

Submission to the Productivity Commission

Inquiry into the performance of the workplace relations framework

and Impacts of Sunday Penalty Rates



Prepared by the Hardware Federation of Australia
18 September, 2015

1.0 Overview

The Hardware Federation of Australia endorses the Productivity Commission's draft report on workplace relations, and particularly its observations on Sunday penalty rates. Feedback from our members and data from the industry lead us to support the thrust of the claims made by the Commission in relation to reducing Sunday penalty rates. Specifically:

- We believe employment opportunities on Sundays would increase if the proposals are adopted;
- We believe older and more experienced employees would benefit;
- We believe consumers would benefit in the long term; and
- We believe the failure to address the current issue of high Sunday penalty rates will lead to long-term damage to business and business failures.

This document provides relevant information on the current state of the Australian retail industry, with a particular focus on the sub-category of Hardware, Building and Garden Supplies.

2.0 Labour Productivity and Growth

The following analysis has been provided to the HFA through our affiliation with the National Retail Association.

Productivity is a key measure for any economy, as it indicates how efficiently inputs, such as labour and capital, are used to produce an output, such as a good or service. Further, productivity is also directly linked to living standards, with any increase in living standards almost entirely dependent on how well an economy can increase output per worker. Essentially, a productive economy means that more things can be produced in a sustainable manner.

Labour productivity, which is the value of output per hour worked, is a specific measure, which is central in determining wages, as the more productive an employee is, the more they can expect to be paid.

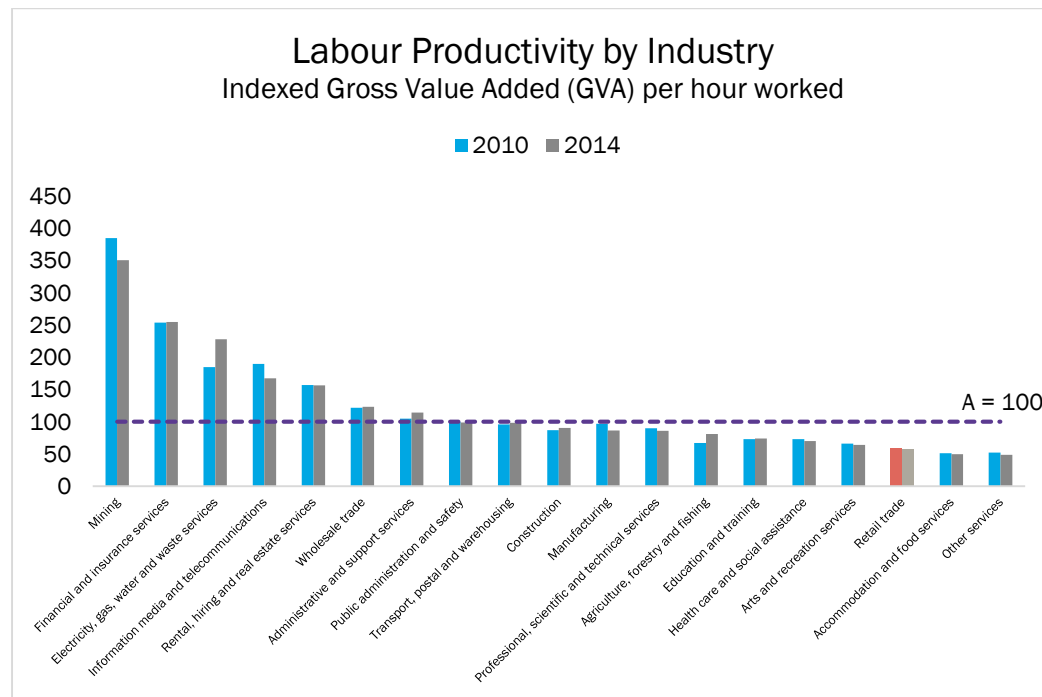
Labour Productivity is calculated as follows:

$$\text{Labour Productivity} = \frac{\text{Gross Value Added}}{\text{Total Hours Worked}}$$

Based on this equation, labour productivity has been calculated for the retail industry, as well as all other major industries in the Australian economy. The chart below displays labour

productivity by industry, in 2010 and 2014, calculated as output per hour worked, relative to the entire Australian economy (A=100).

