Submission to Productivity Commission

Inquiry into the Economic Structure and Performance of the Australian Retail Industry

26 May 2011

CHOICE exists to unlock the power of consumers. Our vision is for Australians to be the most savvy and active consumers in the world.

As a social enterprise we do this by providing clear information, advice and support on consumer goods and services; by taking action with consumers against bad practice wherever it may exist; and by fearlessly speaking out to promote consumers' interests, ensuring the consumer voice is heard clearly, loudly and cogently in corporations and in governments.

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Executive Summary

CHOICE's submission to the Productivity Commission discusses the changing face of retail, the significant pricing disparities between Australian and overseas prices and impediments to online retail.

Key points include:

- The **appreciation of the Australian dollar** is likely to be a significant contributor to why Australian consumers are shopping online, with the majority of online shoppers (81%) saying that price is the most important factor (based on a nationally representative survey conducted by Australia Institute (2011)).

- The perceived **poor online offerings of the larger bricks and mortar (b&m) retailers** have encouraged Australian consumers to shop at either Australian online retailers or international suppliers. CHOICE members have complained about b&m websites not having the full product range, prices, features allowing consumers to search the product range easily and/or, in some instances, the option to purchase the products online.

- For the Australian retailers that offer a competitive online website, there is a **significant opportunity to target Australians who prefer to buy locally**. The Australian b&m stores also have significant advantages over the 'pure play' Australian retailers (i.e. those that only sell online) if they decide to enter the online market. Research conducted for PayPal found almost a quarter of Australian adults only shop online with domestic websites, with one third believing it is 'safer to buy from Australia' and a similar proportion worrying about 'stories of fraud from overseas websites'.

- **b&m stores are also benefiting from the internet**, with consumers researching products before they go in-store to make purchases and/or interacting more with companies online. For retailers that integrate their online channels with their b&m stores, there is also an opportunity to receive more of the consumer dollar.

- Innovative retailers such as Apple and Nespresso recognise that their **b&m stores are not necessarily about a one-off transaction** but building a relationship with consumers.

- The **savings that Australian consumers can make by purchasing online from overseas suppliers far exceed the difference made by the exemption from GST for goods costing less than $1000 imported by individuals**.

- **The cost of the top 12 music albums (as at 28 April 2011) is on average 106% more expensive for Australian consumers** if they purchase it at JB Hi-Fi compared with the average price US consumers can pay at Amazon. Even if the album is downloaded over the internet, it is on average 73% more expensive for Australian consumers if they purchase it at the Australian iTunes store compared with the average price a US consumer could pay at the US iTunes store, despite being an identical product.

- **Australian consumers are able to save about 90%** on the price of Portal 2 for Xbox 360 and PlayStation 3 if they purchase the game from Play-asia.com rather than Dicksmith.com.au. Even with a delivery fee of US$15.40 for FedEx (which includes tracking and insurance), there are still significant savings to be made.

- **Companies are creating technological barriers to consumers attempting to purchase cheaper items online**. These include region coding, banning international IP addresses and credit card numbers and pushing consumers to 'local' websites by identifying the international IP address.

- **CHOICE believes that companies should not be able to unfairly use technological methods to price discriminate against Australian consumers.**

- **CHOICE believes that the prices for which products (and digital items particularly) are offered to Australian consumers should be similar to comparable countries**.

- It appears that **Australian retailers are not passing on to consumers (or not passing on in a timely manner) an adequate amount of the savings associated with an appreciating Australian dollar**. In 10 years, the median washing machine prices in Australia across the most popular capacities has remained steady ($1249 in 2000 compared with $1299 in 2011, not taking into account changes such as the cost of inputs to price or the price of other currencies where washing machines are bought), but the Australian dollar has appreciated by some 76% against the greenback, based on yearly averages.

- Research conducted by Australia Institute found the second-biggest factor stopping people from shopping online (after wanting to see things before purchasing) is **concerns about security** (23% of respondents). There is a significant degree of potential consumer detriment in the fact that consumers' details are able to be stolen (or there is a reasonable suspicion they may have been stolen) and a lengthy period of time may pass before they are informed of this. Under a system of mandatory notification obligation which CHOICE supports, generally speaking an organisation that holds a consumer's personal information and is then made aware (or reasonably suspects) this information has been obtained by an unauthorised person would need to notify the affected consumer in a timely manner.

