

Australian Government Productivity Commission.

Costs of Doing Business : Retail Trade Industry.

Submission by Frontline Hobbies Pty Ltd, Colin Scott Managing Director.

The costs involved doing business in the retail trade within Australia today are on an upward spiral which results in diminished profits, reduction in the workforce and rampant apprehension about the future.

Costs relating to labour, energy, taxation, superannuation, tenancy and regulatory compliance increase every year, yet gross profit margins cannot keep pace.

Australian retail trade and industry in general cannot hope to compete in the world market place with these huge costs imposed upon us.

Labour: Each year the minimum wage increases impacts on higher wages, higher penalty rates, higher superannuation and regulatory compliance costs to business. ***The minimum wage in Australia is so far ahead of the rest of the world it is inconceivable to them, in most cases practically double.*** Recent increase in retail penalty rates, lowering the adult entry wage level to 20 year olds and Australia slips further into an uncompetitive state. The push by unions to take this a step further and introduce adult rates of pay for 18 and 19 year olds will exacerbate the youth unemployment numbers and again by default increase the cost to doing business. It is at best an ill-conceived policy and could be the straw which breaks the camel's back.

A recent article in the UK press <http://www.theguardian.com/money/2012/oct/26/how-good-britain-minimum-wage>

gives a comparison between leading industrial nations which highlights this. *A printout is attached as Appendix A. Appendix C shows the growth in the minimum wage.*

Penalty rates must be reduced for Australian retail to be competitive around the world

Labour costs and penalty rates need to be reduced or capped now and any future superannuation increases be offset against these costs before it is too late.

Superannuation: Australia is the only country in the world with such a long history in employer paid compulsory superannuation. The UK are only now considering such a scheme to be phased in by 2018, capped at 8%, with a contribution ratio employer (4%), employee (3%) and government (1%). Hong Kong has a scheme in planning with 5% split equally between employee and employer. Australia is on a heading for 12% fully paid by employers, again, grossly uncompetitive with the rest of the world.

The Superannuation Guarantee Act 1992 stipulates minimum earnings of \$450 gross per month as the entry level threshold for employers to pay employees' superannuation contributions. ***This threshold has not changed for twenty two years, has not kept pace with wages or been indexed.***

Using an average 3% wage increase compounded over twenty two years, an updated threshold would be around \$900. *See Appendix B for calculations.*

Superannuation contribution costs need to be at least shared between employee and employer to reduce the cost of doing business.

Taxation: Payroll Tax, ***a tax for employing people***. Although on a small percentage fraction annual reduction does not keep pace with increased wages and super. In NSW the 5.45% on total wages (Super included) and threshold of \$689,000 annual wage cost to companies is a regular monthly red tape recording cost burden. Couple this with Compulsory Workers Compensation reporting and other government regulatory forms and business is swimming in red tape.

The Threshold equates to a small business employing ten to twelve people across a spectrum of wages. So the Threshold is very easily reached by the majority of businesses. It is very similar in all States.

The Threshold needs to be raised to at least \$1 million if not scrapped altogether.

LVIT (Low Value Import Threshold): The \$1,000 free threshold for imports into Australia added to very high Australian wages, penalty rates, compulsory rising superannuation, Payroll Tax, Workers Compensation payments all hinders the retail trade to make a living profit.

The LVIT needs to be in line with the rest of the world at around \$30 as requested by Mike Baird when he was the NSW Treasurer.

Retail Price Comparison: To better understand the disparity in world retail prices compare apples with apples, in this case a Hornby Model Railway Set, The Flying Scotsman. It retails in the UK (Made in China) at 99.99 GBP (AUD rate 0.55) or AUD181.80. <http://www.hornby.com/shop/sets/?page=2>

In Australia, imported from China, the national distributor sells to the trade at \$170.00. To be as competitive as possible, Frontline Hobbies retails this at \$249.99, <https://www.frontlinehobbies.com.au/categories/G/G/G01/G01B?Analogue%20Sets>

a mark-up of only 33% plus GST. This is a gross Profit of 24%. Frontline Hobbies requires closer to 40% GP to meet costs.

Summary: Australian retail trade is so disadvantaged the industry will follow the path of the now defunct manufacturing industry and gradually die if the ever increasing wages and on costs are not reigned in. Manufacturing is a cot case because as a country we could not compete in the world market due to a pampered workforce.

