

1 June 2011

Chair  
Productivity Commission  
Level 28  
35 Collins Street  
Melbourne VIC 3000

Dear Chair,

Re: **Inquiry into the Economic Structure and Performance of the Australian Retail Industry**

Please find attached the submission of the Australian Council of Trade Unions (ACTU) to the Inquiry into the Economic Structure and Performance of the Australian Retail Industry.

Yours sincerely,

**Jeff Lawrence**  
Secretary



## Productivity Commission

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

## Submission

of the

## Australian Council of Trade Unions (ACTU)

ACTU

Level 6, 365 Queen Street

Melbourne VIC 3000 [www.actu.org.au](http://www.actu.org.au)

D No. 30/2011

## 1. INTRODUCTION

The Australian Council of Trade Unions (ACTU) is the peak council for Australian trade unions, representing approximately 1.8 million union members Australia-wide.

The Shop, Distributive and Allied Employees' Association (SDA) is affiliated to the ACTU, representing around 215, 000 employees in the retail and allied industries sector. The ACTU supports the submissions of the SDA.

This brief ACTU submission focuses on the economic performance of the retail sector particularly in relation to the industrial regulation of the industry.

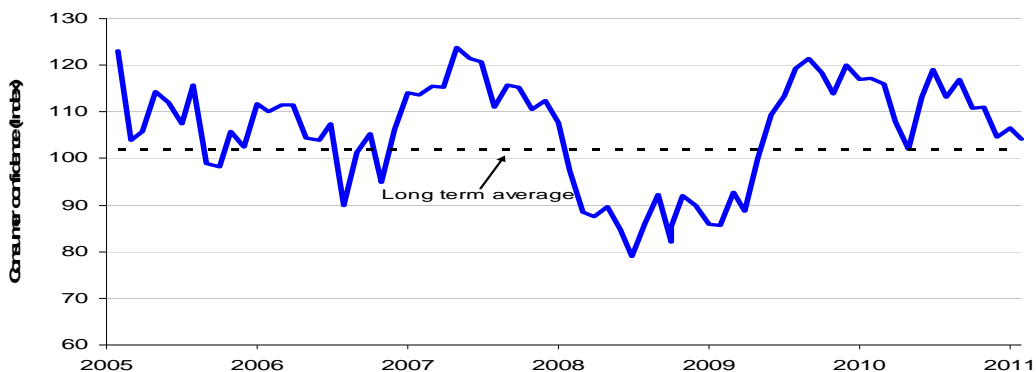
## 2. TRENDS IN RETAIL TRADE

In recent times the Australian retail sector has experienced some fluctuating sales and profit results. An insecure global economy and high levels of household expenditure on basic living costs has created a cautious local consumer market. Costs to retail businesses have also risen due to increased utility, transport costs, land costs, rental and franchising costs.

Nevertheless, the Australian retail trade sector grew by 1.2% in the year ending December 2010 and has exhibited strong performance over the longer term.<sup>1</sup> Profitability across the Australian retail sector generally reflects the same trends in other countries.<sup>2</sup>

Although consumer sentiment has been somewhat volatile throughout 2010 and early 2011, it remains above average, indicating a stable long-term future for the sector.

Figure 1: Westpac – Melbourne Institute Consumer Sentiment Index: February 2005 to February 2011



Source: Westpac-Melbourne Institute

### *On-line trading*

Despite limited and inconsistent quantitative data on the extent of online trading in Australia, the evidence suggests on-line shopping constitutes a modest total of only about 4% of total retail sales. It is estimated that the equivalent of another 2% of online sales are from overseas websites.<sup>3</sup> The data indicates a modest increase in on-line shopping of around 2% in recent years. The drivers for the increase appear to be convenience, lower costs as well as improvements in accessibility of products online. The growth may

<sup>1</sup> ACTU Submission to the Annual Wage Review 2010-11, p.37

<sup>2</sup> Retail Industry Inquiry Productivity Commission Submissions by the Shop, Distributive & Allied Employees' Association (SDA), p.3

<sup>3</sup>Southern Cross Equities Report referred to at to at p.15 Productivity Commission Inquiry into the Economic Structure and Performance of the Australian Retail Industry Discussion Paper March 2011.

be further influenced by the recent high Australian dollar enabling purchasers to buy overseas products at cheaper rates than from local retailers.

