



**Submission to the Productivity Commission  
Inquiry into the Economic Structure and  
Performance of the Australian Retail Industry**

**2<sup>nd</sup> September 2011**

**This submission has been prepared by United Voice National Office on behalf of United Voice members and branches across Australia.**

**Authorised by Louise Tarrant, National Secretary**

United Voice  
303 Cleveland Street  
Redfern NSW 2016

**For questions regarding the content of this submission, please contact:**

Lily Zhang  
Research Analyst

## 1. Overview

As a union that represents some of Australia's lowest paid workers, United Voice is concerned by elements of the Productivity Commission's draft report into the economic structure and performance of the Australian retail industry. In particular, we are concerned about the concerted push by the major retailers and industry groups to cut the wages and conditions of workers within the sector, and the attention that this has been given by the Commission in the draft report. We believe that this emphasis on wages and conditions of work has implications for the entire workforce of Australia, and particularly for low-paid workers within the retail sector.

Whilst the Shop Distributive and Allied Employees' Association (SDA) has full coverage of retail workers and has submitted evidence that speaks to their members' interests, there are other low-paid workers who United Voice has coverage of, including cleaners and security guards, who work within shopping centres and who we speak on behalf of in this submission. Thus, while we do not represent the majority of workers who are most directly affected by the scope of this Inquiry, we write in support of our members who work within shopping centres, as well as many other low-paid workers in this country who would be negatively impacted if retail wages and conditions were eroded.

United Voice is disappointed by the lack of attention given in the draft report to the realities of work for low-paid workers within the retail industry. We urge the Commission to take a more balanced approach, particularly when considering ways in which productivity could be lifted and the implications that this might have for working people within the sector. We encourage the Commission to consider a broader understanding of what productivity actually is within the retail industry, beyond the narrow focus on labour productivity and the "flexibility" of the workforce.

In particular, United Voice recommends that more consideration be given to how employee training and development and customer service can be factored into the assessment of productivity in the sector. Rather than the emphasis being on reducing the wages bill and increasing the "flexibility" of the workforce, the focus should be on improving levels of customer service. United Voice believes that it is only by investing in the workforce, addressing the issue of high turnover and improving the skills and professionalism of retail workers that better customer service can be delivered. Finally, we ask the Commission to consider the impact that further deregulation of trading hours would have on retail workers and other workers, including cleaners and security guards, who perform vital work in Australia's shopping centres.

The push from retailers and industry groups to reduce wages and increase the "flexibility" of the retail workforce may produce short-term gains in profits, but in the long-term this only serves to stifle consumer demand, and ultimately has a negative impact on productivity and economic growth, not only damaging the retail industry but causing enormous social and economic dislocation in the process. The current business model of many Australian retailers is built on shaky ground if it is dependant on a precarious workforce that is increasingly unable to keep up with the cost of living, let alone spend their hard earned money on discretionary products.

## 2. About United Voice

United Voice represents workers across a variety of industries, including child-care, aged-care and hospitality. Within the retail sector, we represent cleaners and security guards who are employed by major retailers and by contractors who operate within shopping centres.

Together [our members] are among the approximately 20 per cent of Australians who are considered the “low paid”, those who earn two thirds or less of the median wage. That’s no small anomaly – this is a huge group of hard working people. These are people that work for a living. These are men and women who know the dignity of work but are not given the respect that should be associated with that work. These Australians simply ask that their critical role in the national economy be valued and recognised.

- Louise Tarrant, *United Voice National Secretary*

## 3. Workplace Regulation and the Low Paid Workforce in the Retail Industry

More than one million Australians – 10.7 per cent of the working population – are employed in the retail industry. The vast majority of these workers are low-paid. According to the Productivity Commission’s own workforce profile, they are largely young, female and have limited work experience. In comparison with other sectors of the Australian economy, retail employees face conditions of relative precariousness at work, exhibited by high levels of casualisation, limited opportunities for permanent full-time work, and high levels of turnover across the sector. Retail workers are also far more likely to be covered by the Retail Award, with wage rates largely based on the minimum wage. In addition, between a quarter and a third of the retail workforce are employed on youth wages, allowing employers to greatly reduce their expenditure on wages.<sup>1</sup>

Despite this picture of a low-paid, precarious workforce, a large part of the Productivity Commission’s draft report is focused on reducing the wages and conditions of retail workers. While we recognise that Draft Recommendations 10.1 and 10.2 put forward by the Productivity Commission are fairly measured in comparison with the recommendations put forward by many of the major retailers and industry groups in their submissions, United Voice takes exception to the lack of consideration given by the Commission to the realities of low-paid work within the retail sector. We believe that the voices of employees working within the retail sector should have at least an equal weight within any debate about their conditions of employment. We urge the Productivity Commission to address this imbalance in their final report, particularly in relation to Section 10, which deals with workplace regulation.

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<sup>1</sup> According to the graph sourced from ABS data contained within the Productivity Commission draft report, Productivity Commission (2011), *Economic Structure and Performance of the Australian Retail Industry*, Draft Report, Canberra, p.332

### 3.1 Wages and Conditions of Retail Workers

In particular, United Voice is concerned about the disproportionate weight given within the draft report to arguments submitted by the major retailers and retail associations in relation to high labour costs, high minimum Award rates, the need to pay penalty rates, minimum engagement and the impact of the “Better Off Overall Test” on flexibility within the workforce. Much of this evidence contradicts the data put forward by the Productivity Commission itself, which indicates that:

- employees in the retail trade earn less on average than employees in most other industries;<sup>2</sup>
- retail sector employees are also far more likely to earn the minimum wage;<sup>3</sup> and
- wages growth, including negotiated wage increases, within the retail sector has been lower than the average across all sectors, with wage increases generally tracking increases in the minimum wage.<sup>4</sup>

