

Submission to the Productivity Commission regarding the Australian Retail Sector

Introduction:

This submission seeks to present two aspects of online shopping for consideration by the productivity commission:

- **Professional Perspective** - Some empirical evidence about the level of maturity of online retailers (and online business in general) in the United States and how this compares to Australia. This is based on my own experience of working with marketing operations groups (retail and other industries) in the US and Australia.
- **Personal Perspective** - Outline my personal 'policy' of only purchasing from overseas retailers whenever practically possible - and cite specific examples of purchases made online within a one month period, and the huge price variations of products between the US and Australia (even when accounting for cost of postage)

A professional perspective

In 2005 I was offered a position to work in the United States with a Marketing Software Vendor as a Senior Manager. The company I worked for develops and implements an Enterprise B2C Marketing software solution. This solution is used across a range of industries, one of the largest being the US retail sector. In addition to a large number of other benefits, the software enables companies to develop direct point to point relationships with their customers and engage in an ongoing dialogue with them. I worked the United States from 2005 to 2010 as a marketing operations consultant, and travelled extensively within its borders during that time. Much of my work related to implementation of integrated marketing strategies and processes – utilizing all channels.

Throughout my five years as a Senior Manager there, I worked with such familiar names as: Walmart.com, Safeway Stores, MGM Mirage, Wynn Casinos, Chase Bank, Intel, Microsoft, Laureate Education, Warner Brothers Studios, ABC/Disney Television, General Motors, Adobe, and many more.

I was able to obtain first hand insights into the thinking of these companies when it came to their customers and how critically important they regard the development of their online presence – specifically with the intent of developing a personal, one to one relationship with their customers. Some of these companies now regard the development of these relationships as their single most important business imperative, and even cite the strategies and projects relating to building these relationships as being core to their very survival over the medium to long term.

These companies truly understand and embraced the value of developing an intimate, direct relationship with their customers. Once established, they leverage these relationships so that they can more deeply understand shopping and buying behaviours in order to more accurately target their promotions to achieve greater sales revenues.

The benefits of this understanding and insight cannot be underestimated. Many millions of dollars are spent by these companies on advertising and promoting products to consumers each year, with much of it wasted due to inappropriate marketing and a lack of insights into individual customer behaviours. By targeting promotions at customers based on their own unique, individual spending patterns, retailers in the US are better able to present appropriate promotions and offers...at exactly the right time.

US Retailers with mature online eCommerce channels are now able utilize historical buying patterns of individual shoppers to such an extent, that they can now predict, with a high level of confidence, when a customer is in Shopper vs. Buyer 'mode'. Using this data, and information about product purchasing history, they can (and do) present offers in real time – uniquely created 'on the fly' solely for that customer. Regardless of my own professional experience in implementing these solutions, anyone who has ever shopped on Amazon.com will be able to relate to this shopping experience.

When you add to this cross sell/up sell sales 'push' strategy by US firms to the typical 'pull' strategy of delivering the excellent customer service US retailers are famous for, it becomes very easy to see why the Australian retail industry is under such enormous threat.

Moreover, given the impact of the GFC into US consumer spending, many US retailers are now actively enabling their online eCommerce capability to service the global marketplace (e.g. Sears Stores, Gap, Old Navy, Banana Republic, Victoria Secret etc).

Traditionally a 'no thanks' area for US retailers due to the relative smallness of the Australian market and tight (at times even arduous) Australian labour laws, the mind set of the major US retailers has begun to change. The cost/benefit ratio is no longer negative for those companies which have already made significant investment into the development of an online sales capability. The Australian market size and labour laws don't apply. US retailers have found that they only need to make relatively small investments into their current eCommerce platforms to account for foreign exchange rates and international shipping options, in order to open themselves up to the global marketplace. In fact, much of the effort required to 'go global' revolves around setting up the logistics to manage international shipping and returns.

