

Dear Mr Weickhart and Ms Sylvan,

Please find below a discussion on various points following the enquiry at the Productivity Commission last week. Please note that some of the below points may overlap with some things which I spoke about at the enquiry.

Regular misinformation on overseas price differentials

When I saw the "85% average retail mark up" on electrical and electronic goods in a newspaper article in The Herald Sun I contacted the reporter. He said it was from a very authoritative source, The Australia Institute. I said on average it was less than half that and easy to prove. He was not in the least interested and treated TAI as gospel. (See attached for Herald Sun newspaper article)

I pointed out the 100% differential on the Sony BRAVIA television quoted in The Australia Institute report (see attached) was more like 25%, and since the US sold about 15-20 times as many, it wasn't hard to understand. Evidence of this can readily be provided.

I then contacted the TAI on the same day. TAI asked for details, but once I provided them I couldn't get a response.

I thought picking a common popular price range Plasma would be illustrative. Please see below for links to different prices in different countries for the same category model of Panasonic 50" Plasma:

UK - <http://www.calibex.co.uk/Panasonic-TX-P50C3B-50-1566375732/ukc2/prices.html>

FRANCE -

https://www.amazon.fr/s/ref=nb_sb_noss?_mk_fr_FR=%C5M%C5Z%D5%D1&url=search-alias%3Daps&field-keywords=50+Panasonic+plasma+720+p&x=18&y=19

GERMANY -

http://www.ssv.de/l/50%20Zoll%20Plasma%20Panasonic?w=ga_de_1&matchtype=b&cid=5336863314&_sja=cgid:2036761397|tsid:31851|cid:65811317|lid:11616704160|nw:search|crid:7845918077|bku:1&qclid=Cly09bOvlqsCFaJV4godxigBtA

AMERICA - http://www.onecall.com/search/Panasonic/HDTV-Plasma-Televisions/_/N-1065+230

AUSTRALIA - <http://www.harveynorman.com.au/product/1256976056122/panasonic--high-definition-plasma-tv>

The models are made to conform with local requirements such as voltage et cetera but are in a real sense the same.

As you can see, the Australian prices were in the lowest category once you count local taxes in America, and were also substantially less than some UK, French and German prices. I'm not trying to prove that Australian prices are always lower but that there isn't this large price differential so often talked about in media in this category, which is an important one as people love their TVs.

I contacted one of the media people who has asked me about the subject and he wasn't in the least interested - I can understand from a media point of view it's not as exciting as super low prices overseas.

Australian retailers as compared to the overseas Internet

It is easy to find examples of where prices are cheaper on the Internet overseas, especially amongst DVD's, books, clothes and so on. It is also easy to find prices that are similar or even less in Australia than overseas. But this does not fit in with the consistent retailer bashing that is found in the general media. Retailers vary a lot but their consistent portrayal as behind the times, stupid and greedy in comparison to overseas Internet purchasing is prejudiced and unfair.

I looked at the 14 out of 50 shops vacant nearby. My area in Bridge Road, Richmond 3121 opposite Epworth Hospital was a very popular one and it was rare to see any vacancies. I doubt if the shop proprietors will be moving to much lower cost premises in say Broadmeadows or Sunshine. I can understand Darwinian logic being applied to retail. There are a far, far greater number of consumers who want to buy at lower costs than retailers. Sad stories of retailers having to close down don't meet the media sympathy requirements.

Look up a broad range of normal washing machines, dishwashers and refrigerators. When you move into these items you will find Australian prices are not so different to overseas prices (without needing to get into discussions on freight).

It would be simple to go through examples in many categories if this is required.

The point it illustrates is Australian retailers pricing in very many areas is not so different to those in other countries.

The standards of Australian retailers and websites varies just as in other developed countries. We have our own very good examples matching world standards. Try looking up websites in the United Kingdom, France, Germany and Canada. They have plenty of lower standard examples. There is only one Amazon.com in the world so don't expect a matching one in Australia.

Picking selective examples doesn't assist in understanding the realities.. It is complex and there is no way to find simple answers resulting in simple solutions.

Servicing overseas equipment

Why the model of servicing equipment bought in from overseas wouldn't work as a profit centre in our category and in the others we know of:

1] Us doing it for our products

- a. A great number of dealers would desert us. They tell us over and over not servicing is a big deterrent for many people who would otherwise buy online.
- b. We would have to charge a lot . The situations can get very complicated messy and expensive. Eg it is not suitable for the use it was sold for. We would regularly be accused of being greedy/rapacious which is very bad for the reputation.

2) An independent doing it as a business. We carry well over \$140, 000 of parts many of which will never be used. We can't accurately predict the future.