As the Productivity Commission itself points out in the draft report, although retail wages and associated “on costs” in Australia are relatively high compared to many less developed countries, this is ‘largely a reflection of our generally high standard of living and the conditions of employment that Australians would generally be unwilling to compromise on’.<sup>5</sup> United Voice does not agree with the draft report’s conclusion, however, that addressing ‘regulatory and workplace inefficiencies’ by further squeezing workers will deliver sustainable productivity gains – nor is this the appropriate way for retailers to improve their competitive position. As argued by the ACTU in their submission, ‘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’.<sup>6</sup>

The argument put forward by the major retailers is that the industrial landscape within the retail sector is hindering the productivity and profitability of retail. In direct contradiction to this claim, Figure 2 within the draft report shows that the retail industry is the second most profitable industry in the country, providing well above the average in shareholder returns.<sup>7</sup> Over the past five years, profits in the retail industry have increased by more than 50%, outstripping the growth in total retail wages.<sup>8</sup> Despite recent economic volatility, retail spending has nevertheless grown by 1.4 per cent in the year to July, and has exhibited strong performance over the longer term. Moreover, total retail volumes (which strip out price changes) have experienced steady growth over the last three quarters.<sup>9</sup>

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<sup>2</sup> Productivity Commission (2011), *Economic Structure and Performance of the Australian Retail Industry*, Draft Report, Canberra, p.297

<sup>3</sup> *Ibid.*, p.292

<sup>4</sup> *Ibid.*, pp.292,298

<sup>5</sup> *Ibid.*, pp.298

<sup>6</sup> ACTU (2011), *Submission to the Productivity Commission’s Inquiry into the Economic Structure and Performance of the Australian Retail Industry*, Submission 100, p.3

<sup>7</sup> Productivity Commission (2011), *op. cit.*, Figure 2, p.xxii

<sup>8</sup> Profit figures cited in the ACTU’s submission, ACTU (2011), *op. cit.*, p.4

<sup>9</sup> ABS (2011), Cat. No. 8501.0, *Retail Trade*, Australia, Jul 2011, Table 7 “Quarterly Retail Turnover, Chain Volume Measures - By Industry Group”. See also Michael Pascoe, “Glimmers of hope on the retail front”, *Sydney Morning Herald*, 17 August 2011

In addition, the performance of retailers is more nuanced than indicated by the majority of submissions to the Inquiry – some sectors have produced steady growth, including supermarkets, liquor and food. Other sectors, such as car sales and overseas travel, have produced solid growth results over the past two years.<sup>10</sup> The sector has clearly overstated the case that it is doing it tough. Whilst current economic volatility and uncertainties have certainly subdued discretionary retail spending, the fact remains that the sector is still growing and that the current reduction in the rate of growth is primarily cyclical not structural in nature.

Some of the recent decline in discretionary retail spending can be attributed to an increase in the household savings rate. After falling for over two decades, the Reserve Bank noted that households now saved around 10 per cent of their disposable income – the highest in 20 years.<sup>11</sup> Considering the amount of household debt Australians hold, it is not necessarily a bad outcome and demonstrates that the high level of growth experienced prior to the global financial crisis on the back of high debt was clearly unsustainable. The high savings rate also means that Australians do have discretionary income – but it is sitting in the bank or being used to pay down debt rather than being spent on retail goods. The primary challenge for retailers is to convince consumers to part with their hard-earned dollars, not in squeezing “productivity gains” from their own workforce, which would be self-defeating and would simply result in large numbers of low-paid workers (who are also consumers) having less discretionary income to spare.

More weight should be given to these profitability and consumption measures before accepting retailers’ arguments that wages in the sector are too high and allowing them to stick the boot into retail employees, who are already some of the most low-paid workers in the country. This is particularly the case in relation to the awarding of minimum wage increases and the increases contained within the transition to the Modern Award. If these increases were factored into the overall profit margins of the retail sector, they would be shown to have marginal impact. Given that retail workers are amongst the lowest paid and most precariously employed in the Australian workforce, much of the evidence put forward by the major retailers is disingenuous, self-interested and motivated by a broader social and economic agenda aimed at simply cutting their labour costs, instead of pursuing a “high road” to productivity and growth.

### **3.2 Staffing Levels and Customer Service**

Far from implementing strategies to deliver sustainable returns over the long-term, many retailers have instead chosen the “low road”, pursuing short-term profits by reducing their numbers of staff and increasing levels of casualisation. United Voice believes this ultimately leads to poor customer service, with the end result being that consumers simply spend their money elsewhere. In terms of service provision, a recent American Express report found that 33 per cent of shoppers thought Australian retailers were paying less attention to customer service than in previous years, and that 39 per cent of consumers believed that their “service expectations” were being missed. The report also found that poor service

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<sup>10</sup> ABS (2011), Cat. No. 8501.0, *Retail Trade*, Australia, Jul 2011, as cited in Bernard Keane and Glenn Dyer, “Retail’s new Aussie dollar trend”, *Crikey*, 17 August 2011

<sup>11</sup> RBA (2011), *Statement on Monetary Policy*, February 2011, p.42. See <http://www.rba.gov.au/publications/smp/2011/feb/html/box-c.html>

leads to lost sales both in store (with 80% of customers not making an intended purchase because of poor customer service) and online (with 40% of customers deciding not to buy online because they were not satisfied with the service).<sup>12</sup>

The Productivity Commission itself noted, ‘There is some evidence from meetings the Commission has conducted with retail establishments, of a general deterioration in service skills due to reductions in staff numbers, lack of expertise and attitudinal problems among workers’.<sup>13</sup> United Voice believes that the issue of customer service has not been given enough consideration in the draft report. Where it has been mentioned, the emphasis has been on putting the blame on retail workers for poor customer service levels (as in the above quote). The erosion of customer service levels in retail can’t be pinned on workers alone – the industry has failed to recruit, train and retain workers, with the sector experiencing high levels of turnover. Low wages and insecure employment are surely factors behind the inability to attract and retain staff. For too long, retailers have relied on a strategy of cutting back hours and squeezing workers to deliver massive profits, and now they want even more “flexibility” from their workforce, which will in turn erode customer service standards even further. Such a strategy is contrary to their business interests and the long-term health of the sector.