Why would a small business such as mine (Employing 30 people) continue to operate keeping workers in a job when the rewards continue to diminish because of the cost to doing business?

Why would such a business bother to enter a submission if it did not hurt trying to compete in the market place because of the costs involved being so out of step with the rest of the world.

Look at the facts.

21/04/2014. Colin Scott

If the Commissioner and the PC commission wishes to discuss the submission further with me, I can be contacted on.....

Background:

Thirty five years in retail.

Founder and Managing Director of Frontline Hobbies, Australia's largest hobby retail store.

Founder and Managing Director of Hobbies Australia, Australia's leading wholesaler/distributor.

Founder and Managing Director of Casey's Hobbies, Central Coast NSW.

Founder, Victorian Hobby Centre, Swanson St, Melbourne CBD.

Vice President and Board Member Australian Retailers Association.

Board Member, Australian Toy Association.

Appendix A

Britain's national [minimum wage](#) went up by 11p to £6.19 – but it's still only middling, at best, compared with most other developed countries, and younger workers will see no increase. The new rates, which depend on age and whether the worker is an apprentice, are:

- **£6.19 per hour**, up from £6.08, for workers aged 21 and over – a rise of 11p.
- **£4.98 per hour** for 18- 20-year-olds – no change.
- **£3.68 per hour** for 16- 17-year-old workers above school leaving age – no change.
- **£2.65 per hour**, up from £2.60, for apprentices - a rise of 5p.

If you think that you should be getting the minimum wage but are being paid less, you can speak to your employer or call the [pay](#) and work rights helpline on 0800 917 2368 for confidential advice.

Australia now has the world's highest minimum wage, at over £10 an hour. Even in Ireland, battered by recession and bank debts, it is £7. But Britain is far ahead of the US, where it is just over £4.50, although individual states may have higher rates. Germany, meanwhile, has no minimum wage, with many workers earning less than £5 an hour.

How the nations compare

	Hourly rate		PPP	Last uprated	increase 2010-2011	Age full min. wage applies
	National currency	Sterling				
Australia	AU\$15.51	£10.05	£7.73	Jul-11	3.4%	21
France	€9.19	£8.01	£7.86	Dec-11	3.7%	18
Ireland	€8.65	£7.54	£6.86	Jul-11 ³	0%	20
Netherlands	€8.28 ⁶	£7.22	£7.37	Jul-11	1.3%	23
Belgium	€8.17	£7.12	£6.98	Sep-10	0%	21
New Zealand	NZ\$13.00	£6.69	£6.31	Apr-11	2%	16
Canada ¹	C\$9.80	£6.20	£5.90	Dates vary	7%	16
Japan ⁴	JPY737	£6.08	£4.83	Oct-11	1%	15/18 ⁵
UK	£6.08	£6.08	£6.08	Oct-11	2.5%	21
US	US\$7.25 ⁸	£4.59	£5.67	Jul-09	0%	20
Greece ²	€4.20	£3.66	£4.16	Jul-11	1.7%	25
Spain ⁷	€3.70	£3.23	£3.62	Jan-11	1.4%	16
Portugal ⁷	€2.80	£2.44	£2.87	Jan-11	2.2%	16

Notes: ¹ Weighted average of provincial/territorial rates. ² For blue collar workers. ³ The hourly min. rate was reduced from €8.65 to €7.65 for adult workers on 1 Feb 2011 but that reduction was reversed and the hourly rate went back up to €8.65 on 1 July 2011. ⁴ Weighted average of prefectural rates. ⁵ Age 15 to receive regional minimum wage. Age 18 to receive sectoral minimum wage. ⁶ Excludes 8% supplement for holiday pay. ⁷ Not including annual supplementary pay of two extra months of salary for full-time workers. ⁸ Federal minimum wage. Tipped employees receive a lower minimum wage of \$2.13 per hour in direct wages.

Source: Low Pay Commission.

The table (above) shows the adult minimum hourly rate in each country at the end of 2011 in the national currency and in UK Sterling using the September 2011 exchange rate. It then shows PPP of each rate.

The Low Pay Commission points out that, when both exchange rates and PPPs are taken into account, our minimum wage remained, as in 2010, in the middle of the range of country rates. In PPP terms the UK rate was broadly similar to New Zealand and Canada, above countries such as Spain, the US and Japan, but well below others such as Australia, France and Belgium.

APPENDIX B:.....

The Superannuation entry level threshold introduced in 1992 was \$450 gross earnings in any month. The table shows “What if” the threshold kept pace with an average opf only 3% pa.