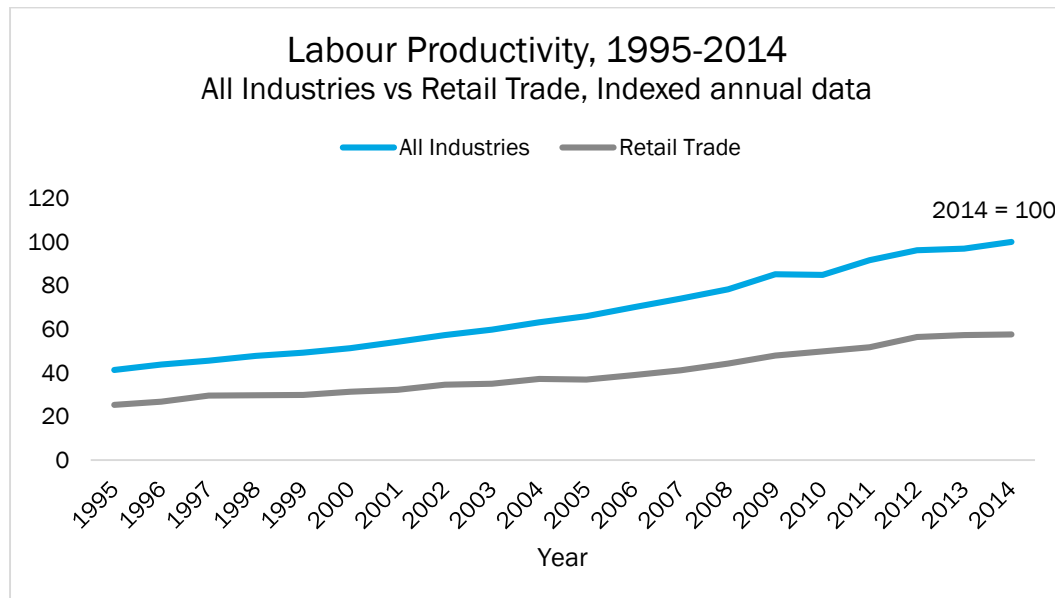
Mining has the highest level of productivity of any industry in Australia, and was 251 percentage points higher than the national average in 2014. Significantly, in 2014, the labour productivity of retail workers was 42 percentage points below the national average, making it one of the lowest performing sectors of the economy.



Source: ABS

2.1 Labour Productivity, Wages and Retail Trade

Since 1995, labour productivity in Australia has grown, on average, at 4.8 per cent each year, while retail trade has had an historic growth rate of 4.5 per cent. As indicated in the chart below, the lower long term growth rate in the retail industry, has a significant impact, when considered across a twenty year period.



Source: ABS

In particular, while retail trade was only 16 percentage points below all industries in 1995, in terms of labour productivity, this figure expanded to 42 percentage points by 2014. Essentially, this highlights the specific challenge of the retail industry, and its workforce, in terms of increasing productivity at rates similar to other industries, which would provide an economically sound justification for an increase in wages, consistent with the national average.

2.2 Low Productivity and Wage Increases

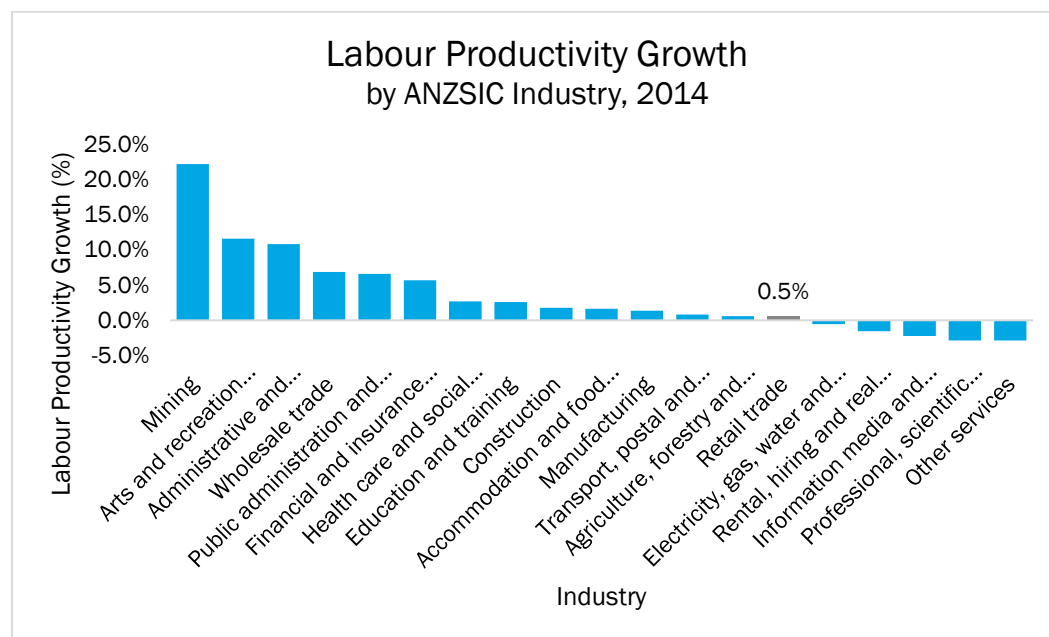
Baumol's Cost Disease¹ considers the occurrence of wage rises in industries that experience minimal, or no, labour productivity increases over time. Essentially, the effect highlights how industries, with little or no productivity gains, are pressured to increase wages, as a result of wage increases in industries that did experience productivity gains.

