

1<sup>st</sup> June, 2011

To whom it may concern,

For the consideration of the productivity commission, the following submission attempts to objectively provide an understanding of the current clothing retail market and the effect of online selling.

I am a small/medium clothing wholesaler of European clothing, supplying approximately 200 stores across Australia. We stopped manufacturing quality clothing in Australia 10 years ago, closed a retail store 18 months ago and have a vested interest and business in selling clothing online.

The structure of retail clothing changed after deregulation of the retail market – deregulation allows department stores, who have a soft monopoly in Australia due to their geographical spread and buying power, to go on sale whenever they want. The wider retail market must follow or risk missing out on the shrinking consumer dollar. The department stores now create fictitious monthly sales and promotions through demanding specific product at specific prices from their suppliers that will maintain their margins after the product goes on sale. These sales are also designed to attract consumers into their stores with the view to sell them product from other departments.

Deregulation is not a positive retail business structure, the market should determine buying patterns through demand not the department stores through their sale desperation. A sale marketing mentality encourages the purchase of cheap product, forces the department store buyers and more importantly the wider retail community to limit the range of product they buy. Due to the short selling period of an item on the retail floor we have very little choice of product categories like knitwear or winter jacketing. This forces the consumer to look outside of Australia for new and exciting product.

All western countries including the world super retail economies of England, France, Italy, North America and Germany, who are experts in retail trade, have their seasonal sale dates determined by a fair trade commission, this provides equality and encourages creativity and development of small business.

Deregulation supports town halls, factories and empty retail premises facilitating pop-up clothing and accessory sales, often selling product purchased second hand from retailers, and other unscrupulous vendors overseas. Without regulation product is brought into Australia undermining the international brand and the Australian supplier of the brand, forcing the local retailer to change their buying habits, resulting in less choice again.

Deregulation has had a wide indirect negative effect on the broader Australian retail market and helped kick-start the introduction of online purchasing. We can now review the effect of deregulation and make positive changes to align ourselves with the rest of the world.

The evolution of the internet and its browsing and shopping opportunities are magnificent, it has provided us (Australia and its rural communities) with a window to world retail and the choice of product that is not available in Australia.

The cheaper pricing and door to door service online purchasing offers is made possible because of the margin the online retailer receives. The margin the international retailer receives is a margin our local retailer is missing out on and in a broader sense a margin and cash flow that is taken out of the Australian economy. This margin employs people. Potentially every item purchased online from an overseas website is an item that may have been purchased from a local retailer or local website.

Retail is an aggressive international business dominated by the large international brands, manufacturers, suppliers and retailers because of their economies of scale. Each country competes with each other as a business and this is why most of the big economies have an import duty and GST on all products above a nominal amount, trying to keep the playing field even and the consumer dollar from leaving their country.

This is another example of where regulation works; ensuring all products entering a country's border receives the same treatment whether it's one item or one thousand items.

Australia should endeavor to retain as much of the consumers retail dollar in our economy, while playing under the rules of our countries opposition and trying to provide the consumer with the greatest choice at the best price. I don't see the sense in giving a competing business an unfair advantage.

Australian retail has entered a new era, an era where retailers must embrace online marketing or risk their closure. We know that more than 50% of all clothing sales are researched online before purchase and unless the retailers use an online presence and engage across the social media to attract new customers or maintain their existing customer database they will surely only survive as long as they keep up a strong personal rapport with their current client base.

It is the older independent retailers who are resource poor (often owner operators) who do not have the time or expertise to embrace this new retail marketing and technology era that are most at risk. I think the online juggernaut will eventually be the final nail in the coffin for many of these tired clothing independents.

Many international brands that have a successful retail presence in Australia do not ship to Australia from their own retail portals because their own stores, franchises, agents or wholesalers will not allow it, simply because of the unfair pricing advantage. However, they do sell directly into their own countries and other countries that apply appropriate duties and have pricing continuity.

Research shows brands who have a proper retail presence can sell more product in multi brand independent boutiques or their own mono brand stores than they can online in markets like Australia. This is due to the distribution infrastructure and marketing effect of having product and or a branded store on the high street, with PR, Point Of Sale material, in-store promotion, local and national advertising.

The international brands are opening mono brand stores and shop in shops across the world at an unprecedented rate; we don't need to look any further than Chadstone and Westfield Centrepoint. They

use their websites to drive the consumers into their mono-brand stores, many consumers prefer to feel the product, try things on and enjoy the retail experience.

It is the aggressive, international department stores or etail websites that buy from the suppliers who are taking the Australian retail dollar, they freely sell and ship into Australia, benefiting from a pricing advantage they have on Australian retailers.

Retail and etail can survive and prosper in Australia, the global online evolution opens up an endless amount of opportunities for Australian innovators with direct access into foreign markets. It is in the interest of all Australians that the government does not bury its head in the sand but strives to encourage small business to survive.

The introduction of tax and duty on imports under \$1,000.00 is not about protection, it will not stop the consumer buying online, and it won't prevent the loss of many retail businesses and jobs over the coming 10 years. It will however help local retailers and etailers who are prepared to move with new technology remain price competitive, encourage local innovation and service and keep more Australian consumer dollars in Australia.

While the property market has continued to increase in value even through the GFC including retail property, turnover and margin remains the same or less in retail business. This is the current killer of most retail businesses and the reason we see more retail space available than ever before. The Health and Beauty retail boom we have witnessed over the past 5 years, which includes Sushi and Juice bars, Pilates and Personal fitness and all forms of Cosmetic improvement will not be enough to fill the retail void. Retail property will fall in value over the coming 10 years and retail rent will inevitably come back to a realistic and reasonable price.

Passing trade has come to a standstill; retailers need to become destinations because the consumer now does their walking and browsing on line. Local retailers will have to reduce their margins to compete against international etailers, go on sale when the competition online goes on sale, which may mean selling clothing cross-seasonally.

It simply does not make sense if someone imports an item valued under \$1,000.00 they pay no duty or tax, yet if 2 items are imported that combine to be worth over \$1,000.00 tax and duty must be paid.

It is appropriate and inevitable that an Australian government introduces a duty and GST on imports under \$1,000.00. Online sales will eventually account for more than 50% of all clothing purchases in Australia, the tax revenue will be too great for any government to ignore.

Given this juggernaut is already in full swing and figures show growth across the world of 10% - 150%, the introduction of a system to administer imports of under \$1,000.00 needs to be designed now, implementation will take time. If an item to the value of \$1,001.00 can be administered then an item to the value of \$999.00 can be administered.

One of the efficiencies of new technology is the ability to produce reports; all international websites selling into Australia could easily access their Australian sales, charge the necessary government taxes to the consumer and pay the Australian government what is required.

Every item that comes into Australia must be scanned; a barcode or alternative attachment should be on every item, detailing the relevant information.

International retailers will do what is required to access markets and open up trade lines, just as they are required to fill out a tax exemption form when a tourist purchases something in store.

Australian retail is under attack by international technology and is failing because of its own inefficient structure. The government must be unaware of the situation and the extent of damage that is occurring or have no idea how to solve it.

It is costing the Australian economy billions of dollars in turnover and revenue, resulting in the loss of jobs. Technology is evolving daily; bureaucrats are out of touch because they are of a different generation. We must look to make structural change now and implement a system to monitor changing retail technology.

Sincerely

Andrew Dalglish

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Gusto Clothing and Design