What the Australian retail industry needs to understand is that this is simply 'phase 1' of the global push by US retailers. It will get worse for them, much worse, if they don't find a way to participate and compete. The strategy by US retailers is to make small investments into existing systems and processes as a kind of 'proof of concept' to and see how things go. They spend zero dollars on international marketing and promoting their brand into the Australian marketplace. However, once these US mega retailers begin to bring the full force of their marketing capabilities into the Australian market place, it will be too late for Australian retailers. They simply will not be able to compete against the size and scale of the marketing spend many of these companies have at their disposal.

In Australia, many of the major retailers have a highly immature online sales capability, if they even have one at all. For the most part, retailers have web sites for informational purposes only, about products or store locations and opening times. And it is almost impossible to obtain product prices for non promotional items.

When I recently did some consulting work for a major Australian retailer, I found their systems and processes and general mindset to be approx. 5 years behind the work I was doing in the US - 5 years ago. No longer are they a few years behind, they are now entering decades. Worse still, is that they seem to have no strategically significant plan to try and close the gap.

Home and Away – a personal perspective

Whilst always I knew that Australia had a higher cost of living than the United States, when I moved back to Australia in 2010 I was truly shocked at the (at times) obscene amounts being charged for products when compared to the *same* items in the United States.

Often, I find that prices in Australia are not ‘just’ 20%, 30%, 40% or even 50% higher – but rather they are 200%, 300%, 400% and 500% higher than prices for exactly the same product in the United States. Many of these products originate from the same place, China, possibly even from the same factory. I am therefore unable to understand exactly why the prices are so disproportionately high in Australia.

Shopping at a bricks and mortar shop in Sydney for anything over \$30 (sometimes even less) has now become a fact finding/research exercise. I now have apps on my phone that enable me to view prices of products in the United States (as well as place an order and pay) whilst I am standing in a shop in Sydney.

On the one occasion that I did make an online purchase from an Australian retailer (Dick Smith), two days later I received an email from Big W (?) informing me that my purchase had been cancelled *as per my request!* In fact, I had never made any such request and when I called the support number (which was only open during business hours on weekdays - and not at all at the weekend) it took two weeks, multiple phone calls, and the issue was never solved. Interestingly, each time I called and no progress was made, they were asking me to call them back.

Some examples of real savings I have personally achieved between June and July 2011:

Item Description	Local Price	AU Supplier	Online Price	Int. Supplier	Shipping costs	Total Int. Price	Total Saving
Jeep Cherokee DFI Unit	\$ 800.00	Chrysler	\$ 118.00	JCWhitney	\$ 28.78	\$ 146.78	\$ 653.22
Jeep Cherokee Rear Lift Struts	\$ 177.00	Repco	\$ 29.00	MrLousStuff.com	\$ 37.50	\$ 66.50	\$ 110.50
KMS Shampoo	\$ 28.00	Greenwood	\$ 15.50	ebay	\$ 6.78	\$ 22.28	\$ 5.72
Vespa LHS Mirror	\$ 165.00	Scooter Central	\$ 28.50	mymoto.com	\$ 27.00	\$ 55.50	\$ 109.50
Chloe Perfume	\$ 175.00	Greenwood	\$ 54.97	Purfumeate	\$ 35.58	\$ 90.55	\$ 84.45
Garmin Forerunner HRM Watch	\$ 490.00	Cyclrey kent Street	\$ 240.00	Amazon.com	\$ 14.77	\$ 254.77	\$ 235.23
Pink HTC Phone Cover	\$ 19.99	Greenwood	\$ 6.99	eBay Hong Kong	\$ -	\$ 6.99	\$ 13.00
Totals	\$ 1,854.99		\$ 492.96		\$ 150.41	\$ 643.37	\$ 1,211.62

In addition to the real savings I have achieved I also constantly find myself reviewing and comparing prices of products in Australia generally.

Many of the products I 'research' are either aspirational e.g. boats, cars, motorcycles etc. or are simply products that I plan to purchase in the future, such as clothing items. The Australian price variances when researching goods are comparable to the price variances I found in my actual purchases detailed above, and sometimes even more than that.

I remain deeply frustrated at the extent to which the aspirational products (Boats, Cars) are not within my financial reach here in Australia, and yet they were well within my reach when I was working in the United States.

