

AUSTRALIAN NEWSAGENTS' FEDERATION

AUSTRALIAN GOVERNMENT

PRODUCTIVITY COMMISSION ISSUES PAPER

ECONOMIC STRUCTURE AND PERFORMANCE OF THE AUSTRALIAN RETAIL INDUSTRY 2011

SUMMARY

Changing Landscape: Newsagents have been an integral and essential part of shopping patterns in local communities around Australia for decades. However, the industry faces its most interesting challenge since deregulation. Our defining product the printed newspaper is changing both here and abroad, due to economic downturn and media disruption caused by the increasing availability of online digital news products that may largely take over from the printed product sometime in the future.

Newsagents also face increasing direct competition from a variety of highly experienced retailers such as major supermarket chains, Australia Post and online retailers. These structural changes and those expected in the coming 10-15 years, without sensible planning for adaptation, will put at risk some aspects of the current business model that has sustained the newsagency industry for the past 120 years and supports the need for managed change.

Whilst Australian newsagents are predominately pro-active, to ensure we successfully meet these challenges it will be imperative that our state and national industry associations continue to offer them support with ongoing training and opportunities to allow diversification.

These challenges will require newsagents to reinvent themselves for a future that does not rely on the printed newspaper as a defining product. Newsagents have always been a whole lot more than just newspapers and their future will rely on placing greater emphasis on new diversified income streams such as technology products, printing services and gifts in their businesses and to leverage their current customers into other parts of their businesses in new ways, thus enabling them to wrestle back more control of their margins. There is potential to incorporate 'store in store' concepts by including coffee shops/cafes/gift stores into their mix and by exploring alternate distribution products to seek this change.

With assistance from Government bodies and industry suppliers, industry associations can facilitate and encourage newsagents to ensure there will continue to be a strong future for newsagents and their community based businesses.

Newsagents have the potential with their wide ranging and conveniently placed networks, coupled with their potential purchasing power, to leverage their well established, trusted and reputable brand, to recreate a successful model of retailing providing a mix of both online and bricks and mortar retail. Their advantage could be in providing a human face and convenient local collection point for the purchase, along with their traditional quality service that has differentiated them from larger retailers for decades.

Structural change in the industry is the inevitable way forward to achieve this, as the number and size of newsagents change in response to these new challenges. Programs must be

developed to support and manage this change; appropriate measures must be put in place to facilitate reduced harm and community impact throughout the process and to assist in planning a sustainable future.

Planning for a positive diversified future: In the short to medium term newsagents and their associations will need to partner with government and suppliers to manage the transition process through mechanisms that have been adopted in other industries. This will facilitate newsagents to be able to make well informed investment decisions to get bigger, get better, get more diversified or where necessary to exit the industry in a managed way.

RECOMMENDATIONS

There is little doubt that major structural change is affecting newsagencies and will continue to do so in to the future, particularly as a result of the disruption to our core product line, newspapers. Other core product lines are also suffering volatility and significant increased competition from a range of traditional and online retailers.

In addition, continued pressure from regulation changes, including tobacco and Fairwork legislation, along with increased business charges such as EFTPOS fees are placing additional burdens on the newsagent.

Whilst newsagents remain buoyant about their future they realise significant change will be required to reposition the industry. Some have already begun to make these changes. Given the pace of change and the timeframe in which it will have to be achieved early intervention by all parties, Government, industry associations and newsagents themselves will ensure that a restructure, as difficult as it may be at times, is successfully achieved.

THE ANF MAKES THE FOLLOWING RECOMMENDATIONS:

Managing the Change: That the Government partner with newsagents and their associations to assist the industry manage the rapid structural change that is occurring as a result of media disruption, as it has done in the case of many other industries facing similar challenges. In doing so it will help to insure that the quintessential Australian store which continues to be the centre of many Australian communities continues to grow in to the future.

Training: That the Government partner with newsagents and their associations to assist the industry in identifying new and better ways of doing business and assists businesses to become even better retailers. This can be achieved particularly through research and training assistance, including;

- Development of online retail strategies that supports traditional retail
- Retail training
- Benchmarking
- Business development planning

Competition: That consideration is given to the role and effect of the Australian Government's own retail outlet Australia Post on Australian small business, in particular newsagencies.

EFTPOS: That the Government investigate and act upon the effects of the new multilateral interchange fee model for EFTPOS transactions to which the major supermarket chains,

through a transitional arrangement, will have the option to be excluded, thus removing the previous level playing field.

Leases: Newsagents need assistance to ensure that they are given fairness and equity in lease deals to ensure their lease deals are competitive to the other retailers within the same centre or precinct.

Tenancy fairness could be achieved through a regulatory function such as a national leasing ombudsman and a national registration of retail leases. This would ensure that market rates can be better assessed and tenancy rights were more fairly established. It could, for example, ensure newsagents whose leases are up for renewal in shopping centres are provided the first and last right of refusal for a new lease so that landlords cannot threaten existing tenants with take it or leave it type negotiations.

Legislation and Regulations: Fairwork and Tobacco

- That if government pursues further tobacco control regulations like plain packaging that economic impact analysis and suitable compensation for further structural adjustment be considered for newsagents.
- That the Government examine and rectify the impact of the modern awards introduced under the Fair work legislation, particularly in relation to clause 13.4 of the General Retail Industry Award 2010 and the associated regulatory burdens which have grown from the transitional provisions of the modern awards.

TRENDS IN RETAIL TRADE & DRIVERS OF STRUCTURAL CHANGE

RETAIL ACTIVITY

TO WHAT EXTENT IS CURRENT RETAIL PERFORMANCE A RESULT OF STRUCTURAL RATHER THAN CYCLICAL CHANGE? IF IT IS STRUCTURAL CHANGE WHAT ARE THE IMPLICATIONS AND EVIDENCE OF THIS?

Despite the cyclical change that has impacted the entire retail sector, the evidence suggests that the changes now being experienced in the newspaper sector of our business is structural; in particular, changes expected over the next 10-15 years place at risk aspects of the current business model which has sustained the newsagency industry in the past. This evidence has forced a movement toward change in the industry which is seeing proactive agents diversifying and innovating to define a new model to sustain the industry for the next century which does not rely on newspapers and newspaper distribution to support it.

While newspapers have defined newsagents and the changes in the print media present the biggest current challenge to newsagents, other product lines are vitally important and as newspapers decline, they will increasingly become more important. Some experts are forecasting the extinction of newspapers as publishers in Australia and overseas are devoting considerable resources to developing and monetising their digital editions of the 'newspaper'. While there appears to be some way to go to implement a successful business model, the intent of the direction is clear and newsagents need to be clever in preparing for this eventuality. Its realisation will force a major change on the Australian newsagency system, which has built itself on being the prime means of distribution for newspapers.

The leaders of two of Australia's dominant newspaper groups, Rupert Murdoch and Kerry Stokes have commented recently that they expect that within 10 to 15 years there will no longer be major paper based newspapers in Australia. This sentiment is echoed by new Fairfax CEO Greg Hywood:

*"There are big structural changes going through the industry. News Limited (publisher of The Australian) is seeing it, Fairfax is seeing it, digital companies that started up a decade ago are seeing it."*¹

They are not alone with many industry analysts and futurists foreshadowing similar decline. The *Newspaper Extinction Timeline*² for example forecasts that the newspaper in its current format will be extinct in Australia in 2022, only five years after the USA and UK, where the decline in newspaper circulation has been very rapid over recent years. This is particularly true of the US where a number of major newspapers have ceased publishing paper based newspapers.

In addition to the longer-term challenge posed by the progressive and eventual likely migration of a large portion of newspapers to digital forms, newsagents are adapting to a number of other shorter term challenges including:

- Slow decline in newspaper circulation;
- Volatility in magazine sales, and an increase in the number of titles;
- Product maturity in the Lottery sector, and the prospect of increased internet based Lottery sales
- Increased competition across a range of products traditionally stocked by newsagents including competition from the major supermarkets, Australia Post and online retailers.

These challenges are in addition to the cyclical challenges currently faced by the retail industry generally.

Responding to the challenges: Newsagents differ somewhat from other retailer's current challenges, given the structural change to one of the core product lines of our industry, in particular newspaper home delivery and distribution. Though this structural change by no means signals the end of the newsagency, it does signal that significant change is ahead and like other retailers, newsagents will need to ensure that this is well planned for and well managed, so that the quintessential Australian store, the newsagency, continues to prosper in our communities well into the future.

Despite the challenges newsagents remain positive and recognise that in the next five years we must continue to lay the groundwork for our new direction, making this both an exciting and challenging period. Newsagents will rise to this challenge and recent examples of newsagents arresting flagging sales of magazines through adaptation of merchandising and responding to increasing online competition through developing better more localised online

¹ The Australian, http://www.theaustralian.com.au/news/nation/newspapers-must-adapt-to-survive-says-new-fairfax-ceo/story-e6frg6nf-1226001800950?from=public_rss

² Ross Dawson, Trends in the Living Networks, 1/5/2011, http://rossdawsonblog.com/weblog/archives/2010/10/launch_of_newsp.html

presences themselves are good examples. It is a period that is likely to see a continued reduction in newspaper circulation, but within which newsagents will still remain the prime distribution channel.

As the structural change in the newsagency sector continues to gather pace and as the response to the challenge increases we will likely see the rationalisation of the industry to fewer but larger newsagencies as businesses respond to falling newspaper sales, by increasing diversification. Combining newsagency operations with other local service and retail functions is likely. During this period support from suppliers and government will be important to manage the transition this structural change has created.