CHOICE believes the exemption from GST for goods costing less than $1000 imported by individuals does not make a significant difference to Australian consumers looking to buy products from overseas. The savings that are available far exceed the added cost if a GST were imposed, and consumers are attacted by the greater range of products available outside Australia.

CHOICE believes there is evidence that Australian retailers have not passed on, or passed on in a timely manner, an adequate amount of the savings associated with an appreciating Australian dollar.

CHOICE believes companies should not be able to unfairly use technological methods to prevent Australian consumers from purchasing cheaper products online from overseas.

CHOICE believes the prices of products (particularly digital items such as music and computer software) offered to Australian consumers should be similar to those in comparable countries.

The changing face of retail

This section addresses the following issues:

- the reasons why Australians are shopping online;
- websites offered by particular Australian b&m retailers;
- the factors that lead Australians to purchase online from overseas suppliers;
- successful Australian online retailers;
- the extent to which Australian b&m stores meet consumers' expectations;
- innovation in b&m and online retailing; and
- Impact of online retail on the Australian economy.

> *We have been encouraged through successive governments over the past 25 years to think economically and with a view of global markets. Well, the online shopper embraces this concept and when available will make online purchases locally given good service and competitive costs with timely delivery. The everyday worker has to justify their productivity and reach perceived quality benchmarks, and so do retailers in this market-driven community.*
>
> *The major [multinationals and huge retailers] are changing retailing to suit themselves rather than the customer.*
>
> Source: CHOICE member responses from CHOICE survey (May 2011). CHOICE conducted an online survey of CHOICE members in May 2011. There were 3077 respondents as at 24 May 2011.

Why are Australians shopping online?

Research conducted by Australia Institute[1] asked respondents to identify the factors that drive them to shop online, with multiple responses allowed. The responses did not indicate which factor is the main driver.

The **majority of respondents (85%) stated that price is a driver** (see Table 1). This is a marked increase from ACMA's survey, conducted in 2009, which also asked respondents to identify the factors that drive them to shop online. In the ACMA survey, only 38% of respondents stated that price is a factor driving them to shop online.[2] However, as of 2 November 2009, the Australian dollar bought 0.9035 USD[3]. As of 1 March 2010, the Australian dollar had appreciated by some 12% and was above parity against the USD, buying 1.0156 USD.

The Australia Institute research also found that the second-highest factor identified by respondents as a reason for shopping online was **to compare products and prices** (65%). **The ability to buy things not available in stores** is also a driver for almost two-thirds of online shoppers (see Table 1, next page).

[1] 'The rise and rise of online retail' – Ben Irvine, David Richardson, Josh Fear and Richard Deniss; The Australia Institute, May 2011 (hereafter referred to as '**Australia Institute (2011)**'). The Australia Institute conducted an online survey of 1411 Australians in March 2011. The sample survey was representative of the adult Australian population by age and gender.

[2] A telephone survey of households conducted in November 2009 (ACMA 2010) found three-quarters of respondents (74 per cent) cited convenience as the most common reason for purchasing online. The next most common driver was lower cost (38 per cent). The ACMA survey also used a sample nationally representative of Australia.

[3] Reserve Bank of Australia Exchange Rate Data http://www.rba.gov.au/statistics/hist-exchange-rates/index.html Last accessed 23 May 2011.

Table 1 - Why do you shop online?

	All
To save money	85%
To compare products and prices	65%
To buy things that can't be found in a store	64%
To save time	54%
To avoid travel	36%
To avoid shopping centres	32%
To avoid salespeople in stores	23%
For privacy	10%
Other reason	5%
None of these reasons	1%
n	1115

Source: Australia Institute (2011)

The Australia Institute research asked respondents to identify which factor is the most important to them in relation to shopping (see Table 2 below). **Price is the most important factor for the majority of consumers shopping online** (81%). The 'bargain hunters' tend to have slightly lower incomes, be younger and only buy online when the price is right.

However, for a significant minority (16%), convenience plays an important role. For some, the desire to avoid shops stems from an aversion to sales assistants and car parks, but for a significant minority with mobility issues, online shopping provides much better access to goods and services.

Table 2 - Which of these is more important to you?

