

27 June 2011

Retail Industry Inquiry
Productivity Commission
GPO Box 1428
Canberra City, ACT 2601

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Dear Commissioner,

Thank you for the opportunity to provide a submission to the Productivity Commission's inquiry into the Economic Structure and Performance of the Australian Retail Industry.

This submission by Adairs Retail Group Pty Ltd is in support of the submissions made by the Australian Retailers Association (ARA) and Fair Imports Alliance to the Inquiry and the aim of this letter is to provide our view of the issues currently facing the Australian retail sector and highlight key areas where we believe reform is required to ensure that the retail industry operates as a neutral competitive system and not one where some players are disadvantaged over others due to government regulations and requirements.

Adairs Retail Group employees over 900 team members across all states except Tasmania and has 113 stores.

Retailers in Australia are currently experiencing slower sales growth. On one side, we have seen turnover decline as Australia is facing its worst retail trading environment in more than 20 years and on the other side our costs of doing business have increasingly become more onerous. In times when trading levels are deflated it is imperative for businesses to remain cost effective to stay profitable. Yet there are a number of factors affecting the productivity and competitiveness of the retail industry in Australia and therefore creating an additional burden for retailers as they trade through these challenging economic times.

In our view, the Australian retail industry is no longer on a level playing field. With the influx of international e-tailing, Australian retailers are disadvantaged due to higher wages, additional compliance costs and restrictive trading hours, and imbalanced GST and duty taxation.

1. Higher wages

The labour market in Australia is one of the most regulated in the world. From July 2011 our businesses will be facing increased penalty rates for night and weekend work as well as increased casual loading rates. Our companies are increasingly employed by part-time and casual team members as a way for us to most effectively staff our businesses based on peak consumer demand while at the same time meeting the needs and desires of our employees who want to maintain flexible work hours to be able to work around their other obligations such as study, family and school. These penalty and casual

loading increases will directly impact our businesses and will likely result in our brands having to reduce employee numbers in order for stores to remain profitable.

This current wage structure is organized around the employees but does not take into account when customers want to shop. The peak shopping periods are weekday late nights (such as Thursdays) and weekend days. Yet due to the penalty rates (which can be as high as 250% of the standard rate) retailers are restricted in the way they can structure employees during this time. In USA and across most of Asia stores are open until 10-11pm every night and there are no penalty rates for working night shifts or weekend.

2. High costs and compliance for retailers due to state legislation

In Australia, there are considerable inconsistencies across the States and Territories as to retail trading hours, trading days, wage rates, workers compensations laws and health and safety requirements. For retailers to manage and ensure they are compliant with all of the various laws and regulations, requires additional resources at head office level as well as time spent by regional and state Managers to carry out administrative duties rather than working to increase sales.

Deregulating trading hours and standardizing labour laws will allow retailers to provide greater choice and convenience to customers and increase retailers overall sales growth. A study prepared by ACL Tasman demonstrated that states and territories with deregulated hours experienced increased consumer spending and overall higher retail growth per capita compared to states with regulated trading laws. However even with deregulated trading, there needs to be significant revisions to the wage structure to create an attractive proposition for retailers.

3. Imbalanced taxation

In addition to the addition cost burdens as aforementioned, Australian retailers are now facing increasing competition from International brands. The strong Australian dollar and weak US economy has seen many international retailers ship products to Australian consumers as they seek new markets such as Australia as a platform for growth. However as they compete head to head with Australian retailers it is evident that they are not competing on a level playing field.

Australian retailers are significantly disadvantaged by overseas retailers not having to charge and pay GST on any purchase under \$1,000 by an Australian customer; they are also not required to pay import duties which, on most products into Australia, are around 5-10%. Therefore Australian retailers have to charge an extra 15-20% over and above international retailers to cover this additional tax. This duty and GST loophole places overseas retailers with a clear advantage to local retailers.

Other economies such as China, UK and Canada have created a "level playing field" by ensuring that all overseas retailers are subject to the same VAT and duty regulations as local retail players. There is no reason why Australia should not implement a similar policy to create a neutral competitive retail system.

Without the Government taking significant action in restructuring the Retail Industry, the impact on Retailers and the Economy as a whole will be significant. We will see many more retailers going out of business and a significant loss of jobs in the retail sector. It is our recommendation to the Productivity Commission to revise the current system to allow for Australian retailers and e-tailers compete on par with their overseas counterparts and to create an efficient and fair retail economy.

Thank you for the opportunity to respond to the issues currently under review by the Commission. We hope that you will consider the matters that we raise, and we look forward to the findings of the Commission.

Yours Sincerely

Michael Cherubino

Finance Director

Adairs Retail Group