If Rupert Murdoch and Kerry Stokes are correct and there is a 10-15-year time horizon for paper-based newspapers; the interim period is likely to be an exciting period for newsagents as the channel adjusts. These changes will bring with them great opportunity as newsagents diversify and reposition themselves. After all many of the services people may want in their local communities in 10-15 years time are as yet hard to predict and may be some way from being fully commercialised. Newsagents need to prepare themselves to be a well-positioned and attractive channel for these new opportunities.

HAVE SECTORS WITHIN RETAIL BEEN AFFECTED DIFFERENTLY, DEPENDING ON WHETHER THEY SELL ITEMS CONSIDERED TO BE DISCRETIONARY CONSUMPTION BY HOUSEHOLDS? HAVE THE SALES OF DURABLE GOODS (THE PURCHASES OF WHICH CAN BE DEFERRED) DIFFERED FROM THE SALES OF NON-DURABLE GOODS SUCH AS GROCERIES?

According to The National Retailers Association's demand for discretionary goods in Australia was down between 6 and 12 per cent across the board.³ 82% of newsagents reported an average overall sales decline of 7% for January through March 2011 compared to 2010 with 69% reporting they served fewer customers.⁴

It should be recognised that this trend was influenced by significant unexpected natural disasters around the country during this period and also by the general downturn in the retail economy which is expected to continue over the next 12 months as consumers forego discretionary spending on some lines from newsagents in order to save more.

Despite these results a range of newsagents are bucking these trends by diversifying their product mix with products like ink and gift lines and even niche magazines growing well in some stores.

³ The Australian, April 02, 2011, <http://www.theaustralian.com.au/business/disaster-in-store-as-wallets-slam-shut-in-discretionary-spending/story-e6frg8zx-1226032200570>

⁴ Tower Systems, Newsagent Sale Benchmark Study, Jan – Mar 2011 (See Appendix 2)

WHAT FURTHER EVIDENCE FROM THE MARKET IS AVAILABLE IN SUPPORT, OR OTHERWISE, OF THE VIEW THAT MANY CATEGORIES OF RETAIL GOODS ARE CONTINUING TO GROW IN TERMS OF VOLUME BUT THAT PRICES HAVE DECREASED, THUS SQUEEZING MARGINS? WHAT SPECIFIC CATEGORIES OF GOODS ARE AFFECTED AND WHAT FACTORS OTHER THAN THE STRENGTH OF THE AUSTRALIAN DOLLAR ARE BRINGING ABOUT THIS PRICE DEFLATION?

Newsagent's prices are generally competitive and have only decreased in some areas in response to shrinking wholesale prices influenced by the exchange rate. However, newsagents face an overall squeezing of margins through declines in sales in some categories like newspapers and increased overall costs. The categories where declines have a bigger impact are product lines, such as newspapers, magazines and lottery products, where margins are set and maintained by publishers and regulators externally. Newsagents require stronger and faster moving mechanisms to adjust prices on these products to have more competitive control over their margins and to be able to better respond as an overall business to competition from online retailers for like products. Price and supply control over core categories such as magazines, newspapers, cards and lotteries, must change to facilitate greater flexibility and control for business owners.

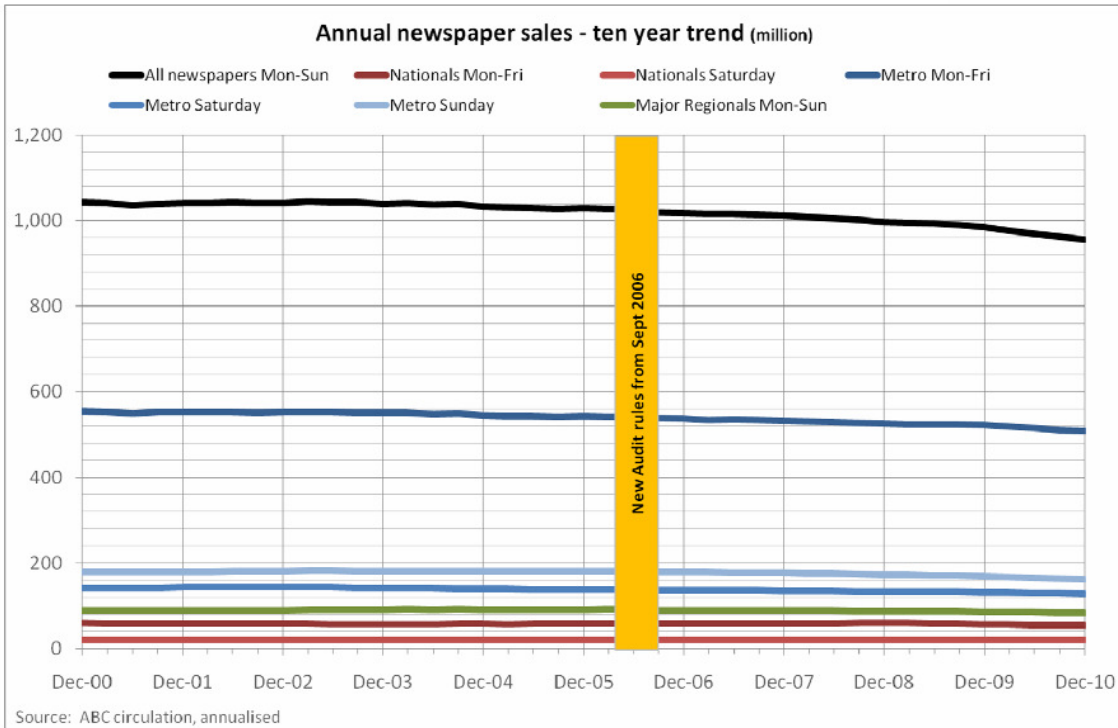
The major product lines for which newsagents are best known, newspapers, magazines and Lotteries, have relatively low gross margins⁵, and margins that have not increased markedly for a considerable time while wages, rent and other cost have increased sharply. Suppliers and regulators are largely responsible for this issue and mechanisms need to be created to arrest this trend.

The Newspaper and Lotteries Example: Newspapers, the iconic product line associated with newsagents, have gross margins that are amongst the lowest among products sold by newsagents. Newspapers are neither growing in volume nor in price thus squeezing the newsagents margins as costs continue to rise.

Circulation of Australian newspapers declined by 3% in the period 2004 to 2008, a further 1% in 2009.⁶ Then in the three months April to June, 2010, Monday to Sunday sales of national, metropolitan and regional printed newspapers fell 2.6% and a further .3% in the next quarter to the end of September 2011 compared to the corresponding periods in the previous year according to figures from the Audit Bureau of Circulations.

5 See Appendix 3 ARA State of the Independent Retail Sector Operating Costs and Product Mix 2010

6 OEDC 2007-2009 The evolution of news, and the Newspaper Works



Another of the newsagents’ core products, Lotteries, is also challenging. Again as newsagent have no control of the pricing of lotteries. If sales decline so does income.

The Lottery industry is increasingly important to newsagents in generating traffic and complimentary higher margin sales contributing to turnover and profits. Newsagents represent the most significant component of Lottery agencies, with some variations between the states, but generally account for over 70% of all Lottery sales.

Nationally, Lottery sales are growing very slowly and Instant Lotteries are declining. Combined, they are growing in real terms by less than 1% per year and real per capita Lottery turnover is declining. Internet Lottery was introduced several years ago and now comprises about 5% of all Lottery sales. It is however growing much more rapidly than in store sales.⁷ This growth cannot be attributed to new incremental sales as it is purely a redirection of the consumers gambling method. Regulators of lotteries need to be aware of these issues when reviewing their longer-term strategies for licencing lotteries.

⁷ Australian Gambling Statistics 2007/08.

Competition and Consumer Education: Some sectors report that it is competition, as a result of consumer education, particularly the availability of instant (online) access to comparative retail prices, which is affecting profit.

“...we have seen further decline in average cost prices in the vicinity of 1.5%-3%, depending on the category, over the course of the financial year...we apply fixed margins and push the savings forward [to newsagents]”...most newsagents are forced to pass on the reduced pricing to remain competitive.”⁸

This situation is confirmed by economist Richard Ivers of RBS Morgan;

“The market is so competitive out there that it is hard for retailers to increase their profit margins as the cost of goods that they are purchasing is decreasing.”⁹

TO WHAT EXTENT HAS COMPETITION FROM OVERSEAS AND AUSTRALIAN ONLINE RETAILERS CONTRIBUTED TO FALLING REVENUE GROWTH EXPERIENCED BY AUSTRALIAN BRICKS AND MORTAR RETAILERS? WHAT DATA SUPPORTS THIS? IS THIS A TREND WHICH WILL CONTINUE?

The loss of sales to online retailers has been greatest for newsagents in books and subscriptions for overseas magazine titles. Overseas magazine title subscriptions can be sourced for as little as 38% of the price the same 12-month supply would be available in a newsagent. Newsagents have no control over the retail prices of these products as publishers and distributors set them for the newsagent. Online stationary suppliers like Staples are also encroaching on newsagents businesses and this will continue unless newsagents take responsibility for staking out their own local areas by building loyalty through personalised customer service and by offering localised online presences to aggressively push back against these competitors.

PROFITABILITY

WHAT ARE THE MAJOR FACTORS INFLUENCING THE PROFITABILITY OF RETAIL BUSINESSES IN AUSTRALIA? WHY ARE SOME RETAIL SUB SECTORS MORE PROFITABLE THAN OTHERS?