Department stores are probably the most renowned for going down the “low road” – for years, David Jones and Myer have reduced staff numbers,<sup>14</sup> increased the number of casuals and effectively cut back on customer service. In a recent report by investment analysts CLSA, both David Jones and Myer were identified as having implemented brand-damaging cost savings. ‘Myer has pulled back materially on branch advertising and in-store staffing levels. David Jones has been playing Russian roulette with its brand by cutting the wrong costs – advertising and promotion and non-management wages. Both department stores need to invest in improving customer service. Failing to do so will damage their bottom lines and brands.’<sup>15</sup> A former Myer executive from the 1980s was recently quoted in *Business Review Weekly* bemoaning the state of retail today. ‘Personally I am fed up with poor quality service and attitudes that stem from the poor leadership and management practices across a series of companies who sprout [customer service] but don’t deliver it and then wonder why sales are down. Those that can and do deliver a positive service experience will recoup the benefits many times over.’<sup>16</sup>

The response to a changing competitive environment in retail seems to be simply to slash operating costs – which means fewer sales staff and inadequately trained staff. However, this response can create a vicious cycle of cost-cutting, with cuts in staff leading to reductions in customer service leading to a drop in sales, leading to further cost-cutting and so on. Traditional retailers must rediscover the importance of customer service, not just pay

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<sup>12</sup> American Express (2011), *Global Customer Service Barometer – Market Comparison of Findings*, pp.3,4,14,15. See [http://about.americanexpress.com/news/docs/2011x/AXP\\_2011\\_csbar\\_market.pdf](http://about.americanexpress.com/news/docs/2011x/AXP_2011_csbar_market.pdf)

<sup>13</sup> Productivity Commission (2011), *op. cit.*, p.344

<sup>14</sup> As noted by the Productivity Commission in its draft report, department stores were the only sector to record a drop in employment between February 1995 and February 2011 from 96,900 to 86,000 – a fall of 10,900 or 11.2 per cent. Productivity Commission (2011), *op. cit.*, p.329

<sup>15</sup> Report by CLSA retail analyst David Thomas, quoted in Georgina Dent, “Back to basics”, *Business Review Weekly*, 18 August 2011

<sup>16</sup> Leo D’Angelo Fisher, “Spent force”, *Business Review Weekly*, 11 July 2011

lip service to it. Retail executives should be asking themselves the critical question, if you were the customer would you shop at your store?

This squeezing of retail workers is mirrored in the treatment of cleaners who clean David Jones and Myer stores. Cleaners have suffered enormous reductions in hours and staff, and are increasingly under pressure to work harder and harder. At the same time they are expected by department stores (as well as the owners of shopping centres) to maintain the same standards of hygiene and cleanliness. It is cleaners who are ultimately penalised by “mystery shoppers” when they report that they are dissatisfied with the cleaning service. Large retailers and shopping centre owners may then withhold payment to the service provider, depending on the severity of the “offence”.<sup>17</sup> Because margins are incredibly slim in retail cleaning, with labour costs constituting up to 90 per cent of the total cleaning cost, any withholding of payment simply results in contractors either cutting hours or withholding or delaying payments to their cleaners, or just forcing their existing cleaners to work harder and faster.<sup>18</sup> Thus, rather than addressing the fundamental causes of deteriorating service standards the decision is made to shift the blame to a third party.

Any erosion in cleaning standards or pressure on cleaners reflects badly on retailers and shopping centre owners alike. Customers simply do not distinguish between staff directly employed by a particular retailer or by a contractor. All they care about is having a safe, secure and clean environment in which to shop. Cleaners are ultimately the face of the shopping centre – they are often the only shopping centre owner representative on hand to interact with customers and are required to wear uniforms that reflect the branding of a particular shopping centre owner or retailer. For example, cleaners in shopping centres have to abide by the shopping centre owner’s uniform and presentation policy even though they are not direct employees. These uniforms are branded with the centre’s logo and colours while their actual employers’ name (the contractor) is less prominent.

Whilst some retailers have taken the “low road” to productivity and profit growth, others have responded by adapting their business model and through innovation. One of the best examples is JB Hi-Fi. In the face of recent economic volatility, JB Hi-Fi posted a normalised \$134.4 million after-tax profit, up 13.3% over 2010. According to analysts, JB Hi-Fi’s success comes from its ability to adapt quickly and respond to market trends and variations in consumer demand. It is an evolving company that moves with the market, changing its product lines. Whereas other retailers merely complain about online retailing, JB Hi-Fi recently announced a new digital music streaming service.<sup>19</sup> Many traditional retailers have

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<sup>17</sup> United Voice has examined a number of retail cleaning contracts and has found that all contracts, to varying degrees of detail, contain contract specifications and clauses to this effect.