Superannuation
Contributions Threshold
started at \$450 p/m 1992

		3% av
1992	450.00	463.50
1993	463.50	477.41
1994	477.41	491.73
1995	491.73	506.48
1996	506.48	521.67
1997	521.67	537.32
1998	537.32	553.44
1999	553.44	570.05
2000	570.05	587.15
2001	587.15	604.76
2002	604.76	622.91
2003	622.91	641.59
2004	641.59	660.84
2005	660.84	680.67
2006	680.67	701.09
2007	701.09	722.12
2008	722.12	743.78
2009	743.78	766.09
2010	766.09	789.08
2011	789.08	812.75
2012	812.75	837.13
2013	837.13	862.25
2014	862.25	888.12



APPENDIX C....

The History of National Wage Increases is taken from The Workplace Information Website

<http://www.workplaceinfo.com.au/payroll/wages-and-salaries/history-of-national-increases>

To understand the comparison with the minimum wage in 1992 to date, and the superannuation entry level threshold of \$450 gross in any month, it is obvious the 1992 figure (\$450) is grossly out of kilter with today's wages. In 1992 the minimum was \$320pw, now it is \$622.

History of national increases

The table below summarises the wage increases granted through National Wage Cases and other federally centralised wage adjustment decisions since 1975.

The increases noted provide a reference point/benchmark for wage increases in Australia.

When assessing the long-term changes to Australia's wage regimes or attempting to appreciate the wages scenario in Australia, these figures serve as a good starting point.

The effective date is that indicated in the National Wage Case or, if a month only is noted (not a precise day), then the effective date is as specified by the tribunal when the particular award is varied following the National Wage Case.

Year	Effective date — Increase in award wages provided by National Wage Cases
1975	15/5/75 — full indexation of 3.6% 18/9/75 — full indexation of 3.5%
1976	15/2/76 — full indexation of 6.4% 15/5/76 — 3% to \$125 per week then flat \$3.80 increase 15/8/76 — \$2.50 to \$166 per week then 1.5% increase 22/11/76 — full indexation of 2.2%
1977	31/3/77 — \$5.70 flat amount 24/5/77 — 1.9% up to \$200 per week then flat \$3.80 increase 22/8/77 — 2% (partial indexation) 12/12/77 — 1.5% (partial indexation)
1978	28/2/78 — 1.5% (partial indexation) to \$170 per week then flat \$2.60 increase 7/6/78 — full indexation of 1.3% 12/12/78 — full indexation of 4%

1979	27/6/79 — 3.2% (partial indexation)
1980	4/1/80 — 4.5% (partial indexation) 14/7/80 — 4.2% (partial indexation)
1981	9/1/81 — 3.7% (partial indexation) (new principles - from 7/4/81) 7/5/81 — 3.6% (80% of CPI) (31/7/81 — existing indexation system abandoned - then in September 1983 half-yearly indexation introduced)
1983	6/10/83 — full indexation of 4.3%
1984	6/4/84 — full indexation of 4.1%
1985	6/4/85 — 2.6% (adjusted over two quarters) 4/11/85 — full indexation of 3.8%
1986	1/7/86 — 2.3% (discounted for devaluation; note als provision for superannuation)
1987	(10/3/87 — two-tier approach adopted — first tier being a general wage increase) 10/3/87 — \$10 as first tier; 1/9/87 — 2% as second tier; 1/7/88 — another 2% if second tier arbitrated
1988	5/2/88 — \$6 per week flat amount (12/8//88 — structural efficiency principles introduced) 1/9/88 (or after) — 3% flat increase; then \$10 no earlier than 3% increase
1989	(25/5/89 — guidelines for restructuring federal awards introduced) 7/8/89 (or later) — 3% — then another 3% no earlier than six months after the first increase