While most newsagents are still holding their own, given the current economy in the retail sector, there are a number of key factors challenging the profitability of newsagencies, including:

⁸ McLeod, Jason. Group Newsagencies Supplies, 2011

⁹ Ivers, Richard, RBS Morgan, Inside Retailing, 3 May 2011.

- Declining or fairly stable demand for the key product lines generating traffic, such as newspapers, magazines and Lotteries.
- Changing newspaper readership demographics
- Deregulation and increasing competition across all product lines, particularly from the large supermarket chains, Australia Post and online retailers.
- Regulatory issues including the fair work legislation, increases to tobacco excise and the move to plain packaging of cigarettes,
- Staffing.
- Sales volume factors, including fixed and relatively low margins for major product lines.
- Supply chain dynamics and a system that provides little control over the volume of publications newsagents receive and have to pay for.
- Tenancy and lease factors.

Technological Changes: Rapid changes in technology, including the rapid digitalisation of print media, are impacting on the current business model. The results include:

- Declining purchases of printed newspapers;
- Rising IT and telecommunications literacy.
- Newspaper publishers creating on-line accessible newspapers
- Examination of subscription based and pay per view business models, but as yet no clear viable on-line business model;
- Reduction in cover prices for some newspapers in some countries, but without the expected increase in sales;
- Development of news aggregation sites, such as Google News and Popurls.
- Development of a community expectation, particularly among younger people that news is and should be free.

The technological basis to separate news from paper and the distribution of the news online is likely to increase in speed. In this context the universal availability of high speed Internet by the NBN and other forms is likely to place additional challenges on the traditional paper based news retail and distribution system. These same technological changes though will bring with them a host of new opportunities for newsagencies.

The Newspaper Demographic: Readership of newspapers is positively correlated with age and education attainment. The major socio economic driver for the future of newspapers is that while older readers are continuing to buy and read newspapers, younger people are much less likely to both buy and read newspapers and more likely to try digital editions. The demographic clock is a major challenge to the traditional newspaper distribution system.

Deregulation and Competition: During the past 20-30 years there has been long-term and bilateral political support for increased competition as a means of improving national productivity, deregulation has been a key means to achieve this objective.

The retail sector is characterised by rapid change and innovation and is one of the most competitive sectors in the economy.

Newsagents have no way of limiting new competition even if it is not warranted by market conditions. The regulatory regime that once characterised the newsagency channel has been removed and in general in every product line that newsagents have there is increased competition, or the imminent threat of increased competition. Virtually all of the major products carried by newsagents, including the core newspaper and magazine lines, are now sold at other retailers, many of which are in the same centres. Lottery tickets remain exclusive to some newsagents, but these are also increasingly sold at other outlets and online.

There is also considerable competition from both local and regional retailers in those product lines with higher gross margins including greeting cards, stationery, books and gifts.

Although other stores typically do not offer the same depth of selection as newsagents in their core product lines, many provide a limited selection of the most popular items in key product lines, thereby depriving newsagents of both sales volume and the potential for flow-on sales.

In recent years two further threats have arisen in the major supermarket chains. These competitors sell a range of newsagent product and are able to dictate extremely favourable retail terms. What began as an increase in stationary lines has expanded to include daily newspapers and magazines and now in the case of Coles incorporates full in-store newsagencies.

“Supermarkets are expected to keep attracting ‘one-stop shop’ consumers who buy newspaper, magazine and stationery goods with their daily groceries.”¹⁰

These major supermarkets will also have a further competitive advantage over newsagents later this year if they continue to be allowed to maintain existing bi-lateral arrangements with issuing banks for EFTPOS interchange fees when small businesses like newsagents will be forced to pay more expensive multi-lateral arrangements.

The newsagents other large competitor is the more than 800 Federal Government owned Australia Post retail shops who sell a great number of newsagents core products.¹¹

¹⁰ IBISWorld Newspaper, Book and Stationary Retailing in Australia March 2011 p. 10

¹¹ <http://www.newsagencyblog.com.au/2011/05/09/the-federal-government-competes-with-newsagents-again.html#more-12440>

Regulatory: Legislative burdens continue to significantly impact newsagency operators. The latest of these is the Fairwork legislation and the introduction of the modern award, which has impacted employment and administrative costs. However there are a great range of other legislative changes that are causing, or a set to cause, additional hardship to newsagents, including the tobacco excise increase, tobacco retail display bans, the proposed plain packaging of cigarettes legislation, the paymaster function of paid parental leave, lottery regulation and changes by the reserve bank to allow EFTPOS interchange fees to increase.

Staffing: Staffing remains a major issue for newsagents. Scale and turnover limits the newsagents' ability to employ extra staff or to facilitate longer hours. There are also few career paths for staff. These pressures have been exacerbated by the introduction of the Fairwork system. This is dealt with in more detail under the questions concerning *Retail Employment and Labour Market Issues*.

Sales Volume - maintaining high sales volume on low margin products: The core products for the newsagency industry are characterised by high turnover and low margin, with little or no control over price and margin in many key categories. About 60-75% of newsagent purchases are for single items.¹²

Supply chain dynamics – highly contractual relationship with publishers: Publishers distribute circulation to newsagencies that hold a distribution contract. In most states, the bulk of deliveries from publishers are directed to the newsagency's retail premises. From here, the newsagency is responsible for the territorial work of home delivery and sub-agent distribution. Some regional newsagents can have home delivery areas up to 130 kilometres per day, which represents a considerable time and cost burden for the operator relative to the margins on these products.

"The circulation distribution model was created pre-deregulation and leaves newsagents disadvantaged in this post de-regulation world."¹³

In a recent survey¹⁴ approximately 90 per cent of newsagencies surveyed suggest that the publisher's relationship with a newsagency is highly contractual. Publishers do not compete between themselves for retail space in newsagencies and as a result, have very little incentive to improve margins or be receptive to changes that would improve the operations and market position of newsagencies. This is in contrast to greeting card companies who operate in an environment that requires them to compete for display space.

¹² IBISWorld, Newspaper, Book and Stationary Retailing in Australia March 2011 p. 7

¹³ Mark Fletcher, The Newsagency Blog <http://www.newsagencyblog.com.au/2010/10/20/how-could-media-disruption-affect-newsagents.html>

¹⁴ ANF et al, Joint Report: New Territories Project 2010 p. 19

Associated with the supply chain dynamics are cash flow and administrative burdens which result from the holding and return of newspapers and magazines.

Leasing: Newsagents do not have the same level of control over commercial levers of different parts of their business than many other retailers, making them extremely vulnerable to retail tenancy abuse.

Specialist tenants such as newsagencies pay significantly higher rents per square metre than the major supermarkets but still have to compete with these stores for sales.

The suppliers of newspapers, magazines, greeting cards, lottery products and other key categories fix the prices of these products. Newsagents have no control over price or margin of products account for than 60%-80% of a newsagent's sales. Given that newsagents are not able to increase prices to cover increases in their costs, rent increases can only erode an efficiently run newsagent's net profit. Further, newsagents are contractually required by suppliers to operate within a specific geographic area, which in many cases is confined to a shopping centre, making the option of relocating elsewhere unavailable and the landlord a monopoly supplier of retail space¹⁵. It is not unusual for non-territorial newsagents to be offered take it or leave it contracts upon renewal of their lease.

WHERE BOTH COSTS AND PROFITS ARE HIGH BY INTERNATIONAL COMPARISON DOES THIS INEVITABLY MEAN CONSUMERS IN AUSTRALIA ARE PAYING HIGHER PRICES? IF SO, IS THIS A LIKELY PERMANENT POSITION? IF NOT, WHAT ARE THE FORCES WHICH ARE LIKELY TO CHANGE IT?

IN NEWSAGENCIES, COSTS ARE HIGH BUT PROFIT MARGINS ARE RELATIVELY LOW. IN ADDITION, NEWSAGENTS FACE COMPETITION ACROSS THEIR ENTIRE PRODUCT LINE AND MUST THEREFORE COMPETE ON PRICE WITH MANY OTHER BUSINESSES, BOTH ONLINE AND TRADITIONAL. AS A RESULT, COMPARATIVELY, NEWSAGENCY CUSTOMERS ARE PAYING REASONABLE PRICES. HOW IS THE GROWTH IN ONLINE SELLING IMPACTING ON RETAIL PROFITS? WHAT IS THE QUANTITATIVE EVIDENCE FOR THIS?

The issues facing newsagents in relation to the online environment are threefold:

Firstly, increases in online sales by multi-national groups like Staples who have recently announced a further increase in their online presence across Australia, marketing to more local businesses in newsagents traditional areas for online stationary sales. This means less

¹⁵ ANF Submission to the Productivity Commission The Market for Retail Tenancy Leases in Australia p. 6

foot traffic to retail centres. This through-traffic is the lifeblood of newsagents who tend to be a convenience destination, i.e. on the way somewhere else. As newsagencies currently rely on high volume sales of low margin products any decrease in foot traffic has an impact on the bottom line.

Secondly, consumers purchasing cheaper subscriptions to overseas magazines via online web stores are also impacting newsagents who have no way to compete with these prices, as publishers fix the newsagents retail prices and do not allow discounting.

Lastly, it is increasing numbers of people accessing online versions of the news, both free and paid. This further diminishes the sales of newspapers and the draw card for other purchases.