<sup>18</sup> Ian Campbell and Manu Peeters (2008), *Low Pay and Working Time: The Case of Contract Cleaners*, Working Paper Series No.2, Centre for Applied Social Research, RMIT University. The pressure on contractors to provide a cut-price service is such that the only way to deliver the contract or make a margin is to cut the number of cleaners or make them work even harder. According to John Laws, the President of the Australian Contract Cleaners’ Association, ‘Contractors are engaged in insane price cutting in order to get work so it’s increasingly harder for honest contractors to make a profit. Margins offered in retail are so tight now that owners are actively encouraging the use of illegal practices. Plenty of really good contractors are just refusing to sign some of these contracts because they’re so over-stretched. Others just don’t bother to tender for retail contracts anymore.’ (Quote from United Voice interview with John Laws, May 2010).

<sup>19</sup> Leon Gettler, “How to be a calm leader in volatile times”, *Smart Company*, 31 August 2011

focused too much on wages, and neglected technology, management practices and process innovation, not to mention customer service, as key drivers of productivity.<sup>20</sup>

Retailers now, more than ever before, need to create relationships with shoppers and respond to consumers' needs. They need to give consumers a reason to come into their shops and shopping centres and spend money – and quality customer service is at the heart of this. Three out of four Australian consumers say they are willing to spend more with retailers who provide excellent service.<sup>21</sup> The amenities provided by retailers and shopping centre owners, which includes cleaning services, are critical to creating shopping destinations that will continue to attract customers. Cleaners are an important interface with the customer and as such the level of service they provide is equally as important as the quality of customer service provided by retail workers.

As cleaners, we are the face of the Centre. We not only need to clean well, we also need to be well groomed and presentable. Customers often approach us in the Centre for directions so we help them. We help security if there's a code grey [lost child] until the child is found. We have fire bomb training so we can evacuate the public if needed. So we are always busy. There's never a dull moment. Imagine the world without cleaners! How disastrous it would be. Dirty toilets, malls full of rubbish and spills, food courts with rubbish and food everywhere. It's amazing what we do! Yet with a family to support I'm only just getting by on the money I earn.

- Rose Owens, South Australian shopping centre cleaner

Rather than the focus being on reducing wages, the focus of the industry should be on improving customer service. It is only by investing in their workforce, addressing the issue of high turnover and improving the skills and professionalism of retail workers that better customer service can be delivered. As argued by the ACTU in their submission:

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.<sup>22</sup>

As such, United Voice recommends that more consideration be given to how employee training and development and customer service can be improved in the retail industry, as

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<sup>20</sup> There are numerous factors affecting labour productivity that have nothing whatsoever to do with wages and conditions. Treasury Secretary Martin Parkinson noted them in a recent speech, '... Australia has experienced a much sharper deterioration in [Multifactor Productivity growth] than most other OECD countries – that is, more of our actual labour productivity growth has come from capital investment, as opposed to the effects of new technology, management practices and process innovation, than other advanced economies'. See Dr Martin Parkinson PSM, Secretary to the Treasury (2011), *Sustaining Growth in Living Standards in the Asian Century*, Gala Address to the Melbourne Institute Economic and Social Outlook Conference, 30 June 2011

<sup>21</sup> American Express (2011), *Global Customer Service Barometer – Market Comparison of Findings*, p.7. See [http://about.americanexpress.com/news/docs/2011x/AXP\\_2011\\_csbar\\_market.pdf](http://about.americanexpress.com/news/docs/2011x/AXP_2011_csbar_market.pdf)

<sup>22</sup> ACTU (2011), *op. cit.*, p.5



well as how the measurement of customer satisfaction can be factored into the assessment of productivity in the sector. In the draft report, the Commission noted that, 'To inform the final report, the Commission is seeking further information from participants on initiatives retail employers, employees, unions or the Government could take to facilitate the wider adoption of best practice workplace arrangements and to close the gap between the levels of productivity in Australian retail and that of leading retailers overseas'.<sup>23</sup> We believe that the most significant stimulus to productivity in the sector is in the area of staff training and customer service, and that by developing the skills of its workforce and improving levels of customer service the industry will dramatically increase both its productivity and its profitability.

### **3.3 Industrial Legislation**

United Voice does not feel that productivity growth within the retail sector should be dependant on gutting many of the most important aspects of the industrial relations system that have been designed to address the inherent power imbalance between low-paid workers and their well-resourced employers. With regard to the draft report's conclusion at the end of Section 10, which suggests that 'it is critical that employers, employees and unions work constructively to implement productivity enhancing workplace arrangements,' we would like to emphasise that current industrial legislation already provides the appropriate mechanism for this to occur. Indeed, such principles have always been at the heart of the system of industrial arbitration, which historically was designed to increase productivity by minimising days lost due to strikes and other forms of industrial action. Given that strikes and work stoppages within the modern Australian retail sector are almost unheard of, we suggest that the assumption that productivity gains can be made by watering down industrial legislation and allowing for even more 'workplace flexibility' are based on out-dated economic modelling. This out-dated analysis has the potential to impact most on those who are already amongst the lowest paid and most vulnerable workers in society.

We believe that the flexibility and fairness of Australian industrial law is amply demonstrated by the ACTU within their submission in relation to the way in which the Retail Award was determined by the Australian Industrial Relations Commission (AIRC):

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.<sup>24</sup>

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<sup>23</sup> Productivity Commission (2011), *op. cit.*, p.320

<sup>24</sup> ACTU (2011), *op. cit.*, p.2

We therefore encourage the Productivity Commission to take a more balanced position in relation to the industrial landscape within the retail sector. In particular, the reality of being a low-paid worker within a precarious industry with irregular and unsociable hours deserves greater recognition. Retailers have lobbied hard and successfully for extended trading hours, and while this may have delivered benefits to consumers, it has also meant that retail workers are required to work weekends, nights and public holidays. Their willingness to work unsociable hours should be adequately compensated, and their contribution to the productivity and growth of the retail sector should be acknowledged. The reality is that most workers (including executives and managers of retail companies) would not be prepared to work every Saturday, Sunday and public holiday at minimum rates with no additional compensation while missing out on important family, study or leisure time.