The data suggests some constraints on the expansion of the online retail sector. Consumers are still concerned about online credit card fraud or identity theft.<sup>4</sup> It is also apparent that many Australian retailers have not developed an online presence and need to be more proactive and develop integrated marketing approaches which include online facilities.

### *Trading Hours*

There are few restrictions on trading hours in Australia. In Victoria, New South Wales, Tasmania, the ACT and the Northern Territory, shops can open at any time, except for on a limited number of significant public holidays. In Western Australia, a recent public referendum voted to maintain the status quo for restricted Sunday trading hours.

There is no evidence that the community seeks any further expansion of the current trading hours, or that further expansion of trading hours would increase the profitability of retail businesses. There is also no evidence to show a link between trading hours and demand for online shopping. In fact, many traders do not use all of the opening hours currently available to them.

## **3. INDUSTRIAL REGULATION**

The industrial regulation of the sector has remained a constant and stable feature of the industry. It is our contention that (1) wage costs are not a barrier to improving performance in the sector, and (2) that there is already sufficient flexibility in the current industrial relations framework to meet individual employer needs.

The industrial regulation of the Australian retail sector is based primarily on the minimum wages and conditions contained in the General Retail Industry Award ('Award'), and workplace agreements.

The Award contains modest minimum wages and conditions. Workers reliant on the Award would be considered to be 'low paid' workers. Approximately one quarter of retail employees are award reliant.<sup>5</sup> The current Award rate is \$626 per week (for an entry-level, full-time worker). Award-reliant workers are more likely than other workers to be female, casual and part-time.

The Award is the result of award modernisation proceedings conducted by the Australian Industrial Relations Commission (AIRC) to standardise minimum wages and conditions for all retail employees across Australia. In its deliberations, the AIRC took care to balance the needs of retail employees with the needs of employers. In determining minimum wages and conditions, the AIRC took into account employees' rights to a decent wage, manageable hours of work and compensation for unsociable working arrangements against employer's needs for flexibility and expanded trading hours. Whilst parties to the AIRC deliberations may not have achieved all they sought in the final decision, the modern award reflects recent and comprehensive consideration by the AIRC of the issues relating to the appropriate minimum terms and conditions for retail employees, and need not be revisited in this Inquiry.

Where employers and employees have negotiated (through their union) workplace agreements, the agreements usually provide modest wage increases (between 3-4% per annum) in return for productivity gains as agreed between the parties. Wages negotiated

---

<sup>4</sup> Online Shopping Statistics in Australia, from [www.thefreelibrary.com](http://www.thefreelibrary.com)

<sup>5</sup> ACTU Submission to the Annual Wage Review 2010-11, p.27

in workplace agreements on average range between the minimum award rate and about \$750 per week.<sup>6</sup>

#### *Incentive payments*

The Fair Work Act allows employers to provide minimum wages by way of incentive payments, provided the payments meet the minimum Award wage rate in a given period. Commission and bonus payments are common in many parts of the retail sector.

#### *Wages*

While it is true that retail sector wages are lower in some countries, the general community, unions and majority of employers do not support the 'race to the bottom' approach that would see Australian workers paid wages and conditions of workers in developing countries.

Effective minimum wages have a positive effect on productivity growth by ensuring that uncompetitive firms are not able to pursue strategies predicated on undercutting their competitor's unit labour costs, rather than developing business strategies and models which will ensure long-term viability.

#### *Junior Wages*

There are a significant number of employees in the retail sector who are employed on junior wages which are set as a proportion of the adult wage rate, depending on the employee's age. The ACTU has serious concerns about the discriminatory practice of paying junior rates to employees who are older than 18. Employees aged 18 and above should be entitled to the full adult minimum wage.

#### *Terms and conditions of employment*

Other industrial issues that affect the quality of working life for retail employees include appropriate penalty rates for unsocial hours of work and overtime. Control and predictability of rostered working hours is also a significant issue, particularly for women, employees with family responsibilities and students with class schedules. Minimum engagement periods are important protections for workers, ensuring that workers can have reasonable certainty and predictability of working time and incomes. This is particularly important for those who rely on paid care for dependents or who have long and costly journeys to and from work.

#### *The cost of living for low paid workers*

Evidence shows that low-paid workers, such as those employed in the retail sector, have suffered in real terms as a result of cost of living expenses growing at a faster rate than their wages.