- The State of the News Media 2011 report by the Pew Project for Excellence in Journalism said 46% of Americans now get news online at least three times a week, surpassing newspapers (40 percent) for the first time.¹⁶
- In all OECD countries, Internet traffic to online news sites has grown rapidly. About 5 per cent of all Internet visits are related to reading news online, which is a conservative estimate.¹⁷
- More recently newspaper websites have seen strong growth in their own pages, with large newspapers reporting several million unique visitors to their pages per month.¹⁸
- In just five months as at 30 June 2010, for example, Australians had downloaded more than 331,000 newspaper brand apps.¹⁹

This is highlighted by the example of Fairfax. By September 2010 iPad subscriptions for the smart edition of The Sydney Morning Herald had jumped from 10,000 a month after launch to 16,000 over the period of a week. This meant that by September, 16,000 daily editions of The Sydney Morning Herald were on iPad or about 10% of its weekday circulation. Two months later, there were more than 150,000 iPads sold nationwide, and the competitor devices are soon to hit the market. Another key driver for newspapers has been the increased migration of advertising spending from print to the internet. The shift is on, and every newspaper company knows it.²⁰ In addition Australians bought 570,000 smart phones a

16 Online sites top newspapers for Americans: report AFP March 15, 2011, 5:30 am

17 http://www.oecd.org/document/48/0,3343,en_2649_33703_45449136_1_1_1_1,00.html

18 http://www.oecd.org/document/48/0,3343,en_2649_33703_45449136_1_1_1_1,00.html

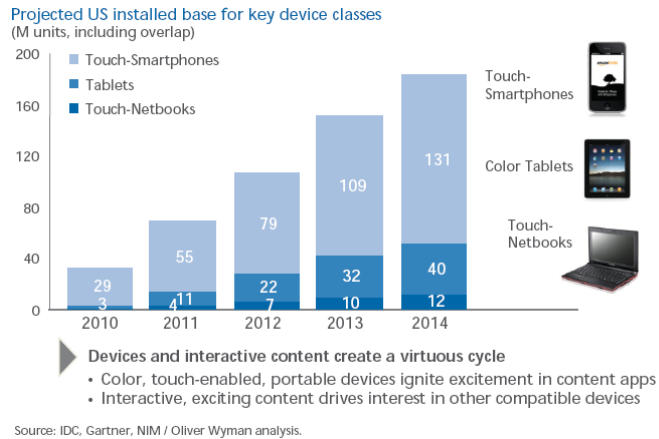
19 Combined downloads for iPhone & iPad devices as at June 30, 2010 sourced from publishers
<http://www.thenewspaperworks.com.au/go/news/sales-decline-in-soft-market>

20 <http://www.crikey.com.au/2010/11/10/fairfax-plans-fundamental-shift-from-print-future/>

month in 2010.²¹ Inevitably leading to more people accessing news on these devices through new smart phone based digital versions of current papers.

Growth of Touch Screen Devices²²

Sales of color, touch-enabled, mobile devices are projected to grow significantly over the next few years, underpinning consumer demand for interactive magazine and newspaper content.



RETAIL EMPLOYMENT

HOW HAVE RETAILERS RESPONDED TO CHANGING DEMAND CONDITIONS IN REGARD TO STAFF EMPLOYMENT?

The newsagency sector employs some 20,000 employees nationally. Newsagencies in Australia employ an average of seven staff members. The majority of staff (62 per cent) are employed on a part-time or casual basis²³

Employment in newsagencies has been effected not only by the cyclical downturn, which has resulted in newsagents having to let go of staff or through attrition, but also through the introduction of the new retail award’s wages, loadings and penalty rates under Fair Work. These changes have made it both more expensive and harder to employ, particularly students due to:

- An increase in the minimum wage (in addition to the new award’s increase in wage rates)
- An increase in penalty rates.

21 <http://www.theaustralian.com.au/australian-it/telecommunications/million-mobile-phones-sold-each-month-in-australia-idc/story-fn4iyzsr-1226027430823>

22 Oliver Wyman, A New Digital Age for Publishers, 2011 p. 3

23 Australian Retailers Association, State of the Independent Retail Sector 2010, p. 29

- Minimum work requirements that mean employees must work three or more hours per shift.

The imposition of a three-hour minimum shift in the Award affects newsagencies on two fronts:

- Newspaper Deliveries
- Significant segments of the newsagency industry do not have the amount of available work required to fully employ newspaper delivery drivers for the minimum three hours required under the Retail Modern Award.²⁴
- Casual Employment
- Students have always been an important part of the newsagents employment mix and in return newsagencies have provided an important learning environment and income opportunity for students.

Consider the case of "Nick". For three years he has worked three nights a week, after school, for between an hour and a half and two hours. The newsagency was on the way home. He was happy with the work and the award wage he was paid. Now, under the new provisions, he will have to be let go since he cannot be given the minimum hours as the business closes at 6pm and he cannot get there before 4:15pm.²⁵

Approximately 65 per cent of newsagencies surveyed by the ARA suggest that the Fair Work system is the most, or a major, significant challenge to their business.

"Newsagency operators anticipate that they will have to respond to the changes caused by the Fair Work system by cutting staff hours. On average, large newsagency operators estimate that they will shed up to six staff member's as they will be unable to employ them for more than three hour per shift. As newsagencies cannot afford to maintain their casual employees, proprietors expect that they will have to cover these jobs with their own time. Such an occurrence raises concerns regarding the pressures of work/life balance for newsagency owners."²⁶

WHAT ARE THE CURRENT IMPACTS AND LIKELY FUTURE IMPACTS OF THE GROWTH OF ONLINE SHOPPING FOR EMPLOYMENT, INCLUDING REGIONAL EMPLOYMENT, IN THE RETAIL INDUSTRY?

24 ANF to Fairwork Australia http://www.fwa.gov.au/documents/awardmod/var010110/AM201016_sub_anf.pdf

25 <http://www.newsagencyblog.com.au/2010/02/15/high-school-and-uni-students-suffer-from-fair-work-act.html>

26 Australian Retailers Association, State of the Independent Retail Sector 2010, p. 33

“...the most significant effect on industry sales over the next five years will stem from the digital economy.”²⁷

The increased stated end of paper-based editions through the digitalisation of newspapers, and magazines, which currently form the backbone of the Newsagency along with the increase in online stationary and gift purchases, could well, if structural adjustment is not planned and implemented, result in a decline in employment.

PRODUCTIVITY TRENDS

WHAT HAVE BEEN THE MAIN FACTORS DRIVING RECENT PRODUCTIVITY TRENDS IN THE RETAIL TRADE?

Some productivity gains have occurred in newsagencies as a result of the introduction of better technology such as point of sales systems and improvements by magazine distributors in returns procedures through better online systems.

DEVELOPMENTS IN THE RETAIL INDUSTRY

HOW IS THE STRUCTURE AND CHARACTER OF THE RETAIL INDUSTRY LIKELY TO CHANGE IN THE NEXT 20 YEARS?

Newsagents will need to actively prepare a future when paper based newspapers and the associated distribution no longer provide the product line that primarily defines their operations and the prime reason for their existence. In the medium to longer term they will need to move in a direction in which their businesses do not depend on newspapers for identity and viability. Longer term we are likely to see the end of the distribution network unless new diversification options for this part of our channel are commercialised.

While technology will have a longer-term impact it is likely that demographics and consumer behaviour will within the next five years influence the size, location and density of newsagents.

There may be fewer, but larger and more specialised newsagents offering better range of products and services to consumers. The patterns are likely to be different depending on the nature and location of the market being served.²⁸

²⁷ IBISWorld, Newspaper, Book and Retailing in Australia March 2011, p.10

Within the next 5 years, the framework for the relationship between newsagents and newspaper publishers will be established by negotiations that are underway between the newspaper publishers and the newsagents' associations. In this period, newsagents must lay the groundwork for their new direction. It is a period that is likely to see a continued reduction in newspaper circulation, but that newsagents will remain as the prime distribution channel. One likely response to cost and revenue pressures is that more newsagents may consider joining branded buying or franchise groups to further reinforce their identity in a changing market.

If current trends continue, as expected, then the period from 5 to 10 years will see accelerated structural change to the newsagency industry. The larger, but perhaps fewer newsagencies remaining, will have expanded and diversified their product ranges to replace newspaper sales and combated competition. The more dependent a newsagency is on newspaper and magazine sales the harder this transition period will be. Consequently, the development of mechanisms and support from government and suppliers now will be important for creating a successful future.

For those that are willing to prepare and adapt new opportunities exist and more will arise, as newsagents move their highly recognisable, long-standing and friendly brand into the future with a diverse range of products and services, including online.

The public policy choice is to manage this process through market forces alone or to manage through processes that have been adopted in other industries to facilitate well informed investment decisions to get bigger, get better, get more diversified or to exit the industry in a managed way.

The preferred choice is the proactive option with a carefully considered strategy to guide the necessary transition of newsagents into a significantly different but more sustainable business model.

WHAT FACTORS ARE LIKELY TO DRIVE CHANGES IN THE STRUCTURE OF RETAILING IN THE NEXT 20 YEARS?

Demographic and social trends have had a strong impact on how the form and function of retailing and retail centres has changed over time and it is expected that their influence will continue in the future. Key changes in the demographic structure of households over time, including labour force participation, family structure and ageing, have resulted in changes to shopping behaviours, and subsequently have led to changes in the retail formats.

For newsagents specific external drivers include:

- The increasing digitalisation of print media.
- IT and telecommunication literacy increases.
- Consumer sentiment trends.
- Household disposable income.
- Internet and catalogue shopping.
- Competition from supermarkets, Australia Post and stationary chains.

WHICH RETAIL MODELS ARE LIKELY TO SURVIVE AND WHICH ARE LIKELY TO STRUGGLE GIVEN CURRENT INDUSTRY TRENDS?

