

Costs of Doing Business: Retail Trade Industry

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Introduction

COSBOA focuses on the cost of doing business for small business. We focus not just on dollar costs but also on costs in time and stress for the small business person.

A small business is after all a person or maybe a couple but it is inherently different from big business where everyone is an employee and everyone gets paid for what they do.

There should be no expectation that a small business is just a smaller version of a big business. There should be no expectation that a small business person is just an employee of a landlord at their beck and call. There should be no expectation that a retailer can compete with large businesses fairly when costs are high and costs for the large businesses are low due

to their capacity to use their dominance not their better management skills or their better efficiency.

Our response is short but to the point – the biggest cost to small business in retail is to be found in rent, wages, training of employees and time spent doing compliance and paperwork.

Rent

There is no doubt that rent in Australia is too high and that is due to the domination of retail by a few large landlords combined with a failure to consider urban planning issues when assessing whether competition is fair and reasonable. As a result we have more and more local retail monopolies around Australia where the only viable place to open a business is in the large shopping mall and that provides the landlords with the opportunity to use their position to unfairly and unnecessarily increase rent.

The large landlords are mainly Westfields, Stocklands, Federation Centres (ex Centro) and the Queensland Investment Corporation (QIC) among others. They work closely with large developers to influence local councils to change regulations to suit their needs. If the council does not meet the needs and demands of the developers appeals will be made to state appeal tribunals and the large developers normally win.

The partnership between the landlords and Coles and Woolworths, who dominate retail, provides a perfect storm for small business who cannot compete giants large retailers when rents are so high. This must change.

Wages

The greatest issue to do with wages is the high penalty rates. COSBOA notes that recently the Fair Work Commission decreased penalty rates in the Hospitality Industry and we hope and expect that the same will occur in the retail sector. Currently penalty rates for Sundays are at least double time and penalty rates for public holidays are triple time. This makes opening a shop on those days a loss making event. Many businesses have had to close on those days. This is compounded by the domination of the landlords. These large landlords will force shop keepers to open on those days so that their shopping mall looks like it is busy. The shopkeeper is forced to either work seven days a week with a cost to health and family well being or to employ someone to work the week which creates a loss to the business and a decrease in their family income. This must change.

Training and skills development

In retail training of employees is a vital part of business. Customer experience is often about interaction with employees and therefore product knowledge, understanding supply processes and website activities become paramount.

On the important side of human resource management there is also training needed for safety, mental health issues, communications and technology usage.

The training sector in Australia is not cohesive and not consistent. Indeed many institutional training organisations provide training options that suit their needs rather than the needs of the small business, or they design training for big business and expect the same process and options to work for small business. It is also common for the training sector to blame the small business person if the training is not suitable or successful.

If the retail sector is to become more efficient than training needs to become designed for small business and more cost effective. On the job training, better use of technology, better understanding of different sectors and better support for the business owner is needed if costs are to decrease and better training experiences are to occur.

Compliance

COSBOA is working with various agencies to limit unnecessary compliance costs on small business people. For this particular issue the difference is that a small business does not have the experts that big business possesses but systems have been designed for big business and small business has been expected to fit in, that out dated approach is changing as policy makers and regulators start to better understand our needs and the effect on productivity of poorly designed policy and process.

But there still exists compliance that is unnecessary and detracts from good business.

Following are two example of that based on Paid Parental leave processes and the very flawed superannuation collection process that focuses on the needs of the very lazy and compromised industry superannuation funds.

Removing retailers from unnecessary compliance will decrease costs.

Remove employers from superannuation collection

In Australia there is a universal superannuation scheme where all workers have a compulsory superannuation payment taken from their pay and sent to a superannuation fund. The employer has to collect that money and send it to the relevant fund. If the employer does not collect the money then they are liable to a fine and penalties.

This imposes a great burden in time, complexity and costs on employers, particularly small businesses.

COSBOA is proposing that employers be removed from the collection of superannuation; that superannuation payments be included in PAYG processes and that the owner of the funds (the employee) and the Superannuation fund and the ATO manage the movement of funds to the fund of choice.

As an example (in round figures) currently if a person earns \$100k a year then the employer will pay them \$75k over 26 payments and send \$25k to the ATO in between 4 and 12 payments, the employer will also find another \$9250 and send that to a superannuation fund in between 4 and 12 payments. Under the COSBOA proposal the employer will pay the employee the \$75k and send \$34.25k to the ATO. No other payment will be required.

The compulsory nature of the payment process has also allowed the superannuation funds, in particular the industry superannuation funds which are the largest funds, to develop inefficient communications processes and apply threats on employers that have all the traits of scams operated by fraudulent internet companies.

There are over 12m employees and some 840k employers in Australia. About a third of employees in Australia have two jobs, and about a third change their job during a year. This creates an inordinate amount of paperwork.

In retail there are around 130,000 employers, there are almost 1.2m employees.

Payments to superannuation must be made monthly or for small businesses quarterly. Assuming that 90% of businesses are small we see that there are at least 1.5m employer transactions each month and over 14m transactions each quarter. If superannuation was placed into PAYG all this work would disappear.

These figures do not take into account the need to get details from each new employee of their superannuation funds and enter that information into software and lodge information with superannuation funds and government agencies.

The cost of processing superannuation for employers cannot be estimated but COSBOA has determined that the superannuation funds themselves will save over \$2 billion a year if employers are taken out of the collection process.

The retail trade will be more efficient if employers are removed from the superannuation collection process.

Paid Parental Leave demands that are not manageable

The current process for payment of Paid Parental Leave (PPL) places an unnecessary demand on business people. The current process:

- The eligible person (an employee) applies for PPL
- This application is assessed by Centrelink
- If approved the PPL allowance is sent to the person's employer to then pay to the eligible person
- A payment will appear in the employers bank account
- That payment is for three pay periods
- The employer has to then pay that money to the employee, who is on leave, and organise a pay advice etc
- Under normal accounting practices the employer has to bring that payment into the business's financial affairs through the chart of accounts and then out of the chart of accounts in a sensible way
- The employer has to determine how that income will be accounted for, it is not sales, a grant or a refund. The PPL payment will likely be placed in the line item "other" or a new line item PPL will need to be created.
- The employer then has to decide how to put that payment to the employee through the system. The natural decision would be to manage it through a pay run, that way a pay advice can be produced and the payment accounted for.
- Putting the payment through a pay run requires manipulation of the software to remove taxes, superannuation, leave calculations etc.
- If this is not done the Business Activity Statement (BAS) will be wrong as a BAS has an area for reporting gross wages and PAYG payments collected. This also means that the end of year payment summaries for tax returns will be wrong and superannuation information will be wrong.
- It is likely that superannuation funds will contact the employer to ask for payments. The ATO may consider the PAYG collected differs enough from gross wages that an investigation may take place.
- It is logical for an employer to put the payment through a pay run.
- This process assumes that all employers are software experts with a high level of accountancy skills
- This process also assumes that an accountant will quickly understand the impact of this process.

This process is in place as those making the policy decision want the employee to feel they are still part of their workplace. In small business you are either part of the workplace or you aren't – contrived process and government policy will not change that and indeed may alienate a person from the workplace.