1991	(16/4/91 — new structural efficiency principle and new wages adjustment principle adopted) 16/4/91 — up to 2.5% from date of aw variation (not before 16/4/91 — conditional on structural efficiency principle being met) (30/10/91 — enterprise bargaining introduced as alternative to centralised system)
1993	1/12/93 — increase of \$8 per week in supplementary payments to minimum rates awards
1994	(16/8/94 — statement of principles re enterprise bargaining with safety net from 1/7/96) 21/9/94 — two safety net adjustments of \$8 per week each from 21/9/94 and 22/9/95
1995	October 1995 — third safety net adjustment of \$8
1997	April 1997 — \$10 per week safety net adjustment and fed min wage set at \$359.40
1998	April 1998 — \$14 pw re aw rates to \$550 pw; \$12 pw re aw rates over \$550 to \$700 pw; \$10 pw re aw rates over \$700 pw
1999	April 1999 — \$12 pw re aw rates to \$510 pw; \$10 pw re aw rates over \$510 pw
2000	May 2000 — flat \$15 pw re aw rates; fed min wage increased to \$400.40
2001	May 2001 — \$13 pw re aw rates to \$490; \$15 pw to aw rates over \$490 to \$590; \$17 pw to aw rates over \$590 pw; minimum wage increased from \$400.40 to \$413.40
2002	May 2002 — \$18 pw to award rates; minimum wage increased from \$413.40 to \$431.40
2003	May 2003 — \$17 pw to award rates up to and including \$731.80 pw; and \$15 pw increase to award rates above \$731.80 pw — from a date no earlier than 12 months after the increase provided for in the May 2002 decision. Federal minimum wage for full-time adult employees of \$448.40 pw

2004	May 2004 — \$19 pw to award rates — proportionate adjustment for non-adult award rates — from a date no earlier than 12 months after the increase provided for in the May 2003 decision. Federal minimum wage for full-time adult employees of \$467.40 pw
2005	June 2005 — \$17 pw to award rates — proportionate adjustment for non-adult award rates — from a date no earlier than 12 months after the increase provided for in the May 2004 decision. Federal minimum wage for full-time adult employees of \$484.40 pw
2006	October 2006 — effective from 1 December 2006 — On 26/10/06 the Australian Fair Pay Commission (AFPC) handed down its first decision on minimum wages for employees covered by WorkChoices. It awarded a \$0.72/hour increase to existing minimum adult rates up to and including \$18.42/hour and \$0.58/hour for rates above that. The minimum adult rate, except for those on special rates, was set at \$13.47/hour
2007	July 2007 — effective from 1 October 2007 — On 05/07/07 the Australian Fair Pay Commission (AFPC) handed down its second decision on minimum wages for employees covered by WorkChoices. It awarded a an increase of \$10.26 per week (\$0.27 per hour) to the standard Federal Minimum Wage (FMW) bringing the weekly rate to \$522.12. The standard FMW increases from \$13.47 to \$13.74 per hour, an increase of approximately \$10.25 per week (\$0.27 per hour) in all adult Pay Scales that currently provide for a basic periodic rate of pay up to the level of \$700.002 per week, and an increase of approximately \$5.30 per week (\$0.14 per hour) in all adult Pay Scales that currently provide for a basic periodic rate of pay above \$700.004 per week
2008	July 2008 — effective from 1 October 2008 — On 08/07/07 the Australian Fair Pay Commission (AFPC) handed down its third decision on minimum wages for federally employees covered and increased the standard Federal Minimum Wage (FMW) and all Australian Pay and Classification Scales (Pay Scales) by \$21.66 per week. The standard FMW has increased from \$13.74 to \$14.31 per hour. The increases apply from the first pay date on or after 1 October 2008
2009	Australian Fair Pay Commission (AFPC) granted no increase in its decision of 7 July 2009 and maintained the standard Federal Minimum Wage (FMW) at \$14.31 per hour (\$543.78 per week); and maintained the adult rates of pay in Australian Pay and Classification Scales at their then current levels
2010	June 2010 (effective from first pay period on or after 1 July 2010) — On 3 June, Fair Work Australia handed down its 2010 annual wage review, increasing adult award rates by \$26.00 and the adult minimum wage by \$26.12, to \$569.90 (or \$15.00 per hour). Junior rates, training rates, including training wage rates, and piece rates vary according to the formula in the relevant award

2011	3/6/2011 (effective from first pay period on or after 1 July 2011), Fair Work Australia increased the minimum wage by 3.4%, or 19.40 a week, to \$589.30 a week, or \$15.51 an hour
2012	1/6/2012 (effective from first pay period on or after 1 July 2012), Fair Work Australia increased the minimum wage by 2.9%, or \$17.10 a week, to \$606.40 a week, or \$15.96 an hour
2013	3/6/13 (effective from first pay period on or after 1 July 2013), Fair Work Commission increased the minimum wage by 2.6%, or an increase of \$15.80 a week, to provide a minimum wage of \$622.20 a week, or \$16.37 an hour