Large scale industry restructuring is likely, but the rate and impact will vary depending on the type of newsagent, the location of the newsagent, and their reliance on newspapers to define and sustain their business.

The dependency on newspapers varies from 100% for distribution-only newsagents to about 5-10% for some newsagents in major shopping malls. The following main types of newsagents exist, and each type faces different challenges and opportunities:

- Distribution newsagents only;
- Retail and distribution, and
- Retail only

The structural changes facing the industry will likely see the *Distribution Only* model shrink slowly as existing operators take up runs that have been left by others. Quite naturally eventually without a product to distribute or in such low numbers as to make it unviable it either diversifies completely or ceases. This is likely to happen sooner rather than later with 68% of newsagents recently stating they do not currently make a profit on home delivery.²⁹ Diversification opportunities exist for the distribution model however, including the delivering of other products such as groceries.

It is such examples of diversification, managed through careful and strategic restructuring that will ensure the community's local newsagents will continue to thrive well in to the future. Profit will be the key to decisions as the opportunistic newsagent leverages its existing traffic and strong connection to its community, and develops, through enhanced retail skills, a greater retail engagement with its customers.

²⁹ ANF, Newspapers, what newsagents really think, April 2011 p.3

ONLINE TRADING: OPPORTUNITIES AND CHALLENGES

TRENDS IN E-COMMERCE ACTIVITY

WHY HAVE AUSTRALIAN RETAILERS BEEN RELATIVELY SLOW TO TAKE-UP ONLINE TRADING? WHAT IMPEDIMENTS ARE THERE TO THE GREATER USE OF ONLINE TRADING BY AUSTRALIAN RETAILERS? ARE THERE IMPEDIMENTS (OTHER THAN CONSUMER PROTECTION ISSUES — SEE LATER) TO THE USE OF ONLINE RETAILING BY AUSTRALIAN CONSUMERS?

Sensis reported recently that almost 40% of Australian small businesses do not yet have a website³⁰. Whilst newsagent industry has begun to make inroads in to the online retail environment progress to date, as with many SME's throughout Australia, has been slow.

A highly competitive retail environment: For many years of their existence newsagents enjoyed an enviable position with a strong core business in newspapers, magazines and Lotteries in particular and relatively captive markets. This somewhat insulated them from a highly competitive retail market and reduced their need to undertake marketing, store development, innovation, staff training, merchandising and online sales. This position is no longer the case and newsagents have experienced strong competition for the last 10 years. As the pressure of competition continues to increase newsagents need to continue to focus on and further develop their customer retail experience, including online retailing. In doing so newsagents will need to ensure that they and their employees receive the up to date training and skills necessary to get online and remain competitive.

If newsagencies fall behind in this growing market they will stand to lose further market share to more online competitors particularly in the lotto, stationary, and book markets, where the biggest erosion of the newsagency channel has been.

Knowledge and training: A major issue is that, apart from owners, there are few career paths for staff employed at newsagents, and that additional training and skills development in the retail area is a recognised industry need to address competitive pressures.

The uptake to online retailing by newsagents has been slow despite industry efforts to see more newsagents retailing online. Newsagents overall are increasingly tech savvy and use good point of sale systems that can integrate with online sales. However, owner operators are time poor and lack the immediate expertise and training to compliment their sales with online retailing as a rule. As the number of tech savvy newsagents increases and improved

³⁰ <http://about.sensis.com.au/News/Media-Releases/?ItemID=1084&count=1> 5 May 2011

availability of training in particular follow up training becomes available it is likely the speed of change will gather pace.

Potential: Newsagents form an extensive network of outlets across the country and with the purchasing power of agencies like *Group Newsagency Supplies* have great potential to make inroads into online retailing. With a combined retail and online market mix they can establish a competitive advantage of being an online retail agent with a retail face. This kind of potential can be realised through a proactive industry restructure involving adequate training and financial planning.

What newsagents would benefit from in this area is Government support in the way of education funding to roll out an extensive training program & have this incorporated as part of the industry accreditation process.³¹

The training should cover:

- Development of Retail Web Marketing strategies that supports traditional retail
- Implementation of an internet sales platform linked to traditional retail POS /
- Accounting systems.
- Website protocols / consumer policies
- Security

The Government support should extend to assistance with benchmarking opportunities, so we can learn from the industries who have already worked through this transition of retail change.

ARE THERE ANY LOGISTIC CONCERNS THAT HAVE IMPEDED THE TAKE UP OF ONLINE SHOPPING? FOR EXAMPLE, ARE THERE ANY CONCERNS RELATING TO THE COSTS, TIMELINESS, EFFECTIVENESS AND EFFICIENCY OF THE DELIVERY OF PURCHASED ITEMS BY AUSTRALIA POST AND OTHER COURIER AND EXPRESS FREIGHT SERVICES?

Aside from the reliability and speed of the internet, particularly in country and rural areas, there do not appear to be any other major logistical inhibitors to online retailing for newsagents and some newsagencies have begun to extend successfully in to the online realm. The impediment is getting online. With increased competition and a digitalisation of print media, cost and time remains an inhibitor to newsagents establishing online shopping. A move that should ultimately be an advantage to newsagents, as they have a distribution system they can leverage to deliver greater levels of service. It is envisaged that the introduction of the National Broadband Network will provide additional incentive and opportunities for newsagents.

³¹ McLeod, Jason, Group Newsagency Supplies, (GNS), April 2011.

IMPACT OF ONLINE TRADING ON BUSINESS AND CONSUMERS

HOW SIGNIFICANT IS THE IMPACT OF ONLINE TRADING ON DOMESTIC RETAIL BUSINESSES?

Online trading has two major facets that directly effect traditional bricks and mortar retailing:

- Consumers are better educated on price and quality through research and have instant access to retail prices and availability.
- Consumers are able to purchase online.

In 2008-09 an estimated 64% of Australians aged 15 years and over who used the internet for any purpose also purchased or ordered goods or services online (ABS, 2009a). This is equivalent to just under half of all Australians over 15 years of age, and a slight increase from 2006-07 (61%). The most frequently cited reason is better value, with immediacy and convenience (e.g. avoiding crowds and queuing) also important considerations (Sands and Ferraro, 2010)³²

The anticipated annual growth rate for e-commerce in Australia over the coming years lies between 5 - 12%.³³ This trend has and will have a growing effect on newsagents, who as a convenience destination rely heavily on through traffic through retail precincts. For newsagents the equation is simple less people in retail precincts will means less purchasers and less flow on purchases.

While the simple view and immediate impact may be about foot traffic the bigger picture, is competition. Newsagents will benefit from further up skilling to ensure they compete effectively in this market and drive people to their door through increasing online and social media marketing.

HOW SIGNIFICANT WILL ONLINE TRADING BE FOR THE AUSTRALIAN RETAIL INDUSTRY IN THE FUTURE? IS IT LIKELY THAT AUSTRALIA WILL REALISE SIMILAR GROWTH IN MARKET SHARE FOR ONLINE RETAILING TO THAT SEEN IN THE USA AND EUROPE? WHAT RETAIL SECTORS ARE LIKELY TO BE IMPACTED THE MOST BY THE GROWTH OF ONLINE TRADING? WHAT NEW BUSINESS MODELS MIGHT BE CREATED BY ONLINE TRADING?

32 Access Economics, Household E-Commerce Activity and Trends in Australia Nov 2010
<http://www.fairimportsalliance.org.au/Portals/0/Access%20Economic%20Ecommerce%20Report.pdf>

33 Access Economics, Household E-Commerce Activity and Trends in Australia Nov 2010
<http://www.fairimportsalliance.org.au/Portals/0/Access%20Economic%20Ecommerce%20Report.pdf>

Frost and Sullivan (2010) argue that e-commerce in Australia remains relatively immature and that the Australian e-commerce market lags those of the UK and USA by around three years. If this is the case, e-commerce has the potential to expand significantly in Australia, providing opportunities for domestic retailers to increase sales in Australia and in overseas markets.³⁴

This provides both a threat and an opportunity for newsagents and as suggested by Access Economics Report *Household E-Commerce Activity and Trends in Australia* Nov 2010, a number of factors will need to be considered as part of the structural adjustment the newsagent industry will be required to make in the next 5 to 10 years:

However, the challenges to domestic businesses should be recognised and the exploitation of online retailing opportunities – in Australia and overseas – by domestic businesses should be encouraged. Such support could be provided by AusIndustry and like programs. Education and training policy should ensure that Australians have ample opportunity to acquire the correct skill sets required to address the needs of an increasing online economy, and a changing focus away from “bricks and mortar” retail.³⁵

Newsagents have the potential with their wide ranging and conveniently placed networks coupled with their potential purchasing power, well established and trusted, reputable brand to create a model of retailing which provides a mix of online and retail. Their advantage could be in providing a human face and convenient local collection point for the purchase. Newsagents will need to aggressively develop internet sales in newsagency lines or other products.

³⁴ Access Economics, Household E-Commerce Activity and Trends in Australia Nov 2010
<http://www.fairimportsalliance.org.au/Portals/0/Access%20Economic%20Ecommerce%20Report.pdf>

³⁵ Access Economics, Household E-Commerce Activity and Trends in Australia Nov 2010
<http://www.fairimportsalliance.org.au/Portals/0/Access%20Economic%20Ecommerce%20Report.pdf>

OTHER ISSUES IMPACTING ON THE PERFORMANCE AND EFFICIENCY OF THE INDUSTRY

RETAIL TENANCY LEASES

IS THERE ANY EVIDENCE THAT OWNERS OF MAJOR RETAIL COMPLEXES IN AUSTRALIA EXERT MARKET POWER TO COMMAND HIGHER RENTAL AND OCCUPANCY COSTS THAN ARE EXPERIENCED IN MANY OVERSEAS MARKETS?