	< 40K	40 - 80K	>80K	18 - 34 yrs	35 - 55 yrs	55+ yrs	Reg. OL shopper	Occas. OL shopper	All
Convenience (Convenience hunter)	12%	19%	18%	10%	20%	18%	23%	14%	16%
Lowest price (Bargain hunter)	85%	78%	79%	88%	78%	77%	77%	82%	81%
Not sure	3%	2%	3%	2%	3%	5%	1%	4%	3%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
n	275	329	387	377	459	324	243	918	1161

Source: Australia Institute (2011)

‘Convenience hunters’ are those who are more interested in shopping online for the convenience. They may also be time-poor or have constrained mobility due to ageing or disability. Convenience hunters are also more likely to try to buy everything online (29% compared with 20% for bargain hunters). It is important to note that although convenience hunters identify that convenience is more important to them than price, price is still the most common reason identified as being a driver for shopping online. In short, convenience (and not price) is the most important factor for convenience hunters.

Table 3 – Bargain hunters vs. Convenience hunters

Why do you shop online?	Bargain hunter	Convenience hunter	All
To save money	87%	70%	85%
To compare products and prices	66%	61%	65%
To buy things that can’t be found in a store	65%	60%	64%
To save time	51%	67%	54%
To avoid travel	33%	50%	36%
To avoid shopping centres	29%	47%	32%
To avoid salespeople in stores	21%	31%	23%
For privacy	10%	13%	10%
Other reason	4%	9%	5%
None of these reasons	1%	-	1%
Which of the following do you buy online where you can?			
DVDs and music	81%	86%	82%
Books	77%	88%	78%
Electrical and electronic goods	70%	73%	70%
Clothes and shoes	60%	68%	61%
Sports and leisure goods	50%	53%	50%
Cosmetics and perfume	46%	58%	48%
Fresh food	10%	27%	13%
n	932	183	1115

Source: Australia Institute (2011)

Convenience hunters are almost three times more likely to buy fresh food online at 27% compared with 10% for bargain hunters (see Table 3). True to form, convenience hunters have the highest level (47%) of respondents who list avoiding shopping centres as a reason to go online. Convenience hunters are more likely than bargain hunters to use the internet to compare products and prices (74% compared with 64%).

Examples of text for 'other reason' response to 'Why do you purchase products and/or services online?'

Can purchase gifts for relatives abroad in the country they live.

I know what I want, so can specify product or service precisely and don't waste time and effort browsing needlessly.

I can buy something very large (e.g. big bag of cat food) and not have to lug it to the car.

I live in a remote area where many products are not available at stores.

Retail stores are often out of stock of the items I want (e.g. a particular size). Online, the goods are in stock or they are not.

I do not want to support the mark-up that Australian importers/retailers burden the Australian public with

Source: CHOICE Survey (May, 2011)

There is an argument that consumers use b&m stores to obtain relevant information about particular products and then purchase the goods online[4]. However, **b&m stores seem to be benefiting from the internet as they are able to allocate fewer resources to providing customer service,** given that consumers are coming in to purchase products already armed with the relevant information.

Research by Australia Institute (May, 2011) indicates that 71% of occasional online shoppers and 64% of regular online shoppers use the internet to research one or more types of products before buying them at a b&m store. 48% of respondents who never shop online also reported that they still research information online before buying in b&m stores.

Feedback from CHOICE members also indicates that the lack of informative and unbiased information consumers receive in b&m stores pushes them online to do their research.

[4] http://www.news.com.au/money/retailers-fight-online-rivals/story-e6frfmci-1226036439615 Last accessed 17 May 2011.

> *More competent product advice is often available online than in retail stores. I'm currently planning to buy a new smart TV, but none of the staff in the stores I've been to (Harvey Norman, JBL, Bing Lee) are fully up to speed on the product and sometimes give conflicting advice. So I'm forced online to find out what I want to know. The focus in retail store is on offering best price; it's certainly important but paying $50 more or less is not relevant to a $2000+ purchase decision.*
>
> *Sales assistants RARELY have sufficient product knowledge.*
>
> Source: CHOICE Survey (May, 2011)

This shift towards using the internet to research products is supported by The Nielsen Company's Australian Online Consumer Report (Feb, 2011) which found that of all online Australians aged 16 and older:

- almost three quarters (73%) read other consumers' opinions about products and brands via social media
- close to half (43%) discussed / commented on brands, products or services
- one-third (33%) posted online reviews.[5]

The increasing degree of internet penetration in Australia that is likely to result as the NBN is rolled out is likely to further accelerate this trend. Research has also found that mobile internet has reached 50% penetration in online Australians[6].

