

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

The Economic Structure and Performance of the Australian Retail Industry

A Personal Submission by Rodney Popham

I have read with interest recent proceedings of the Productivity Commission and, in particular, submissions by the Australian retailers' organisations to have the current \$1,000 GST and duty free limit lowered to \$20.

As a recent convert to online shopping, I would like to confirm that lowering this limit would not make any difference at all to the extent of online shopping which I do – but will only add the inconvenience of minimal additional cost and greatly extended delivery times for online purchases arising from Customs and postal processing time.

There are more basic issues related to current retail business in Australia which I can illustrate with some recent overseas transactions –

- A price quoted locally for a standard Subaru accessory was AUD 233.00 (plus fitting) – the same item purchased on line from a Subaru dealer in the USA was AUD 84.00 – the item was delivered in about a week to my door - and this price included AUD 40.00 in shipping cost from the US.

Similarly, a replacement Subaru part was quoted locally at AUD 520.00 which was available from a different Subaru dealer in the USA for AUD 178.00 – including shipping costs delivered to the door !

In these instances the imposition of GST would not have been a major factor in my decision whether or not to shop online.

It is also interesting that the price of the same parts was the same elsewhere from Subaru dealers in other parts of Australia. There would appear to be a nation-wide strict retail price maintenance agreement in force which prohibits competition and sets up the consumer for higher prices – although in different parts of Australia there is legislation in force to prevent such restrictive trade practices.

- Apple product is also strictly controlled in Australia and worldwide with strict retail price maintenance in place
- As a musician, I have found quality musical instruments imported online from overseas, same brands and models, including shipping and cases are 50% or less than the best Australian prices for exactly the same item. The same applies to fishing tackle, computer, and electronic components.

When purchasing online the prices are quoted, for the most part, by stores where the same price can be obtained by collecting from that store in person ie by a normal local consumer.

I have found where Australian chain stores have opened online shopping websites, the prices are the same as purchasing directly from their retail stores with, in some instances, only a very minimal discount.

Shopping online has the great advantage of a very much wider range of product – most choices would never appear on an Australian retailer's shelf. Issues can arise with the warranty and guarantee of goods, but in all cases I have found that online suppliers will replace smaller items immediately or process a full refund for a faulty product.

There is a real concern on the part of online marketers that their service, product, and communication receives 100% approval and satisfaction avoiding any negative response to ensure the future of their online business. I have found that the same does not apply to local retail salesmen – making the sale and obtaining the payment is the key criteria and objective not service.

My online purchases are always 'one off' purchases and the freight is assessed on shipping of a single item – for a major Australian retailer buying say 100, 1,000, or a container load of the exactly same items they would be buying at a lesser wholesale rate or with significant bulk discounts – and the shipping cost per unit would be a mere fraction of an online shopper's one off purchase shipping cost ... why the huge cost differences between online shopping and comparative Australian retail prices ?

In my opinion, the reason is the current status of the Australian economy and business conditions as they have developed and now exist –

- **Salaries & Wages**

Over the last 20-30 years Australian salaries and wages have escalated progressively to a stage where these oncosts have to be a major factor in setting a retailer's pricing structure. It is far easier for this business oncost to escalate than ever for it to be reduced.

Gerry Harvey and the retailers' cartel advocates have recently indicated publically and to the Commission that there is a considerable risk of increased unemployment if the growth of online shopping is not constrained.

I believe retailers will now have to look at their commercial practices as traditional retailing is very rapidly changing worldwide. For example, retailers like IKEA and Bunnings employ far less staff relative to their working floor area – with smart systems the customer does most of the work in making a purchase either in person or online.

In overseas countries companies such as Amazon do not have a front of house store at all but employ fewer staff, have an efficient wholesale supplier network, and have their picking and despatch automated from the receipt of the online order to despatch. They even have special arrangements for freight and packaging from carriers and postal services.

While it is possible that some current Australian retailers may have to reduce staff in any retail reform, there will be an increase in the requirement for staff working in warehousing, computer systems and online marketing, and in shipping / delivery of commercial goods by couriers, delivery companies, and Australia Post and its contractors.

Retail employee and unions are still campaigning continuously for further incremental increases in wages and conditions – this can only be reflected in increased costs of commodities to end consumers in Australia ...

- **Property Leasing and Other Costs**

Similarly, Australian property values and the costs of design and construction of retail centres has escalated significantly over the last three decades which is reflected in high leasing costs for retailers in the prime city and regional shopping centre locations to display their goods.

Warehousing for online shopping can be located in more remote fringe locations where the business location criteria is more an assessment of access to transport for supply and despatch and the communication infrastructure available. These centres will also have much lower leasing costs to factor into the selling costs of commodities to consumers.

Coupled with increasing retail leasing costs are increases in the cost of services for large retail stores with extensive sales displays and lighting. The retail environment also requires full air-conditioning of retail spaces for customers and staff

These costs are rapidly increasing in all parts of Australia and again have to be factored into sales pricing. The cost of these utilities for well designed and serviced warehousing space is very much less than quality retail display space.

- **Profit Margins**

The Australian market, on an international basis, is very small and the percentage of retail shopping done by online consumers currently is very small – but rapidly increasing as Australian consumers become more computer literate and look for alternatives to reduce their costs to procure all commodities.

Retailers have been able to exercise State or nationwide retail price maintenance by controlling distribution of products within Australia from the manufacturers / suppliers from within Australia or the point of entry into the country.

While legislation has been passed in some States to prohibit this practice and encourage competition, my experience is that the practice is widespread in many retail and service areas to the detriment of consumers.

Competition should be encouraged in the retail industry so that retailers have to consider very closely profit margins applied to commodities – not have the prices set on a national basis or by suppliers.

No retailer will sell at less than cost - and yet we are continually seeing sales promotions offering 50 – 70% sales discounts of large ranges of different product

The status of the currently high Australian dollar and its close parity with the US dollar has brought the comparative analysis of online shopping purchases and Australian retail prices for exactly the same items into sharp focus.

The issue raised to the Productivity Commission of the GST applicable to online shopping items is purely a 'red herring' and the broader issues of the Australian economy and reform of traditional Australian retail business practices must be addressed.

Summary

In my opinion,

1. The GST free level could be reduced to AUD 500 - in lieu of the current AUD 1,000 limit. Management of this additional workload could be profitable for Australian Customs in terms of GST and tariff revenue.

The retailer's proposed AUD 20.00 limit is totally impractical and unrealistic

2. National and State Governments must take any measures necessary to constrain increases in salaries, wages and utility costs.

Australia has developed into a country where it is virtually uncompetitive in the world market except for some very specialised product and services.

Manufacturing for retail is now almost totally outsourced overseas and provision of services such as communications and banking are also almost totally outsourced in overseas countries

3. National and State Governments must take any measures necessary to encourage competition in all retail fields and prohibit any restrictive trade practices such as retail price maintenance in the Australian market.

Yours faithfully

Rodney Popham

31 August, 2011