Furthermore, United Voice would like to stress that Fair Work Australia, not the Productivity Commission, is the specialist tribunal tasked by Parliament with finding the appropriate balance between workers' rights and employer interests. The Commission needs to recognise the role of Fair Work Australia in determining minimum wages and conditions and providing a space for employees to negotiate with their employers. Failing to do so merely replicates the inequities within our society. We might legitimately question the purpose and value of pursuing productivity improvements within the economy if the upshot of this is increasing inequality, increasing disadvantage, greater levels of poverty and a growing underclass of the "working poor".

The responsibility of Fair Work Australia to provide a 'fair minimum safety net' appropriate to 'a fair workplace relations system' imposes a duty on Fair Work Australia to provide fairness to employees. Fairness to employees includes fairness to employees employed on penalty rate days and at penalty rate times. Although United Voice believes it is the responsibility of Fair Work Australia to decide such matters, we ask the Productivity Commission to take into account the following:

- a. Work on penalty rate days causes inconvenience and disability in relation to family and other relationships, recreational and leisure opportunities. The current penalty rate regime provides some compensation for this disability.
- b. Penalty rates are a significant component of take home pay. A reduction in penalty rates raises the question of what number of extra hours a retail employee would need to work to maintain their take home pay.
- c. Reduced penalty rates will equal reduced earnings for low-paid workers.
- d. Savings by employers will be disproportionate to the hardship suffered by affected low-paid employees.
- e. Workers are prepared to work on Sundays and public holidays because of the payment of penalty rates; they don't necessarily want to.
- f. Current penalty rates provide an incentive for employees to accept the social inconvenience and disability of working these days.
- g. Reducing the safety net by reducing penalty rates without compensation offends against fairness and devalues the role of the "Better Off Overall Test" in enterprise bargaining.

- h. Reducing penalty rates across the board is discriminatory; some retailers are highly profitable and they will benefit from a windfall. Others are marginal at best, and will go out of business in time whether penalty rates are reduced or eliminated or not.
- i. There is already considerable flexibility inherent in the Retail Award and NAPSAs. The high level of casualisation means that if management makes a mistake in rostering, it can easily and quickly correct it by calling in or reducing the hours of one or more casuals.
- j. While retail employees know they are in or entering into a 7-day industry, they also know that they are compensated by the payment of penalty rates for working at night, at weekends and on public holidays.

#### 4. Productivity within the Retail Industry

United Voice believes that the application of the productivity framework within the services sector is inherently problematic. In particular, we are concerned by the use of labour productivity as a measure of overall productivity within the retail sector. We are also concerned by the claim that productivity can best be enhanced through further deregulation of trading hours.

##### 4.1 Measuring Productivity

The application of an orthodox definition of productivity – that is, goods produced per hour worked, or in the case of the retail sector items sold or profit attributable per hour worked – to the service industry has inherent limitations and does not take into account the nature of service sector work.

For example, productivity in the cleaning industry is typically measured by the amount of square metres cleaned per hour worked. In practice, this has led to reductions in hours and the intensification of workloads, with cleaners literally being made to run to get the job done (or finish the work in their own time).<sup>25</sup> As a result, cleaners' workloads have increased to dangerously high levels, to the point where injury rates amongst cleaners are second only to those in the concrete construction industry.<sup>26</sup> The issue of public liability in shopping centres has placed additional burdens on cleaners, with cleaners now often required to monitor for spillages in high risk areas every 5 minutes (in addition to all of their regular cleaning duties).<sup>27</sup>

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<sup>25</sup> WorkCover Authority of NSW (2005), *Final Report – Assessment of the Repetitive Manual Tasks of Cleaners*, Cleaning Industry Steering Committee Report prepared by Health & Safety Matters Pty Ltd, February, p.43

<sup>26</sup> WorkCover Authority of NSW (2011), *Insurance Premium Order 2011-2012*, Sydney, 10 June 2011, Table B

<sup>27</sup> United Voice has examined a number of retail cleaning contracts and has found that in all cases, the contract stipulates stringent demands relating to regular "sweeps" being conducted of high risk areas, in particular food courts and outside supermarkets, in order to mitigate the risk of customers injuring themselves through slipping, tripping or falling as a result of spillages. Whilst such measures could be considered responsible, their effectiveness is reduced by the overall decrease in the number of cleaning hours and number of cleaners staffing shopping centres. Indeed, in some centres, although massive redevelopments and expansions have taken place in recent years, the number of cleaners has dramatically reduced. In effect, the solution imposed by shopping centre owners has meant that rather than mitigating risk, they have simply shifted risk to cleaners.

In the retail industry, there appears to be a disproportionate focus on the characteristics and performance of the retail workforce (namely unit labour costs for employers)<sup>28</sup> and the impact on productivity, whilst not acknowledging another important aspect of service provision, which is the customer. An analysis of the methods of measuring productivity within the service sector identifies that ‘the customer’s role in productivity is also different in service contexts compared to manufacturing’ in that interactions between the customer and service provider can influence the efficiency of the service process.<sup>29</sup> For example, varying levels of customer knowledge may influence the speed at which a customer purchases a product, thereby affecting a worker’s level of productivity.

