journey) Claims* in NSW and Queensland, with this type of claim forming part of the regime covered by the Transport Accident Commission in Victoria. Such inconsistencies across jurisdictions lead to difficulties with reporting accuracy, the need for individual awareness of the various state obligations and legislative content and cost of compliance.

For a business which is a 'self-insurer' for workers' compensation, the State differentials for the assessment audits in relation to Self Insurance licence renewal in particular, also adds significant costs to doing business for employers.

Application of existing OHS legislation

The current inconsistencies in the application of legislation between OHS Regulators have impacted Myer's operations, due to the different interpretation of similar legislation in a number of different States and on occasion between different inspectors within the same State.

Myer is happy to provide a specific example where we incurred a capital cost of \$32,000 resulting from variable interpretation of OHS regulations.

Myer recommends: Consistency across all State and Territory-based legislative requirements and regulations in areas such as workers' compensation, public liability and occupational health and safety.

Licensing obligations

A number of licensing requirements imposed on retailers is unduly complex, inconsistent and imposes a significant cost and administrative burden to retailers.

All levels of Government need to work cooperatively to reduce the compliance burden associated with licensing obligations including eliminating unnecessary requests for information and where possible reducing the frequency of such requests.

An example follows:

- When applying for a corporation security licence in the ACT, each Director is required to undergo police checks and complete a series of application forms in order to apply and renew the licence each year. In such cases, Government should consider providing public companies

concessions and remove the need to provide company and Director details, as stringent background checks are already completed under ASX and ASIC requirements.

Government should also allow, where appropriate and as agreed with the applicant, the sharing of information between regulators to allow mutual recognition for nationally based companies when applying for a similar licence between States.

Myer recommends: That Government should consider reforms to licensing obligations for retailers, particularly companies that are nationally based or publicly listed and where possible, be consistent with the systems in place for a setup of a corporation.

4. The Future Prospects for the Retail Industry

Sustainability

Sustainability - Government and retail partnerships

Currently there are several State-based programs across Australia (Victoria, Queensland, NSW), where retailers are encouraged to partner with Government to promote the environmental and cost-saving benefits of energy and water efficient appliances and product choices to consumers.

Myer has recently partnered with the NSW Dept of Energy in a retail business program (*Save Power Retail Program*) to promote the environmental and cost savings benefits of energy and water efficient appliances. The Government supports retailers by providing team member training and POS material.

Myer has also partnered with Sustainability Victoria in an identical program across Victorian stores (*ResourceSmart Retail Program*).

Myer recommends: The consideration of a national Sustainability Partnership program. This would be more efficient, for both retailers and Government, than managing several different Programs across different jurisdictions.

Energy efficiency in retail spaces

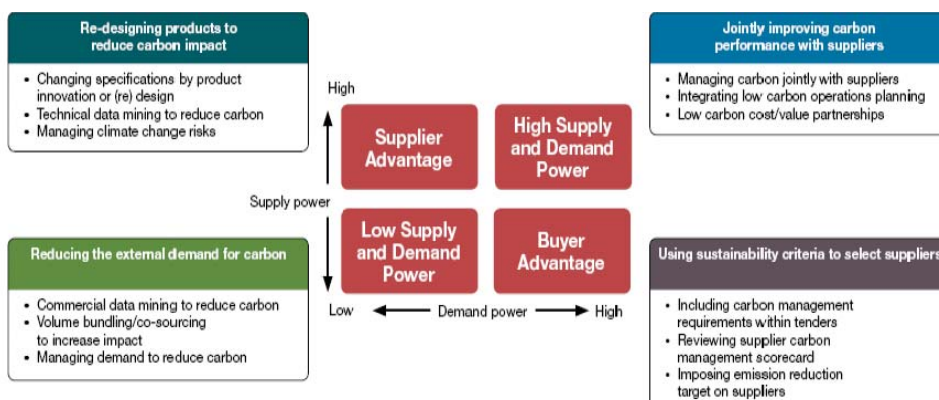
Guidance is required regarding how to best approach the management of energy efficiency in retail spaces, as this is a very complex and technical area.

Myer recommends: Greater practical guidance in this area, and provision or recommendation of specialist energy consultants for retail spaces.

Carbon tax impact

Macquarie Research¹¹ predicts that higher transport and logistics costs, in the order of \$200 million, will impact retailers, coal miners and grain on the introduction of a Carbon Tax. Walmart, a leading US retailer, have noted that 90 percent of their carbon emissions for retailers come from suppliers. The major source of retail emissions is the third party providers of logistics including freight to distribution centres, and from distribution centres to Stores. There are a number of different methods for companies to engage with suppliers on carbon.

Figure 4.1 – Possible methods for supplier engagement in carbon management¹²



¹¹ Macquarie Economics Research 2011, *ESG Carbon Pricing – Companies go into the wild green yonder*, 23 March 2011

¹² Carbon Disclosure Project 2011, *Supply Chain Report*, March 2011, London

Myer recommends: That Government provides greater guidance for the retail sector on the impact of the proposed Carbon Tax. This should include advice on how to analyse the exposure to supply chain carbon, and how best to assist with supplier engagement and third party providers of logistics to minimise additional retail operating costs.