The WorkChoices legislation particularly disadvantaged retail workers who experienced loss of penalty and overtime wages, lack of control over hours of work and remedies for unfair dismissal. Similarly, many retail workers experienced a decline in real wages under the Australian Fair Pay Commission regime.<sup>7</sup> There is much ground for retail workers to regain decent wages and conditions to meet current living standards.

---

<sup>6</sup> Retail Industry Inquiry Productivity Commission Submissions by the Shop, Distributive & Allied Employees' Association (SDA), p. 7

<sup>7</sup> Office of the Workplace Rights Advocate: Report of the Inquiry into the Impact of the federal Government's WorkChoices Legislation on Workers and Employers in the Victorian Retail and Hospitality Industries, November 2007.

The largest price increases in the year to December 2010 were for basic household goods and services such as health, education, housing, food and utilities.<sup>8</sup> Price increases in fixed household costs disproportionately occupy low-paid worker's budgets and emphasise the need to maintain a decent living wage in the retail sector.

#### 4. PROFITABILITY AND PRODUCTIVITY

##### *Profit margins and consumer confidence*

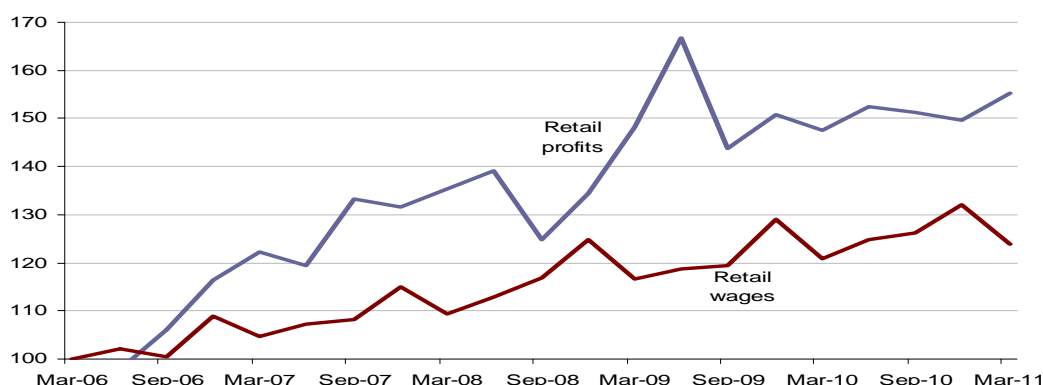
There is no evidence to indicate incapacity to pay minimum wages and conditions in the retail sector.

The decision of the FWA minimum wages panel in the last (2009-10) wage case had no apparent effect on the growth rates of industries in which award reliant or low paid workers are predominantly found, such as in the retail sector.<sup>9</sup> Employment growth in the industry outstripped employment growth across the economy as a whole.

Total employment in retail trade increased by 4.1% in the year to February 2011, compared with 2.8% across all industries. Total hours worked in retail increased by 3.9% over the year, compared with 2.8% for all industries.<sup>10</sup> Employment growth in the industry has outstripped growth across the economy as a whole: this is not consistent with any suggestion that the wages and conditions of employment in the sector have been unsustainable.

Although the pace of growth in retail turnover was below-trend in 2010, profit growth over the medium term has been solid.

**Figure 2: Total profits and total wages in the Retail Trade industry (Index): March 2006 to March 2011**



Source: ABS 5676.0, seasonally adjusted.

Over the past five years, total profits in the retail industry have increased by more than 50%, while the total wages bill in the industry has increased only around 25%. There is thus no basis to suggest that wages growth has been the source of any difficulties facing the sector.

In addition, Australian retail trade companies rank very high in returns on shareholder funds and compare favourably in terms of return on investment with their overseas retail counterparts.<sup>11</sup>

<sup>8</sup> ACTU Submission to the Annual Wage Review 2010-11, p.141

<sup>9</sup> ACTU Submission to the Annual Wage Review 2010-11, p.37

<sup>10</sup> ABS, Labour Force, Australia, Detailed, Quarterly, February 2011, Cat. no. 6291.0.55.003