What also appears to be relatively absent<sup>30</sup> in the discussion within the Productivity Commission’s report is the importance of quality of customer service and the role of this in driving consumer demand and in the consideration of productivity within the retail sector. As Gronroos and Ojasalo (2004) note in their analysis of the measurement of productivity in the service industries, measures that may appear on face value to increase labour productivity within the service industry may indeed turn out to have ‘a negative effect on perceived service quality, customer value and finally... on the economic result of the firm’.<sup>31</sup>

Perhaps most importantly, there is also the failure to consider the “human cost” of measures to increase “productivity gains” and the consequences of this for the retail industry more broadly. It is important here to reassert that labour has intrinsic qualities, namely its humanity, which affords it particular rights and protections, and this is what makes it distinct from capital used in the production of goods and services. Retail labour productivity gains have largely been pursued through increased flexibility through casualisation, keeping wages low, cutting hours or increasing workloads. Not content with this, however, the current spectre raised by the major retailers and industry groups further suggests the cutting of minimum wages and conditions as a means of improving productivity. The untold story of these “productivity gains”, which are designed to increase profitability within the retail sector, is the inherent contradiction that these measures ultimately erode profits and hinder productivity in the medium to long-term.

Cutting minimum wages and conditions has a direct impact on consumer demand, which directly influences the level of labour productivity.<sup>32</sup> An increase in minimum wages stimulates aggregate demand, and therefore aggregate output, as minimum wage workers, including those within the retail industry, tend to have a ‘higher marginal propensity to consume than recipients of capital income’.<sup>33</sup> Put simply, if more than a million people work in the retail sector, that’s more than a million active consumers – not to mention their dependents. On the other hand, with the erosion of real wages under the guise of “productivity gains” coupled with increases in the overall cost of living and skyrocketing

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<sup>28</sup> Productivity Commission (2011), *op. cit.*, p.310

<sup>29</sup> Gronroos, C and Ojasalo, K (2004), “Service productivity – towards a conceptualization in the transformation of inputs into economic results in services”, *Journal of Business Research*, 57, p.414

<sup>30</sup> “Customer service” is only mentioned nine times throughout the report, in comparison with “wages” which is mentioned 76 times, “labour costs” which is mentioned 44 times and “labour productivity” which is mentioned 34 times!

<sup>31</sup> *Ibid.*, p.414

<sup>32</sup> *Ibid.*, p.417

<sup>33</sup> Dowrick, S and Quiggin, J (2003), *A survey of the Literature on Minimum Wages*, p.4

household debt – who is it that will be left to do all that shopping? Business executives only need so many pairs of underpants, ties and tubes of toothpaste before their consumer contribution is exhausted.

It is worth emphasising that more than one in ten working Australians are employed in retail, and thus their capacity to consume is directly impacted by how much they are paid as retail workers – not to mention the flow-on effects this has on their families. Too often, the assumption is made that retail workers – because they are usually young or female – have very few financial or family responsibilities and that as such they only require “pin money” in return for the work they do. This not only taps into entrenched gender discrimination and sexist attitudes, but it is also inherently wrong. Young people – and women in particular – have more debt these days than in the past, particularly as a result of the high cost of education and increases in the cost of living.<sup>34</sup> Many young people will have HECS debts hanging over their heads for years, and they should not be penalised for studying or for working in a sector like retail as a means of paying off their debts. In addition, the income that a young person takes home from retail work is often used to supplement the family income, and thus is an important source of income security and can be a significant factor in helping low-income families reach an adequate standard of living.<sup>35</sup>

Thus, wages that adequately reflect the cost of living faced by households are essential for maintaining “consumer confidence” – and arguably this is of far more value to retailers than shaving a couple of dollars here and there from their wages bill. This is the other side to the measure of “productivity” that has particular implications for overall productivity within retail, and which we believe has not been given full consideration in the draft report. The development of economic modelling that takes into account all of these factors might be of genuine value to the Australian economy; but the adherence to a strict economic doctrine has significant limitations, which the Productivity Commission has failed to expand upon.

#### **4.2 Deregulation of Trading Hours**

On the issue of trading hours, United Voice understands the consideration given to the needs of consumers and retailers’ arguments for a level playing field. However, we note that the Commission’s recommendation to further deregulate trading hours does not take into consideration the views of the retail workforce. It also conflates the issue by equating the unsubstantiated desire of some retail workers to work extended trading hours with the full

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<sup>34</sup> Limited research has been done in this area of late. However, we know that during 2005-06 approximately 16.3% of households had incurred a student debt, and the median amount owing was \$9,000 (see ABS (2009), Cat. No. 4102.0 “Household Debt”, *Australian Social Trends*, March). It is estimated that this has increased over time, considering that in 2007 the average fee for a bachelor degree was \$20,579. Furthermore, the most recent HECS/HELP schedules show that a Commonwealth supported student can incur a debt of as high as \$19,542 per year (see AMP/NATSEM (2008), *What Price the Clever Country? The Costs of Tertiary Education in Australia*, p.20). Moreover, a study of university students in 2006 found that university students lacked ‘adequate financial support and many were anxious about “making ends meet”’ due to debt accumulation (Universities Australia (2007), *Australian University Student Finances 2006*, p.11). In the same study, students indicated they undertook substantial hours of work to afford basic necessities, transport, textbooks and other materials – a large proportion (40.2% of full time undergraduate students and 22.7% of part time undergraduate students) indicated that this had a significant detrimental effect on their studies (including having to regularly miss classes).

<sup>35</sup> Many of our members who work in low-paid jobs have reported anecdotal evidence to this effect. As an example, see statement from NSW shopping centre cleaner, Ruth Sorbello, on pp.15-16 of this submission.

deregulation of trading hours. We accept that there may be good reason for easing restrictions on trading hours but we urge the Commission to consider the structural impact on the entire workforce, including cleaners and security guards.

The Commission has provided no analysis as to the reasons why ‘retail employees may choose to work weekends and on public holidays irrespective of whether there are higher wage rates’ – outside of the assumption that it ‘suits their preference for work and leisure times’.<sup>36</sup> Rather, many retail workers simply do not have a choice. For example, many of our members who take on second jobs in retail do not do so because they want to work the unsociable hours or spend less time with their families. They do so because the wages they earn in their primary job (such as child-care) are not enough to pay the bills or raise a family. For this group of workers, penalty rates make a real difference to their take home pay and their ability to provide for their families.