Newsagents believe they have little protection from the unfair practices of unscrupulous landlords and some shopping centre owners due to an inequality in bargaining power and information imbalances. Newsagents have inadequate laws to protect them against some landlord's misuse of turnover figures in rent deliberations. Harsh terms and onerous lease obligations which can significantly impact their businesses are issues commonly raised by newsagents if they encounter unfair trading practices.

Newsagents are an important, familiar and integral part of the local community and most shopping centres and high streets. They offer friendly service, convenience, paper goods, lotteries, prepaid products and more alongside traditional news dissemination services and are significant traffic generators to their location and are considered a key tenant.

Newsagents operate a low margin, high volume business with prices dictated by suppliers. Of their five core product categories (newspapers, magazines, lotteries, stationery and greeting cards) only stationery allows newsagents to determine retail prices. Newspapers, magazines, lotteries, and greeting cards account for 60-80% of sales³⁶. In addition, terms and conditions of newsagents' commercial agreements with publisher suppliers prescribe core operational hours during weekdays and weekends, and specifications regarding the time, volume, manner of delivery, product handling, retail display and promotional activities.

Comparatively newsagents pay substantially more than their supermarket rivals for retail floor space. By way of example:

³⁶ NewsXpress, Initial Submission to the Retail Tenancies Inquiry on Behalf of NewsXpress Newsagents, http://www.pc.gov.au/data/assets/pdf_file/0018/69210/sub051.pdf.

“...data for a regional shopping centre shows that one of the two largest supermarkets in Australia pays \$292 per square metre while an independent newsagent is expected to pay three times that in rent.”³⁷

In addition the major supermarket, in contrast to the newsagency, makes no contribution to outgoings, has generous rent review provisions and a 20 year lease with two ten year options. While there is an appreciated difference between Coles and Woolworths and an independently owned newsagency, this discrepancy delivers a significant competitive advantage in the categories in which they compete with newsagents especially where these supermarkets are experimenting with newsagency type retail formats.

Newsagents have relatively little control over their core revenue streams and margins, or their basic operational costs and are particularly susceptible to their leasing environment. They are unable to absorb increasing occupancy costs compared with other forms of retail. Given that newsagents are not able to increase prices to cover increases in their costs, rent increases can only erode an efficiently run newsagent's net profit.

The industry average gross profit for a newsagency is between 30% and 32%. The average occupancy cost for a shopping centre newsagency is 15%³⁸, labour costs 12%, operating expenses are 5% and theft costs at least 2% and often more. The labour cost of 12% usually does not include owner's wages... With sales in core categories over which newsagents have no price or supply control, magazines, newspapers, cards and lotteries, down year on year, it is hard to see the justification for a landlord increasing rent yet it happens - usually 5% a year regardless of trading conditions.³⁹

Further, newsagents are contractually required by suppliers to operate within a specific geographic area, which in many cases is confined to a shopping centre, making the option of relocating elsewhere unavailable and the landlord a monopoly supplier of retail space.

The ANF believes that restrictive planning laws, and the consequent effect on the supply of retail floor space, contributes to the ability of shopping centre landlords to exert significant price control over respective local market for specialty retail floor space. The ultimate effect of which could be increased price for retail goods, subject to the capacity of retail tenants to pass on costs in customer prices.

³⁷<http://www.newsagencyblog.com.au/2011/03/18/how-much-is-a-woolworths-or-a-coles-tenancy-worth-compared-to-a-newsagency.html#more-12117>

³⁸ A note on the 15% occupancy cost - this aspirational for some newsagents who have occupancy costs closer to 25%.
<http://www.newsagencyblog.com.au/2010/11/12/several-factors-hurting-newsagencies-in-shopping-centres.html>

³⁹ Mark Fletcher, The Newsagency Blog, <http://www.newsagencyblog.com.au/2010/11/12/several-factors-hurting-newsagencies-in-shopping-centres.html> Nov 2010.

Newsagents need assistance to ensure that they are given a fair lease deal, which is competitive to the other retailers within the same centre or precinct.

IS IT INEVITABLE THAT AUSTRALIAN RETAILERS MUST PAY HIGHER RENTAL AND OCCUPANCY COSTS AS A PROPORTION OF SALES THAN OFFSHORE COUNTERPARTS? IF SO, WHY AND WHAT FACTORS CAUSE THIS? DOES THIS MEAN THAT AUSTRALIAN RETAILERS WILL HAVE TO CHARGE HIGHER PRICES TO MAINTAIN REASONABLE LEVELS OF PROFITABILITY?

As newsagencies are a uniquely Australian retail outlet it is not possible to draw specific comparisons regarding retail rental and occupancy costs.

The US – Australia example: According to economist Saul Eslake that while comparisons in this area are difficult Australian retailers do typically incur higher occupancy costs than their American counterparts.⁴⁰

Independent estimates in 2009 suggesting that whereas tenants in regional shopping centres in the US were paying around 13-13½ per cent of turnover in occupancy costs, in Australia they were paying over 17 per cent.⁴¹

This is partly because US shopping centres tend to be on the outer fringes of their cities rather than in middle-distance suburbs such as Chadstone (in Melbourne) or Chatswood (in Sydney). American neighbourhood shopping centre tenants pay around 7¾ per cent of turnover in occupancy costs, compared with close to 11 per cent in Australia. This appears to be a difference in the sites themselves as US neighbourhood outlets tend to be of a cheaper, more open air construction rather than the Australian fully enclosed model.

ARE THERE ANY IMPORTANT COMPETITION ISSUES OR SPECIFIC ASPECTS OF THE ENFORCEMENT OF COMPETITION LAWS THAT HAVE NOT BEEN CONSIDERED BY RECENT REVIEWS THAT NEED TO BE ADDRESSED?

One of the major retail competition issues for newsagents has been from the Federal Government through its Australia Post retail outlets which continue to encroach on the traditional sales of Newsagencies, in particular stationary, books, gifts and cards.

40 Saul Eslake, <http://www.onlineopinion.com.au/view.asp?article=11512> 25 January 2011

41 Michael Baker for the Shopping Council of Australia in 2009, in <http://www.onlineopinion.com.au/view.asp?article=11512> 25 January 2011

“About 80% of retail space within Australia Post outlets is devoted to stationery and other items traditionally stocked by newsagencies. As a result, industry operators began to experience declining sales and increasing price competition.”⁴²

Successive governments, Liberal and Labor, have permitted Australia Post to morph into a broad retail network with a key focus on stationery usually sold by retailers such as newsagents... This is a policy issue. Politicians need to decide how they feel about a government owned and protected retail network of 865 stores using their guaranteed customer traffic (thanks to protection) competing with independent retailers like newsagents.⁴³

ANF Competitive Neutrality Policy: The Australian Newsagents' Federation strongly advocates the principle of competitive neutrality with an effective set of rules capable of identifying and obviating such practices as part of the national competition policy regime.

The principle of competitive neutrality requires that government business activities should not enjoy net competitive advantages over their private sector competitors simply by virtue of public sector ownership.

Specifically, competitive neutrality requires that governments should not use their legislative or fiscal powers to advantage their own businesses over the private sector.

If governments do advantage their businesses in this way, it will distort the competitive process and reduce efficiency, the more so if the government businesses are technically less efficient than their private sector competitors.

Examples where a lack of competitive neutrality is particularly inequitable occur in instances where an entity, by virtue of its government owned status, receives:

- Favourable taxation treatment.
- Borrowing cost advantages.
- Favourable treatment or relief from regulatory compliance, and
- Advantage in respect of below market required rates of return or dividend expectations.

Where competitive neutrality arrangements are not in place, resource allocation distortions occur because prices charged by significant government businesses need not fully reflect resource costs.

⁴² IBISWorld Newspaper, Book and Stationary Retailing in Australia March 2011 p. 6

⁴³ <http://www.newsagencyblog.com.au/2010/02/04/how-australia-post-uses-the-postal-service-to-hurt-newsagents.html#more-9288>

Consequently, this can distort decisions on production and consumption, for example where to purchase goods and services, and the mix of goods and services provided by the government sector. It can also distort investment and other decisions of private sector competitors.

Competitive neutrality does not imply that government businesses cannot be successful in competition with private businesses. Government businesses can achieve success as a result of their own merits and intrinsic strengths, but not as a consequence of unfair advantages flowing from government ownership.

LABOUR MARKET ISSUES

ARE THERE ANY SIGNIFICANT AND ENDURING SKILL SHORTAGES IN THE RETAIL INDUSTRY? WHICH SECTORS OR REGIONS ARE AFFECTED? ARE CURRENT TRAINING ARRANGEMENTS SUFFICIENT TO SATISFY FUTURE SKILL REQUIREMENTS IN THE INDUSTRY?

Due to their scale, turnover potential and resources required for home delivery, many newsagents face significant limitations in their potential to hire additional staff and operate for longer hours. A major issue is that, apart from owners, there are few career paths for staff employed at newsagents, and that additional training and skills development in the retail area is a recognised industry need to address competitive pressures. This training will need to prepare newsagents to:

- Prepare for the rapid structural changes forecast for the industry.
- Become better retailers and compete in a highly competitive retail environment.
- Exceed customer expectations
- Aggressively pursue online retail opportunities.
- Diversify into or expand into complementary or new product lines.