In the instance of the hardware industry, if a hardware store owner pays a store manager lower wages than the national average, the manager may be inclined to quit, and find employment

¹ See, for example: Baumol, W. J. (2012). *The Cost Disease: Why computers get cheaper and health care doesn't*. New Haven: Yale University Press.

in an industry with higher labour productivity, and therefore higher wages, such as mining. Therefore, any increase in the store manager wage does not occur because they have become more productive, but rather because of the external pressure that is generated by improved productivity, and associated wage increases, which occur in other industries.

Indeed, the chart below highlights that the labour productivity growth in the retail industry in 2014 was almost zero, with a growth rate of 0.5 per cent in 2014. This makes the retail industry one of the lowest performing sectors of the economy, in terms of labour productivity growth. It is argued that an industry, which has not achieved a significantly higher level of productivity in recent years, can justify, or sustain, an increase in wages at this time.



Source: ABS

2.3 Sunday Penalty Rates

Research conducted by the Hardware Federation of Australia, also indicates that the particular issues of Sunday penalty rates is also impacting the productivity of businesses in the industry, and Hardware, Building and Garden Supplies operators in particular. At present, almost one quarter (22.4 per cent) of Hardware, Building and Garden Supply businesses do not trade on Sunday, with a significant proportion of these businesses (39.1 per cent), doing so because it is not financially viable under the current wage arrangement. At present, many businesses within this sub-category of the retail industry indicate that the Sunday penalty rates present a significant barrier to the productivity and profitability of their business.

Analysis suggests that a significant proportion of Hardware, Building and Garden Supply businesses (64.2 per cent), would increase the amount of hours they offer current team members, if Sunday penalty rates were reduced from double time, to time and half. Further, more than half (51.8 per cent) suggested that they would employ additional staff if penalty rates were reduced on Sunday. Finally, for those businesses not currently trading on Sunday, 21.7 per cent that would commence trading on this day, if the penalty loading was reduced to time and half.

The significance of penalty rates is highly relevant to the hardware industry, especially given shifts in consumer preferences and lifestyles across the past twenty years.

2.5 Consumer Shopping Habits and Labour Demand

Research suggests that in the past twenty years, Australia has changed significantly, with profound shifts occurring in how people live their lives. In particular, the nation is increasingly cosmopolitan, defined by cultural diversity, with a desire for a more global approach to food, communication, recreation, and significantly, the retail experience.

Specifically, the preferred shopping day for many Australians is Saturday, although an increasing proportion of people indicate that Sunday is the day when they most like to shop². However, Australians are also opting for more frequent visits to retail sites, and supermarkets in particular. This is especially the case for families in which both parents work, and where children maintain a busy schedule across school and extra-curricular activities. Essentially, there is an increasing need for retail businesses to operate flexible trading hours, which are convenient to their customers, and issue that is as relevant for the Hardware, Building and Garden Supplies sub-category, as it is for any other sector of the retail industry.

An important aspect of convenience is that a store is open at a time and day when a customer prefers to shop³. As indicated above, Australians increasingly prefer to shop in the evenings, and on weekends, with Sunday becoming an increasingly popular choice for many customers.

² Quantum research

³ Ergas, H. (2014). *Economic Impacts of Deregulating Retail Trading Hours on Queensland's economy*. Unpublished manuscript.

Given the penalty rates that are currently applied to employing staff on Sunday, this has significant implications for the Australian retail industry.

A particular issue for the Hardware, Building and Garden Supplies sub-category is that many customers prefer to make their purchases at a bricks and mortar store, as opposed to online. Indeed, 73 per cent of all hardware customers make every purchase in store, as opposed to the industry average of just 61 per cent⁴. Further, 40 per cent of hardware customers do all of their product research in store, as opposed to 37 per cent for all other industries⁵. Therefore, unlike other sectors of the retail industry, where consumers are spreading the research and purchasing experience across a multitude of channels, Hardware, Building and Garden Supplies, continues to be a labour intensive sub-category, with a proportionately high level of customer interaction, at all stages of the sales process. Based on this evidence, hardware stores have a customer that has a preference to shop at non-traditional hours, but also highly values the personal experience and customer support, of researching, and purchasing their products in store. This presents a unique challenge for hardware stores in the digital age, as they are not capable of maximising the efficiency and productivity gains from omni-channel shopping because customers in this category still prefer purchasing directly from a bricks and mortar retail.