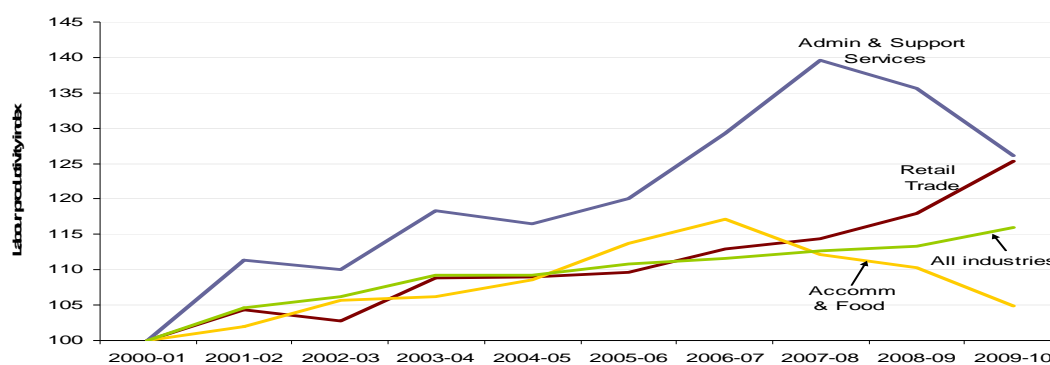
<sup>11</sup> IBISWorld Report: Return on Shareholder Funds (5 years to 2009-10); Citi Investment Research and Analysis (2011); Eslake 2011: referred to at pp7-8 Productivity Commission Inquiry into the Economic Structure and Performance of the Australian Retail Industry Discussion Paper March 2011.

## Productivity

Over the past decade, the level of productivity in the market sector has risen by nearly 18%.<sup>12</sup> Award-reliant industries and the retail sector in particular, have shown strong productivity growth.

Labour productivity of the Australian retail workforce has grown at a faster pace than the productivity of the overall Australian workforce in recent years.<sup>13</sup> The average annual growth in labour productivity in retail over the ten years prior to 2009-10 exceeded that of a broad selection of industries.<sup>14</sup>

**Figure 3: Labour productivity in industries in which award-reliant workers are predominantly found (Index): 2000-01 to 2009-10**



Source: ACTU calculations based on ABS 5260.0.55.002, Table 6.

## 5. LABOUR MARKET, SOCIAL INCLUSION, AND EMPLOYEE WELL-BEING

### Labour Market

There is a growing understanding of the link between maintaining skilled and experienced employees and high quality customer service. Those retail businesses which have invested in employee training and development are amongst the highest performing retailers in Australia.

Employers have estimated the costs of replacing skilled and experienced employees due to high staff turnover to be at least 25% of the employee's annual salary. These costs include separation costs, replacement and recruitment costs, training costs, and loss of productivity. In retail alone, staff turnover costs \$397 million a year.<sup>15</sup>

Investing in decent wages and conditions assists employers to sustain a skilled and efficient workforce which delivers high quality customer service and solid returns.

The federal government's paid parental leave scheme is an example of long term policy initiatives which enhance the capacity of employers to retain skilled and experienced employees and promote a strong and robust national labour market.

We are concerned that the recommendations of the 'Apprenticeships for the 21<sup>st</sup> Century' Report to cease government incentive payments for retail training will have a negative impact on the sector's capacity to attract and retain a quality labour force.

<sup>12</sup> ACTU calculations based on ABS 5206.0, Trend

<sup>13</sup> Retail Industry Inquiry Productivity Commission Submissions by the Shop, Distributive & Allied Employees' Association (SDA), p.3

<sup>14</sup> Productivity Commission Discussion paper, Economic Structure and performance of the Australian Retail Industry, p.10

<sup>15</sup> ACTU Submission to the Productivity Commission Inquiry into paid Parental Leave, 2009

### *Social Inclusion and employee well-being*

Work alone is not necessarily a pathway to social inclusion unless it is decent work. Decent wages and conditions are a critical determinant of workforce participation rates and social inclusion.<sup>16</sup> People are more likely to seek work or additional hours of work if they can be assured of receiving a decent wage.

Maintaining a decent safety net of wages and conditions for Australia's retail workers ensures basic protection and quality of life for our families, fosters a strong society through workforce participation and ensures a robust retail sector based on sound and innovative management practices.

---

<sup>16</sup> Jefferson, T. and Preston, A., "Australia's Other Two Speed Economy- Gender, Employment and Earnings in the Slow lane, Australian Bulletin of Labour, vol. 36, No.3, 2010