Recently, United Voice has received reports from night-shift cleaners in shopping centres that they often have to complete detailed cleaning work in the semi-darkness because of an owner’s policy to turn off the lights at a particular time to save on electricity costs. Whilst United Voice is pleased that some owners take such an active interest in reducing their carbon emissions, it is somewhat concerning that such vital work is done in the dark with no thought to cleaners’ safety or the public’s expectation that facilities should be clean. Come morning, when an inspection is done, it is often the night-shift cleaners who are accused of not doing their tasks properly and the day-shift cleaners who have to redo the work in addition to their usual work.

Furthermore, in the past week, it has come to our attention that one of Australia’s largest shopping centre owners has advised contractors that all lights will be shut off at 12:30pm, which means that detailed night cleaning work has to be completed before then – placing cleaners under further pressure to complete their work before then or risk their safety by completing their work in the dark.

We urge the Commission to make a more considered recommendation on the issue of the deregulation of trading hours and highlight the need for all industry stakeholders to work together on this issue instead of simply shifting the cost of deregulation to retail workers and other workers in the industry. We recommend that the Commission explore the impact of any further deregulation of trading hours on workers and work arrangements in the sector.

## **5. Conclusion: Impact on Workers and Society**

The pursuit of ever-increasing productivity gains in their most narrow sense has untold consequences for workers. Any prescription that simply exhorts an already stretched labour market to work harder, or an already squeezed labour market to work cheaper, is not sustainable – and, indeed, may not be good for us. As United Voice National Secretary, Louise Tarrant, wrote recently:

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<sup>36</sup> Productivity Commission (2011), *op. cit.*, p.257

Australian workers also understand that the productivity increases of the last few decades have come at a cost. Statistician Dr Ian Watson's research shows the 'gross value added per hour worked' averaged 1.5 per cent per annum in the 1980s, 2.3 per cent in the 90s and 1.4 per cent during the 2000s. However, "average" statistics obscure the simultaneous squeezing and stretching of workers and the reality that associated wages growth has been uneven. Consider the case of Cathy, a Spotless cleaner in Adelaide. She works two or three blocks of two hours with an enforced, unpaid break in between. So, she spends much of her day hanging around the shopping centre simply waiting to restart work. Just like many other insecure, casualised jobs it seems "as-little-as-possible" paid labour is the main aim.<sup>37</sup>

Close to twenty per cent of Australian workers are categorised as low-paid, earning less than two-thirds of the median Australian wage.<sup>38</sup> Retail sector workers form a major part of this low-paid workforce. Collectively, their struggle is often masked by metrics that only present averages of wealth (or average wage increases).

What is not acknowledged is the increasing financial and social precariousness that many low-paid workers face. The reality is that many young families have household debts three times greater than their household income.<sup>39</sup> As of March 2011, the level of household debt to disposable income now stands at 156.6%, a significant increase from 32.2% in March 1977 when the RBA first started to measure this ratio.<sup>40</sup> Without adequate wages, they rely on credit for survival, with more than two million Australians now saying that they would not be able to survive for more than a month if they were to be made unemployed.<sup>41</sup>

Cleaners who work in Australia's shopping centres struggle to make ends meet. The struggle of one of our members, Ruth Sorbello, is a stark illustration of how tough life is for many cleaners:

I'm on a single income wage with three boys. I've got two teenage boys and a seven year old and it's really hard to make ends meet on that wage. By the time you pay your rent, groceries and bills, if you can pay them, there's hardly anything left. If my kids want shoes or to go to the pictures or even a new outfit, I have to tell them no a lot of the time and you can see the really disheartened looks on their faces. With Christmas around the corner that will be a struggle as well. They won't get much, maybe one gift each, if that. My son gets one shift a week at his part-time job and sometimes, I have to borrow that money, just for school lunches. I pay him back when I do get paid and sometimes that's a struggle. Just trying to have enough money for food and essentials plus keeping up with the rent on \$16 an hour is pretty

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<sup>37</sup> Louise Tarrant, 'Working Harder comes at a Cost,' *Sydney Morning Herald*, 8 July 2011

<sup>38</sup> ACTU (2011), *Submission to Annual Wage Review 2010-2011*, 18 March 2011 p.134

<sup>39</sup> Suncorp (2010), *Suncorp Life Confidence Index*, September 2010

<sup>40</sup> RBA (2011), *Household Finances – Selected Ratios*, (B21), <http://www.rba.gov.au/statistics/tables/>, viewed 2<sup>nd</sup> September 2011

<sup>41</sup> Suncorp (2010), *op. cit.*

hard. It's depressing – you get really down and upset. You feel like there's no way out of the cycle. You don't know if the future is going to be better.

*- Ruth Sorbello, New South Wales shopping centre cleaner*

Furthermore, many cleaners cannot even rely on their employer to abide by the minimum conditions stipulated in industrial legislation. The most common complaint made by cleaners is that they are not paid on time, not paid for the hours that they work, are consistently underpaid or that their superannuation contributions are incorrect or have not been paid at all.<sup>42</sup> It is a basic right of all workers to expect to be paid correctly and on time for the work they do. Any delays in pay place additional burdens on cleaners, who are often already struggling to make ends meet. The retail cleaning industry has been pushing cleaners to the limit, increasing workloads, shaving hours, cutting supplies and failing to replace staff members who leave or are on leave. As mentioned previously, this not only impacts on the customer experience and desire to shop, but the gains are short-lived.