WHAT ARE THE CURRENT AND FUTURE IMPLICATIONS OF THE GROWTH OF ONLINE SHOPPING FOR SKILLS DEVELOPMENT AND TRAINING REQUIREMENTS IN THE RETAIL INDUSTRY?

Domestic “e-tail” sales appears to have grown rapidly in recent years however Australia is still perceived as a relatively immature e-tail market in comparison to countries such as the UK, USA, Japan, Korea and China. Domestic e-tail sales in these countries are estimated at more than 5% of total retail sales – and potentially as much as 20% - compared to 3% in Australia

However during periods of technological change, it is not uncommon for uptake of the new technology to be slow at first and then accelerate rapidly.

Newsagents will require staff training and up-skilling to ensure they strongly compete in this new market. This will be vital as their existing core products and retail drivers; particularly newspapers and magazines continue to go in to decline.

WHAT ARE THE MAJOR PRESSURES DRIVING WAGE COSTS AND TO WHAT EXTENT ARE PRODUCTIVITY IMPROVEMENTS OFFSETTING THE EFFECTS OF WAGE INCREASES?

Newsagents' wage costs are largely driven by increases in award wages that are handed down by a tribunal, currently Fair Work Australia for businesses in the federal jurisdiction, and the West Australian Industrial Relations Commission for sole traders and partnerships operating in that State. Many factors are taken into account by the relevant tribunal when this decision is being contemplated each year, however, the main factors are the state of the economy and the cost of living.

In a low wage sector such as retail, it is common for employers to offer award wages to employees, and for employees to accept those wages. There are other sectors in which employees are less reliant on award wages, largely because of skills shortages. The retail environment does not impose the same cost pressure on employers as a result of the skill profile of the industry.

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?

The biggest impact of workplace legislation on newsagents has been the introduction of Fair Work legislation, in particular clause 13.4 of the General Retail Industry Award 2010 which stipulates that staff must be employed for a minimum of three hours. As employers who rely heavily on casual labour this has hit newsagents in at least two ways:

- Home delivery services have very tight margins and a variety of delivery times constraints attached to them by publishers. The margins are so tight in fact that 69% of newsagents recently surveyed do not make profit on this service⁴⁴. Despite this newsagents are being forced to employ personnel delivering papers for at least three hours in the mornings, often when they are needed for only one or two hours.
- After school hours. Students have long been associated with newsagents. However the three hour minimum employment period now means that newsagents who employ

⁴⁴ ANF et al, Newspapers, What do newsagents really think about them. 2010

students, who would typically work a 4pm till close (5:30 or 6pm) shift, are faced with the dilemma of either paying for an additional non productive “free” hour or ceasing the employing the student at all. This situation applies to a range of employees who require flexible working hours. Equally employing paper boys and girls on weekends has been significantly impacted by these changes.

Another implication of the modern awards relates to the difficulties experienced by small employers in obtaining accurate information about enforceable minimum wage rates. These difficulties arise out of the transitional provisions that have been implemented as a result of the introduction of the modern award system, and make calculating wage rates an incredibly fraught process. It requires the employer to know what the wage rate was at 31 December 2009, what it was in the modern award on 1 January 2010, and to take into account all increases in minimum wage rates since that date.

For example, if a shop assistant was paid \$15.00 per hour until 31 December 2009 (the pre-modern rate), but from 1 January 2010 the minimum rate of pay for that work was \$16.00 per hour under the modern award, the employer would need to perform the following calculation to determine the current minimum rate of pay:

- First calculate the transitional amount by determining the difference between the two rates: $\$16.00 - \$15.00 = \$1.00$ per hour
- Then divide the transitional amount by 5 to determine the annual amount by which the wage rate would increase - $\$0.20$ per hour
- Then taken the pre-modern rate and add the relevant proportion of the transitional amount - $\$15.00 + \$0.20 = \$15.20$ per hour
- Next, add in the increase in minimum wages for adults from 1 July 2010 of $\$0.69$ per hour - $\$15.20 + \$0.69 = \$15.89$ per hour

This process has to be repeated each year until 1 July 2014, so from 1 July 2011, two fifths of the difference between wage rates needs to be factored in to the calculation and then the minimum wage increase for 2011 must be added. So employers must then calculate the wage rate from 1 July 2011 as follows:

$\$15.00$ (pre modern rate) + $\$0.40$ (two fifths of the transitional amount) + $\$0.69$ (minimum wage increase for 2010) + $\$x.xx$ (minimum wage increase for 2011)

This convoluted method of transitioning disparate wage rates from pre-modern awards to consistent rates across the Nation has come about because the award modernisation process had terms of reference that required that increases in costs to employers and decreases in entitlements for employees had to be minimised. Ultimately, although employers are having wage rate differences phased in over five years, the administrative costs to the employer in determining enforceable minimum wage rates are significant – either the employer must do

this themselves, or they must pay an employer association to do this (and the employer association then incurs significant costs in the calculation and must pass these costs on to members) or the employer simply pays a higher rate of pay to avoid having to consider the issue.

The impact of this complexity on productivity within a business cannot be underestimated.

ARE THERE ANY SIGNIFICANT REMAINING DIFFERENCES IN LABOUR MARKET LAWS OPERATING ACROSS AUSTRALIAN JURISDICTIONS? IF SO, WHAT ARE THE IMPLICATIONS OF THESE DIFFERENCES FOR LABOUR MARKET COSTS, FLEXIBILITY AND MOBILITY?

At present, and until 1 July 2014, the transitional arrangements for wage rates, casual and other loadings and penalties between jurisdictions are still significant. This is because the introduction of the modern award system means that in some industries, such as retail, significant differences in wage rates and casual loadings in particular are being phased out. For example, in some states, casual loadings could be as high as 35% on top of the ordinary rate of pay, while in other jurisdictions, casual loadings were as low as 15%.

It is also worth noting that, of all the State jurisdictions, Western Australia has chosen to retain a State industrial relations system for businesses run by partnerships and sole traders.

A major impact of these differences across jurisdictions is that it is very difficult for an employer to determine the enforceable wage rate for a particular employee, as in many cases, the modern award rates of pay are not the enforceable rates of pay. This means that employers must expend significant effort to find out what they should be paying an employee to avoid a possible underpayment claim.

This is compounded by the fact that for constitutional corporations, the date the entity commenced operation also affects the loadings and penalties that must be paid. Any constitutional corporation that commenced operation after 27 March 2006 was only obliged to pay the relevant minimum rate of pay and casual loading – but other loadings such as weekend penalties were not enforceable against that particular employer. Consequently, there are intra-jurisdiction differences in labour market costs that have an impact on employers' cost structures. This has the potential to influence mobility as two retail outlets next to each may be required to pay different rates for work at different times, and this could affect labour mobility between the two businesses, all other things being equal.

One result of these differences and difficulties in determining minimum rates of pay is that employers will often pay more than they really have to in order to 'cover their bases' – increasing the cost base of the business unnecessarily.

IS IT INEVITABLE THAT AUSTRALIAN RETAILERS WILL ALWAYS ON AVERAGE HAVE HIGHER LABOUR COSTS AS A PERCENTAGE OF SALES THAN THEIR OFFSHORE COUNTERPARTS? IF NOT, WHY NOT? DOES THIS MEAN AUSTRALIAN CONSUMERS WILL NECESSARILY ALWAYS PAY HIGHER PRICES? DOES THIS MEAN ONLINE SELLERS FROM OVERSEAS WILL ALWAYS HAVE A COMPETITIVE ADVANTAGE?

The answer to this question would require comparative information about minimum wages & conditions overseas and relative figures on labour costs as a percentage of sales.

For nearly 100 years, Australia has had a system of setting minimum wages that has resulted in reasonably high minimum wages compared to overseas jurisdictions. The effect of this disparity has mostly been seen in the manufacturing sector, for example with an influx of products previously manufactured in Australia now coming in from Asian countries with lower labour costs.

The retail sector is now also being affected by the growth in online sales of many different types of products – a consumer can often access a subscription to a magazine published overseas, directly from the publisher’s country of origin, at a much lower rate than would be paid if the consumer bought the magazine from their local newsagent. This impact is further compounded by the growth in the ability to access content online, rather than a hard copy of the magazine. Although this is not always as a result of labour costs being lower in the country of publication, the different delivery channel cuts out labour costs involved in handling the product.

Given the relatively high labour costs in Australia, it is likely that Australian retailers will always on average have higher labour costs as a percentage of sales than their offshore counterparts – which will necessarily lead to higher prices. For example:

“...American retailers pay their staff a lot less than their Australian counterparts. Non-supervisory staff working for American retailers earn about \$13.30 an hour (taking the Australian and US dollars as being roughly at parity), while the equivalent figure for Australian retail employees is around \$24 per hour - a difference of almost 80 per cent.”⁴⁵

This does offer online sellers from overseas a competitive advantage on price, however, product knowledge and after sale service that can be most effectively offered locally may offset this advantage to some degree.

⁴⁵ Saul Eslake, Comparisons between US and Australian retailers: some facts
<http://www.onlineopinion.com.au/view.asp?article=11512>

OTHER REGULATORY BURDENS IMPOSED ON THE RETAIL INDUSTRY

REGULATION THAT IS UNNECESSARILY BURDENSOME, COMPLEX OR REDUNDANT

TO SUPPORT A CASE FOR CHANGE, THE COMMISSION INVITES PARTICIPANTS TO PROVIDE INFORMATION, INCLUDING QUANTITATIVE INFORMATION WHERE THIS IS POSSIBLE, TO SHED LIGHT ON THE NATURE AND EXTENT OF ANY UNNECESSARY REGULATORY BURDENS IMPACTING ON THE RETAIL SECTOR.