Hypothetically, an independent repairing a wide variety of equipment would need hundreds of thousands of dollars worth of parts to cater for odd occasional repairs, the number of which can't be predicted.

I can't see a case can be made for such a business commercially.

Customs duty

A number of our dealers have contacted me with real-life examples of people understating, but I can't use their material because of privacy requirements. One in particular stood out. A \$ 28,000 [price in Australia] for very small loudspeakers brought in without GST and 5% duty. As an estimate I would say around \$3000 GST and duty lost.

The material on the following forum is in the public arena with the advice on how to avoid GST and duty. Please follow this link for an example of this - <http://forums.whirlpool.net.au/archive/1341337>

Somehow customs duty which can range from 5% on some of the type of goods, we handle to 10% (as advised by our custom agent) on some other products doesn't seem part of the debate. So the amount foregone can be 15 – 20%. I haven't seen the calculations purporting to show it is uneconomic to collect GST and duty so I could comment further assuming they were made available.

The "too expensive to check shipments "

I bring in vitamin supplements as do many. I regularly have them examined by Customs. In a recent shipment of 32 items a bag of Xylitol was seized (it is available in health food stores over the counter in Australia). Somehow someone had time to go through the 32 items and check a ordinary item then go through the complex examination procedures.

If anyone wants to bring in drugs or forbidden supplements etc – bring them in clothes or loud speakers would be seen as an option as who checks? From the public's point of view nothing is checked in such items. After all, they have been told its too expensive to check.

What some people do in the cases where the original manufacturer won't send to Australia is to get a local shop or a friend to buy for them and to understate the value. Some people purchase when they are on an overseas trip. In this case the GST and duty saved could be a few thousand dollars.

Below is an e-mail from one of our dealers in Australia.

The are a small loudspeaker which no one in the Customs Department will have heard of. These were the sort of cases decades ago when the Customs Department would ring me and no doubt others to find out the value. It no longer happens of course.

The following e-mail received Monday is edited for privacy reasons. We have completely deleted the details of the customer. We have had many communications along similar lines.

From: J <j.....@.....com.au>

Date: 8 September 2011 10:29:13 AM GMT+02:00

To: Michael..... <.....@internationaldynamics.com.au>

Subject: FW:

Hi

Here is one customer we spend time with below my email

He wanted to import a 28k speaker and insure for 800 so as to avoid tax

And I know many others that do this

I have such customers every day

Just wasting time

But needing to know what they want to purchase before preceding

So now high end sales are 2 in 10 demonstration against 6 out of ten

With the margin income the same but the \$ income shrinking by 30% and cost continually increasing you can not cover costs

Also customer know that the can spend time to evaluate without commitment

Seems if you purchase a house and car you get 30 minutes

But to purchase a 599.00 phono stage you can take 2 days and than offer 450.00 to match an internet sellers price

First time I told a customer to get out

The excuse of costing too much to collect is rubbish

As soon as Customs announces the collection the amount of private imports will drop on lower cost items

If the Banks and electricity companies as well as toll road providers can chase you for just a few \$ so can customs

In some countries they just charge a flat \$90.00 custom fee

If this was done here 70 % of smaller imports will stop

And customs has all products imported on file so it would be easy to confirm values

But it is to show that not all consumers will declare the real value

I actually believe a large % is not declaring the value

As I have many customers that after wasting my time tell me they imported it cheaper as it is so easy to avoid Duty and GST

This is just one such example

The will of course tell you that we are only a small part of the retail business and it is not worth the time to collect \$ because of a few HIFI shops

Their idea is that if all of us disappear the consumer will spend his \$ on something else

And so it is no loss as far as they are concerned

Regards

J...."

Tax rates

(Please see attached for 2 newspaper articles from New York Times and see my comments below)

Other states can have higher tax rates.

These are levied on the retail prices while the GST is on the wholesale prices so comparing as a proportion of the retail prices the California tax would be similar or a little more than the 10% GST in Australia.

Variability of TV margins

Selling LCDs would be a substantial loss in terms of average overheads for most independent dealers. Specialist dealers would make a GP overall of 5 - 10% on major brand LCDs. This is readily provable.

Dealers would make a much higher GP on items such as loudspeakers and this would be very variable.

I realise your problems in coming to conclusions about such a mix of situations.

Though truthful, my mention of 300 dealers in a financial sense overstates the situation. We follow Pareto's Law and a much smaller number of dealers give us most of the business. With present trends we think the numbers will shrink even more.

If you would wish any further information on any point please don't hesitate to ask.

Regards,

Alex Encel