Websites offered by particular Australian b&m retailers

When asked about the Australian b&m retailers that have an online website ('multichannel retailers'), some CHOICE members[7] complained about a poor shopping experience. The perceived **poor online offerings** are likely to have pushed / encouraged Australian consumers to the Australian 'pure play' retailers[8] and / or overseas online retailers. Indeed, IBISWorld reports that 'Australia is estimated to trail behind the UK and the US by three years' in relation to its online shopping offering.[9] (See further below on 'Innovation in b&m and online retailing').

[5] These figures relate to respondents that had engaged in the relevant activities in the past twelve months.

[6] The Nielsen Company's Australian Online Consumer Report (Feb, 2011).

[7] CHOICE conducted a survey of 12,477 CHOICE members in Dec 2010 / Jan 2011 asking them to score their favourite retailers for 2010. For further details, see *CHOICE Magazine*, April 2011. (Hereafter referred to as CHOICE (Dec 2010 / Jan 2011).

[8] 'Pure play' retailers only sell online.

[9] IBISWorld 'Online Shopping and Mail-Order Houses in Australia', March 2011.

For the Australian retailers that offer a competitive online website, there is a significant opportunity **to target Australians who prefer to buy locally**. Research conducted for PayPal found almost a quarter of Australian adults only shop online with domestic websites, with one-third believing it is 'safer to buy from Australia' and a similar proportion worrying about 'stories of fraud from overseas websites'. The same research also found that 'the medium-term trend is for roughly four-fifths of all Australian online expenditures to be placed with local websites'.[10]

> *Great product and excellent service. I go to a physical store about twice a year, to try sizes etc, then I order online after that. They have excellent sales too, and a rewards scheme. AND they're local!!*
>
> *My last online purchase (which was delivered today) could not be purchased in-store. I tried many different shops without success, and found the product immediately after a Google search in an Australian online store. It was posted the next day and I received online updates as to the status of my parcel. It was delivered two hours ago and I have just received an email to say my parcel has now been delivered. I am impressed.*
>
> Source: CHOICE Survey (May, 2011)

It may be that Australian b&m retailers have been reluctant to provide a competitive online offering for fear of 'cannibalising' their own b&m sales[11]. It has also been suggested by IBISWorld that the lower margins in online compared with b&m also make Australian b&m retailers reluctant to go online.[12]

Common complaints by CHOICE members include not having the full product range, prices, features allowing consumer to search the product range easily and, in some instances, purchase the products online.

[10] 'eCommerce: Secure Insight', PayPal November 2010 conducted by Forrester Consulting.

[11] Research commissioned by Paypal conducted by Forrester Consulting 'The Business of Australian Online Retail', November 2010.

[12] IBISWorld 'Online Shopping and Mail-Order Houses in Australia', March 2011.

> *In terms of online shopping, Australian retailers perform badly in most aspects. Many, such as Harvey Norman, don't offer a real online shopping website. Mr. Harvey should not complain about overseas online shops – he should provide a comparable service first. Just have a look at online shops in the UK to get an idea of what customers want.*
>
> *There are lots of online retailers, but only those with their full range and prices are of much use.*
>
> Source: CHOICE Survey (Dec 2010 / Jan 2011)

Research commissioned by PayPal Australia supports these views, finding that multichannel retailers offer a more limited product range online. 37 of 46 multichannel retailers surveyed said they 'sometimes, often, or always offer products through their bricks-and-mortar stores that they do not offer online'.[13]

Factors that lead Australians to purchase online from overseas suppliers

Notwithstanding the issues discussed above in relation to the perceived poor online offerings of particular Australian b&m retailers, the factors that drive consumers to purchase online from overseas suppliers are different to those that drive shopping online from local suppliers.

Research commissioned by ACMA found that of the consumers who prefer to buy from overseas sites, the main reason was that **these products were not available in Australia**. The top three reasons related to:

- the item's availability (56%)
- lower cost (41%)
- greater variety of products (13%)[14]

[13] 'eCommerce: Secure Insight', PayPal November 2010 conducted by Forrester Consulting.

[14] 'Australia in the digital economy, Consumer engagement in e-commerce', Australian Communications and Media Authority, November 2010, page 21.