Fairwork and the Modern Awards: Newsagents face a number of burdens in relation to the introduction of the Fairwork legislation and the modern awards. These concerns have been provided in detail within the *Labour Market Issues* section of this submission.

Tobacco Control Legislation: The Australian Newsagents' Federation understands the need for, and is supportive of, the regulation of tobacco products.

Australian tobacco control regulations are now regarded among the most extensive in the world. They consist of mandated health warnings covering 90% of the back and 30% of the front of a packet, indoor smoking bans in workplaces, bars and restaurants across every jurisdiction in Australia, restrictions on the retail display of tobacco products in all Australian states and territories, retail display bans in some states and territories and a ban on advertising which has been in place for over 17 years.

In aggregate there are over 700 tobacco control regulations in Australia alone and it is often the retailers who carry the cost and inconvenience of these regulations.

The ANF is committed to working with government to ensure our members comply with these existing regulations. However, further tobacco control restrictions such as plain packaging, pose a serious threat to the fragile economics of our local newsagents especially when they are not evidence based policies and have not been balanced by detailed economic impact analysis.

Where tobacco control regulations are not supported by any evidence-base and where they impose significant costs and hardship to industry - governments have an obligation to get the balance right between social and economic interests.

Paid Parental Leave Scheme: The Australian Newsagents' Federation welcomes and is supportive of a Paid Parental Leave (PPL) Scheme, recognising the importance of the PPL

scheme as a key plank of Australia's social framework intended to enhance the wellbeing of new born and adopted children and their parents.

Whilst supportive of the scheme the ANF believes that employers should not have been required to carry the role of the Government's paymaster under such a scheme.

The potential cost burden and disruption to small business is disproportionately large arising primarily from the administration of payments, maintenance of records, adhering to compliance obligations, reporting requirements and necessary upgrades of payroll and other administrative systems.

Further, the impacts to the retail sector, and especially newsagents are more acute, where a greater proportion of women of child bearing age are employed and where lower income and part-time working primary carers are likely to extend or maximise their leave.

The ANF believes that despite the Productivity Commission's estimates in its 2008 report a low probability of an average small business being affected by these obligations in any year, the disproportionately high disruption and burdens identified for small business in having to carry out the paymaster function may inadvertently lead to the discrimination of women perceived to be eligible or likely candidates for the PPL scheme.

APPENDIX 1 COMPETITIVE AND MARKET CHARACTERISTICS

The following table summarises the major product lines sold by newsagents, and their key market and competitive characteristics:

Product Category	Key Characteristics	Main Purchase Drivers	Newsagent Market Advantages	Competition	Market Trends
Newspapers	Inexpensive, low margin commodity with fixed prices, narrow range	Convenience	Specialises in newspapers Best selection	Major papers now sold at many other retailers	Declining and ageing retail market
Magazines	Wide range, moderately priced, high margin. Increasingly specialized, usually fixed prices	Convenience, selection	Specialises in magazines Best selection	Growing competition in most popular titles, but less competition in niche titles	Mass market titles declining, niche titles growing and frequently changing
Greeting Cards	High margins, Fixed prices	Selection, Convenience	Largest single market share (33%) Usually the best selection	Dispersed; Card shops (16%) DDSs (16%) Supermarkets (12%)	Generally stable demand despite online competition
Stationery	High margin. Wide range of products, prices, target markets	Selection, Price, Convenience	Convenience	Large-scale retailers (Officeworks), DDSs.	Increasing consolidation in major, low-cost retailers
Confectionary	Low cost, moderate margins	Convenience, Impulse Selection	Convenience, impulse	Convenience stores, supermarkets	Growing demand for better quality products
Lottery Tickets	Fixed cost, rigidly controlled, very low margin	Consumer preference, Habit, Impulse	Dominant lottery sales outlet	On line sales, other gambling venues	Declining demand and increasing competition

APPENDIX 2

NEWSAGENT SALES BENCHMARK STUDY JAN-MAR 2011 vs JAN-MAR 2010

It has been a tough start to 2011 for Australia's newsagency channel.

82% of newsagents participating in the Q2 2011 Sales Benchmark Study reported an average overall sales decline of 7% for January through March 2011 compared to 2010.

Here are the headline numbers:

- **Magazines.** Magazine sales fell, on average, 7% (in unit sales) in the January through March 2011 quarter over the same period last year. 78% of newsagents reported a decline in magazine sales. Computer, Music, Teenager and Motoring and led the decline with most delivering a double digit decline in sales. Women's Weeklies declined but not as much as the others.
- **Greeting cards.** Greeting card sales fell, on average, 8% (unit sales) in the quarter. 84% of newsagents reported a decline. While category level data is not available for more than half participating newsagencies, what data I have suggests that the declines are outside everyday cards.
- **Stationery.** 73% of newsagents reported a decline in stationery revenue (not including ink) with the average decline 5%.
- **Ink.** 40% of stores participating in the study have a separate ink department. 90% of these stores reported growth in ink revenue of 10%.
- **Gifts.** 65% of the stores in this study have a gift department. 80% of these reported an average sales increase of 9% in gift revenue.
- **Newspapers.** 80% of participants report an average newspaper sales decline of 2%.
- **Basket size.** 57% of newsagents reported an average 6% decline in basket size.
- **Traffic.** 69% of newsagents served fewer customers than in the 2010 period.

The latest newsagent performance data is from the Tower Systems Sales Benchmark Study. Tower Systems undertakes these studies on behalf of newsagents. This three month study is based on sales data from 106 newsagencies, trading under four different banners plus independents, businesses in capital city regional and rural situations.

Mark Fletcher, Managing Director, Tower Systems.

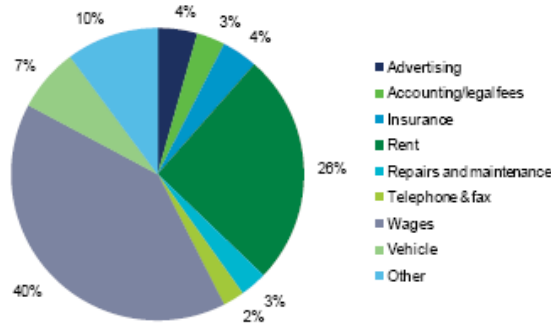
Website: www.towersystems.com.au Blog: www.newsagencyblog.com.au

APPENDIX 3: AUSTRALIAN RETAIL ASSOCIATION: STATE OF THE INDEPENDENT RETAIL SECTOR OPERATING COSTS AND PRODUCT MIX

Operations

The typical operating costs for newsagency operators are illustrated in Figure 20. Wages (40 per cent) and rent (26 per cent) represent the highest proportions of operating costs.

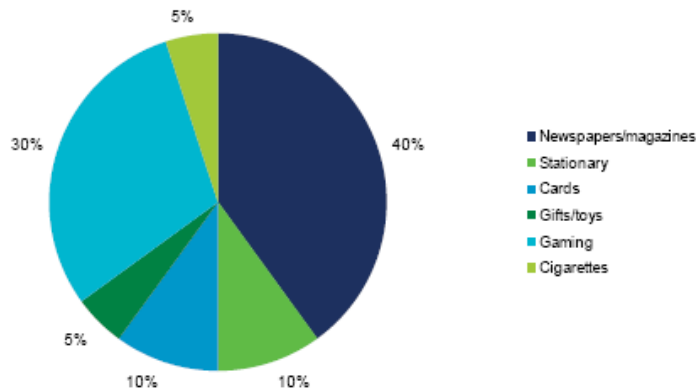
Figure 20: Operating cost for newsagencies (as % of total operating costs)



Source: Deloitte consultations with newsagency operators

Figure 21 illustrates the typical products sold at newsagencies in Australia. The traditional product mix for newsagencies is magazines and newspapers, which accounts for 40 per cent of total sales. Gaming (30 per cent) is the second largest merchandise category for newsagencies.

Figure 21: Product mix for newsagencies (as a % of total sales)



Source: Deloitte consultations with newsagency operators

Newsagencies are experiencing a significant change in the product mix of non-core items. Products added to newsagencies include:

- Books
- Phone-cards
- Toys
- Drinks
- Confectionery
- DVDs.

Table 14 illustrates the typical product margins for newsagencies.

Table 14: Product margins for newsagencies

Product	Gross margin (%)
Stationary	50%
Greeting cards	50%
Confectionery	50%
Beverages	50%
Newspapers/magazines	25%
Gifts/toys	20%
Cigarettes	17%
Phone cards	10%
Gaming	7%
Bus/train tickets	2.5%-8% (depending on jurisdiction)

Source: Deloitte consultations with newsagency operators

The highest product margins are on beverages (50 per cent), confectionery (50 per cent), greeting cards (50 per cent) and stationary (50 per cent). The lowest product margins are on bus/train tickets (2.5 per cent), and gaming (9 per cent). While newspapers and magazines account for almost half of the total sales for newsagencies their margins are relatively small at 25 per cent.

6.2 Market trends

Newsagencies are experiencing the following market trends:

- Decrease in newspaper and magazine sales – a result of a number of factors including direct subscriptions with publishers, on-line access to news sources, mobile digital media
- Steady but slow growth in greeting card sales as greeting card companies operate in a relatively competitive environment and are affected by seasonal trends (e.g. Christmas)
- Increasing reliance on confectionery, beverage and grocery (e.g. milk, bread) items – these products are associated with relatively higher margins.