My salary here is almost double what I was earning in the US, and yet I find that so much of what I was able to purchase almost without thinking about it in the US, is almost or completely unaffordable to me in Australia.

And this is happening at a time when the value of the Australian dollar is the highest it has ever been against the US dollar.

Under these circumstances, why does a product made in the US cost the same now as it did 3-4 years ago when the Australian dollar has advanced in value to such a large extent? Prices of products from the US 'should' be steeply discounted, and yet they aren't. Clearly the benefits of a strong Aussie dollar are not being passed on to the consumer.

When I first returned to Australia in 2010, I wanted to purchase the same vehicle I owned in the US, a Jeep Wrangler Unlimited. The cost when I purchased it new in the US was USD 24,999.00 (AUD 23,505 at current rates). The same vehicle in Australia is \$43,000, again, at a time when the Australian dollar is the highest it has ever been. I would save money by buying the vehicle in the US, converting it to RHD, shipping it to Australia – all of which can be executed online - and paying the applicable duty and taxes. However, current legislation prevents me from doing so – with no clear line of sight provided as to why. By preventing individuals from feely taking advantage of global market conditions, the current legislation instead facilitates Car Company's capability to manipulate and control local market pricing – and unfairly price gouge Australian consumers when compared to consumers in other markets. When it comes to motorcycles the disadvantages to Australian consumers is even worse. Small wonder that the car companies refer to Australia as 'Treasure Island' – I know, I've consulted with a number of them.

Conclusion

Australian retailers have comprehensively failed to embrace online shopping as a means of servicing their customers. They are not positioned to develop meaningful relationships with customers which, when leveraged properly, can result in significant sales uplift and a greatly reduced operational spend.

In taking a near Jurassic approach, when compared to their US counterparts, to providing online shopping to customers (if at all) Australian retailers have themselves encouraged Australians to look elsewhere to fulfil their online shopping requirements. In discovering that online shopping experience, they are also realizing breathtaking

savings on their purchases, and receiving a much higher standard of customer service – and are beginning to wholeheartedly embrace it.

Rather than devising strategies to compete in this new economy and to stop the customer erosion which they themselves encouraged by their lack of action, the major Australian retailers are demanding the Australian Government effectively ‘punishes’ their own customers for shopping online from overseas retailers. Insisting that the government applies 10% GST to all online purchases is effectively levying a fine for shopping online. It’s an almost comedic response by Australian retailers to a very serious issue.

Let’s be clear about why they, the major Australian retailers, are demanding this change in policy. It isn’t because they are trying to preserve jobs, and never has been. It isn’t because they want a ‘fair go’ either. To accept this as an argument would be naive in the extreme. Simply put, they have failed to manage their businesses properly and are desperately looking for somewhere to place blame. They have let their shareholders down by sitting idly by for the last 15 years.

They have failed to take advantage of technological capabilities and opportunities the internet offers them, deepening the relationship with customers, personalization of communication to customers, effectively moving from being a product centric organization, to a customer centric one. Placing their customer at the heart of all they do. They have maintained such a narrow, myopic view of trying to find new ways of gouging a shrinking customer base for more profits, that they have neglected their corporate responsibilities and squandered their organizational future. They have missed out on opening up their businesses to new markets in other countries - generating bigger revenues and returning larger shareholder returns. This demand to apply GST to online purchases is simply an attempt at a distraction away from their own negligence, nothing less.

The surprise should be not that the Australian retail industry is struggling at all, but rather that it didn’t happen years ago.

Recommendation

The Productivity Commission should recommend that nothing be done to ‘assist’ Australian retailers. We are, after all, a free market economy at heart. What is being experienced now by Australian retailers are the very free market forces they have benefited from - and embraced. To apply GST to online purchases would not only cost a great deal of tax payer dollars to administer, but it wouldn’t make the slightest impact into an already decaying Australian retail industry.

Rather, the PC should recommend that barriers to entry into the Australian Market place be reduced further, opened up. It should recommend that we apply no GST to online purchases at all, regardless of value of goods. It should also conduct a review of current barriers to entry for online purchasing and importation of all non-agricultural products.