> *The main reason I shop online (generally in overseas stores) is for the range of products available, many of which are not available in Australia ... If GST were added to my imported goods it would make no difference to the amount of online overseas purchasing I do.*
>
> *Online purchasing is not a GST issue. The costs are substantially cheaper, even if purchasing locally. And you don't have uninterested and sometimes rude sales staff to put up with. It is also an issue of quality of goods and ease of access.*
>
> Source: CHOICE Survey (May, 2011)

There is no doubt that **the benefits of being able to take advantage of a stronger Australian dollar by shopping online directly from overseas suppliers** has also been a significant motivator for Australian consumers in recent times. Against the greenback, the Australian dollar has over five years (from 2006 to 2011) increased in value by over a third (36%) based on yearly averages. It reached parity in November 2010 and has been hovering around that mark since. Consumers are also motivated to shop online from overseas suppliers by the ability to easily access up-to-date exchange rates.

There are significant price disparities between many products sold through Australian retailers that are also available online from overseas suppliers. **The savings that Australian consumers can make by purchasing online from overseas suppliers far exceed the difference made by the exemption from GST for goods costing less than $1000 imported by individuals**.

It would also appear that **Australian retailers are not passing on to consumers (or not passing on in a timely manner) an adequate amount of the savings they receive as a result of the appreciating Australian dollar**. Indeed, there are (and has been) significant pricing differentials between what Australians are paying and what consumers in comparable countries are paying.

However, it is important to note that there are significant factors deterring consumers from purchasing products online from overseas suppliers (see 'Impediments to online retail' below). These factors present local retailers with an opportunity to capitalise on their 'local presence' in marketing to potential consumers.

The incentive for local retailers to compete with overseas online suppliers will, however, be reduced if barriers for consumers seeking to buy products online from overseas suppliers are increased. Competitive constraint on local retailers by overseas online suppliers must be retained, as it encourages local retailers to:

- compete on price, including passing on any savings that result as an appreciation of the Australian dollar or decrease in relevant duties / import taxes;
- provide greater customer service;

- provide competitive online websites;
- improve their business models so as to be more efficient; and
- innovate.

Successful Australian online retailers

However, there are Australian b&m retailers that are successfully integrating their online channels. There are also several examples of Australian online retailers (pure plays) that have successfully developed their online markets, both domestically and internationally.

The Byron Bay Cookie Company is one example. It recently reported that while online sales constitute about three or four per cent of their revenue, this is up from '0.2 per cent not that long ago' and '[t]he graph has been growing at a very fast rate'. The chairman for Byron Bay Cookie Company also highlighted that it is not necessary for small- to medium-sized enterprises to spend a 'fortune' on getting set up, and that '[i]t may be just as effective to sit down with some of your staff in their 20s; they just seem to know about what works'. [15]

With the growing use of technology and social media, retailers are also able to learn more about their consumers without having to conduct expensive market research.[16] The popularity of the internet as a way for consumers to interact with companies is supported by recent research that found 42% of online Australians were interacting / connecting with companies through social networking sites.[17]

Examples of successful Australian online retailers include shoesofprey.com.au (custom-made shoes for women), petals.com.au (florist operating in Australia and more than 90 countries internationally), Aussiebum.com.au (menswear retailer that initially started in swimwear and has expanded into other clothing lines), all of which have also been successful in developing their overseas markets.

The **Australian b&m stores have significant advantages over the pure play Australian retailers if they decide to enter the online market**. These include:

- advantages of having an existing retail brand;
- ability to rely on inventory kept for b&m stores, which helps ensure a sufficient supply of popular products during peak periods and minimises the risk of having out-of-date stock;

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[15] 'Byron ready for online drive', The Australian Financial Review, 10 May 2011.

[16] ' 'At BBCC, we're working on lifting the sales, which we think we can do because we know more about the customer, something which was hard and expensive to achieve with market research previously' , 'Byron ready for online drive', The Australian Financial Review, 10 May 2011.

[17] The Nielsen Company's Australian Online Consumer Report (Feb, 2011). The figure relate to respondents that had engaged in this activity in the past twelve months.

- ability for consumers to go to their b&m stores to return products ordered online if required;
- established relationships with suppliers;
- established logistics, IT and distribution networks;
- benefits from having an established customer base;
- ability to self-finance online business in start-up phase by cross-subsidising from the b&m business;
- similarly, where external finance is needed, b&m retailers may have a lower cost of funds because lenders will regard the project as an extension of existing business rather than a new, risky venture; and
- ability to alleviate any security concerns potential consumers may have dealing with online companies given their physical presence (b&m stores).