Alongside the problems associated with legitimate contractors, there is also a high proportion of sham contracting arrangements in the industry, with cleaners often being paid cash in hand or asked to sign ABN forms so that contractors can undercut minimum rates in the Award. United Voice is concerned that the retail industry's push for more "flexibility" will be seen by other employers in the retail sector as a green light to push their own brand of "flexibility", resulting in an even more precarious workforce. Whilst all of these strategies are clearly designed to undercut the price of labour, aside from being unethical and illegal, they also contribute to so-called "productivity gains" in the sector. If this is how as a society we assess the "productivity" of our industries, then it is a slippery slope indeed that we are on, with the endpoint more closely resembling slavery than the dignity of paid work.

The ideological underpinnings of this pursuit of so-called "productivity gains" are the same as those that underlie the broader trend in the shifting of risk from business and government to individuals. Changes within the industrial landscape have allowed businesses to pass on risk to their workers by making work more "flexible" and precarious and through eroding hard-won protections such as sick leave, minimum hours and penalty rates. At the same time, this trend has been coupled with the privatisation and deregulation of government run services, meaning that the lowest paid of Australia's workforce have even less recourse to a basic standard of living and social safety net. United Voice believes that this "risk shift" contributed significantly to the 2008-09 global financial crisis and the current global economic instability, particularly with respect to excessive concentrations of private wealth coupled with soaring household debt and borrowing levels. There comes a point at which narrowly defined productivity gains have the potential to morph into massive economic losses; a little bit of foresight could prevent this from occurring in Australia.

An example of how this risk shift plays out can also be seen in the retail cleaning industry. Department stores and owners of shopping centres contract out their cleaning services because they do not believe that maintaining a clean and safe shopping centre is part of

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<sup>42</sup> In the last 12 months alone, United Voice has received hundreds of reports of payment violations in the retail cleaning industry from organisers out in the field and through our Member Services Centres.



their “core” business. They then use “service providers”, in this case cleaning contractors, to perform this work. This allows retailers and shopping centre owners to maintain control over every aspect of how the cleaning is performed at the centre (including the number of cleaning hours), whilst at the same time shifting responsibility for the performance of the contract, delivery of particular standards and conditions of work to the service provider. The responsibility for managing public liability has also gradually been shifted on to cleaning contractors over the years. Shopping centre cleaning contracts are performance based contracts and do not reflect the actual work and cost required to maintain a store or shopping centre to a particular standard. In fact, in recent years although contract specifications and cleaning input costs have increased, the actual value of cleaning contracts has come down. With profits margins in retail cleaning already low, this has simply resulted in additional responsibilities and risks being shifted on to cleaners, which has manifested in a reduction in hours, intensification of work and poverty wages.<sup>43</sup>

This shifting of risk also manifests as pressure on retailers to pay more rent. Whereas shopping centre cleaning costs have decreased, rents have increased dramatically in recent years.<sup>44</sup> Arguably, the market has set rents at an appropriate level, with shopping centres remaining almost at full capacity (with a vacancy rate of just 1% at the end of 2010).<sup>45</sup> However, if this pressure on rents continues, it will no doubt erode retailers’ profitability. It would seem that rather than simply focusing on the role of wages in fuelling cost pressures in the retail industry, other critical cost areas such as rents should be given equal consideration by the Commission.

Within this context, United Voice believes that the Productivity Commission needs to pay more attention to the broader social and political implications of its role within the Australian economy. As a society that values the contribution of both employers and employees and that embraces the notion of egalitarianism and a “fair go”, we need to reflect more on what productivity really means and for whom. We urge the Commissioners to adopt a more critical approach to the evidence provided by the major retailers and industry groups and to consider the wider implications of their final recommendations regarding the wages and working conditions of retail sector workers.

If the drive for ever more productivity, growth and competitiveness simply results in businesses pushing costs down by eroding real wages, workers will have even less

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<sup>43</sup> Moreover, several cleaning contractors have gone into receivership based on this unsustainable business model, with the largest collapse being retail cleaning company Reflections Group last year, which subsequently resulted in cleaners losing many of their entitlements (including wages, superannuation, annual leave etc).

<sup>44</sup> This is perhaps best demonstrated by the recent interim results published by Westfield, which showed that rents charged to specialty tenants grew 4.3 per cent over the first six months of the year. See Westfield (2011), *Westfield Group Half Year Results*, 30 June. Moreover, rents in super-prime Australian CBD retail locations are now amongst the highest in the world, with 3 Australian cities ranked in the top 10 most expensive retail markets. See Urbis (2010), *Urbis Retail Perspectives*, November; Jones Lang LaSalle (2011), *Shopping Centre Investment Review*, March; and ‘Retail rents soar down under’, *Inside Retailing Online*, 17 November 2010

<sup>45</sup> This figure is for the larger regional shopping centres, which make up the majority of space (and sales) in the sector. As noted by the Productivity Commission in Appendix F of the draft report, reliable data on vacancy rates is only publicly available for shopping centres (in aggregate format), selected “high street” retailers and selected bulky goods sites. Vacancy rates tend to be marginally higher in the smaller subregional and neighbourhood centres (around 3 per cent and 5 per cent, respectively, in 2010).

discretionary income to spend. Yet, these are the very same people the retail sector counts on as consumers and relies on to go out spending in their shopping centres, if consumer confidence is to be kept up and the economy is to be kept humming. If governments and businesses do not come to terms with the risk such inequality poses we will face serious social, political and economic consequences in both the immediate and long-term future of this country. We need the commercial world to understand that the best way to create effective, productive and sustainable businesses is to “deal-in” their workforce. Organised labour has an important role to play in the modern economy. Workers can be keen and proud contributors to their enterprise when they are respected, given a real say and treated fairly.