2.6 Elasticity of Labour Demand

The changing preferences and expectations of customers is having a significant impact on retail businesses, with retailers adjusting their hours of operation to cater for shifts in social and cultural norms. As indicated above, this means that retailers are needing to open on weeknights, and weekends, in order to provide goods and services at a time that is most convenient to customers. However, these preferred hours of trading are also subject to penalty rates, which significantly impact the capacity for retailers to employ team members, at times when the business is likely to be most productive.

In this instance, elasticity of labour demand suggests that an increase in wages, which is produced by penalty rates, will result in a reduction in labour demand. There is an indication that this occurs within the retail industry, with many employers and business owners, especially those operating small to medium enterprises, not opening at a times that incur penalty rates. Essentially, the costs associated with employing staff, during these times, negates the benefit of being open for trade, and selling goods and services. This means that the elasticity of labour demand is high within the retail industry, and this is particularly evident in trading hours outside of the traditional work day, which is 9am to 5pm, Monday to Friday.

⁴ Pricewaterhousecoopers. (2015). *Total Retail 2015: Retailers and the age of disruption*. Accessed from <http://www.pwc.com/gx/en/retail-consumer/retail-consumer-publications/global-multi-channel-consumer-survey/assets/pdf/total-retail-2015.pdf>

⁵ Ibid.

3.0 Workers' Attitudes

The Hardware Federation of Australia has a unique insight into the operation of a Sunday workforce. Hardware is a product that consumers expect to be able to purchase on weekends. And in the case of do-it-yourself home tradespeople, Sundays are the time they want to be able to drop into their local store for the products and parts needed for a home job.

For this reason, the workforce of hardware stores is both fully aware of and conditioned to the fact that Sundays are a standard work day. Indeed, many employees are attracted to this segment of the retail industry because of their ability to work on Sundays.

These people can include students, parents juggling child-minding responsibilities, those aspiring to managerial duties, and those seeking a second job to help with their finances. In many cases, these people are being denied opportunities because of the penalty rates associated with this work. It is our view that the penalty rates regime has ceased to be relied on as a safety net for these workers, and has instead become a financial and professional encumbrance.

The Hardware Federation of Australia, again through its affiliation with the National Retail Association, engaged Deloitte Access Economics to undertake a study of both workers and employers to gauge attitudes to working or operating a retail business outside of standard business hours. The research found:

- Different Australian workers have different preferences, with casual and part-time workers having a stronger preference for working Sundays. Many workers are willing to work atypical hours regardless of penalty rates;
- A strong desire to work hours that suit family or personal routines – e.g. 86 per cent of females aged 25-34 preferred evening or night work. Others (for example, university students) prefer to work on the weekends rather than during “standard” hours as it does not interfere with their other commitments;
- There is declining participation in historically typical weekend activities such as church attendance or weekend sports participation;
- A majority (54 per cent) of Saturday workers indicated they had either no problem or only minor problems with weekend work. A similar percentage of Sunday workers (53%) also reported no or minor problems.

4.0 Summary

The HFA contends that there is a large and growing section of the workforce and community that does not view Sunday as a special day, or one with any greater significance than Saturdays. Indeed, there are many who prefer to work on a Sunday due to reasons other than the current penalty rates. We further contend that this is particularly true in the hardware sector.

We fully support the Commission's suggestion of a single weekend penalty rate. In our experience, this would increase employment opportunities on Sundays, with more capacity for businesses to offer work to more experienced employees as well fostering additional employment opportunities. It would allow hardware industry business owners, to reduce their own involvement in their businesses. It would cut costs to consumers. And it would address a serious threat to the viability of the industry operators.

Given that modern consumers are wanting to shop at times when retail businesses incur penalty rates, it is extremely difficult for some employers and business owners in this industry to adequately accommodate the needs and expectations of their customers, while covering the increase in labour costs. Further, given the low levels of productivity in this industry, relative to other sectors of the economy, and the minimal levels of year-on-year growth to labour productivity, it would seem to be unreasonable to increase the wage costs for an industry which is one of the least capable of absorbing these changes.

The Hardware Federation of Australia endorses the observations and recommendations made in the draft report, and we encourage the Commission to carry these through to its final document. We look forward to prompt Government implementation of the recommendations.

5.0 About the Hardware Federation of Australia

The Hardware Federation of Australia and its affiliate State Hardware Associations are the lead not-for-profit industry organisation providing professional services to hardware and building supplies retailers and suppliers throughout Australia. Membership includes independent retail groups, Mitre 10, Home Timber and Hardware, Independent Retailers/Wholesalers and Trade businesses covering Timber, Garden and Building Supplies sectors as well as state and national supplier companies such as Dulux, Cement Australia, Assa Abloy Australia, CSR, Boral, Bostik, Cabots, Cyclone, ITW Proline, Mayo Hardware, Fletcher Insulation, WD-40, Wattyl, Rokset, Strikeforce to name just a few.

6.0 Contact Information

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