The argument raised by the Fair Imports Alliance for government subsidies to assist in developing online channels is unfounded[18]. There are already Australian retailers that have successfully entered the online market, whether as multi-channel retailers or pure play operators, by being innovative and meeting consumer demands. Indeed, according to Southern Cross Equities, **domestic online retailers have doubled their market share to 4.0 per cent of 2010 annual sales, up from 2.1 per cent in 2005**[19].

The extent to which Australian b&m stores meet consumers' expectations

Research suggests that the ability of b&m stores to provide customer service that meets consumers' demands is a key factor in whether potential customers are encouraged to turn to online channels. In a recent survey conducted by CHOICE (Dec 2010 / Jan 2011), the top five factors that respondents[20] considered essential in deciding which retailer to visit were, in order of importance:

- products are in stock when required;
- staff are available when you need help;
- items are reasonably priced;
- staff have a friendly and helpful approach;

[18] http://www.fairimportsalliance.org.au/News.aspx, see Retail still ignored by digital economy strategy01APRIL 2011.docx Last accessed 17 May 2011.

[19] Southern Cross Equities 2011, *Online Retailing – Globalisation of retail*, 27 January.

[20] Respondents were asked about where they shopped or browsed in the past six months and how important different aspects of shopping were to them.

- staff are knowledge about products.

In the same survey, members indicated they will visit the b&m stores that don't rate well for price as long as staff are helpful, knowledgeable and plentiful. For instance, in the category of sport and leisure, The Athlete's Foot came out first overall[21], with 80% of customers rating it as 'very good' or 'excellent' in relation to staff helpfulness. By comparison, only 20% of customers rated it as 'very good' or 'excellent' for price.

In the toys and games category, The Australian Geographic Shop also came first overall, with 74% of respondents rating it as 'very good' or 'excellent' in relation to staff helpfulness. This is in comparison to the 24% who rated it similarly in relation to price.

In relation to the clothes, shoes and accessories category, scores were comparatively low across the board. David Jones rated first overall, however, less than half its customers rated it overall as 'very good' or 'excellent'. On staff helpfulness and price it also ranked quite poorly at 48% and 19% respectively.

> *I firmly believe in buying from the store where the salesperson has fully and competently explained the product/service. Should I have a need for after-sales service, I like the security of being able to go to the local store and talk one-on-one to the sales staff personally. I wish to add that I thoroughly research any product / service that I'm interested in online before heading to the local store.*
>
> *Online is very good. But nothing is better than a good sales assistant in a retail store. Especially if there are points of clarification…*
>
> Source: CHOICE Survey (May, 2011)

Common complaints by CHOICE members include:

- Sales staff being rude and unhelpful.
- Staff not having the relevant knowledge about the products they're selling.
- Perceptions about biased information being provided.
- The hassle of going in-store only to find the products are out of stock or the sales staff are not willing to get the products for them.
- An unwillingness of suppliers to help when the purchased product has issues.
- Trying to pass the consumer off to the manufacturer when there are issues with purchased products.

[21] Respondents rating overall as a place to shop.

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> *If Australian retailers offered better service and product ranges, I would happily buy all my goods from them - not online. Most Australian retailers need to pull up their socks and listen to the market, not just complain about lack of sales.*
>
> *The two advantages that retail stores have over online stores is that you can view the item with your own eyes, touch it and try it ... and you can get help from the sales reps. The problem is the sales reps will often not know much about what they are selling and will lie to you in order to make the sale (e.g. computers, televisions fridges etc).*
>
> *I will do more and more shopping online as long as the majority of my transactions are fulfilled successfully; I have had problems in b&m stores with faulty products - they try to shuffle the problem off to the manufacturer (I'm talking about faulty NEW items that did not work when unpacked for the first time), leaving me with long waits to get a replacement item… At least online when I pay with Paypal, I can log a dispute.*
>
> Source: CHOICE Survey (May, 2011)

Indeed, while the larger b&m retailers have been attempting to narrowly focus on the domestic impacts of consumers purchasing online from overseas suppliers, international players are using the appreciating dollar to their advantage. Zara and Gap are taking on local retailers in the b&m channel, with Banana Republic and Hennes & Mauritz (H&M) reportedly considering opening up in Australia[22].

These international players appear to be adopting the philosophy that meeting consumers' demands will ensure success in the b&m stores. Reports indicate that Zara (owned by the world's largest retailer) has a minimum 26 drops of new stock delivered to its stores each year, in comparison to the average Australian fashion chain, which makes about 10 stock changes a year. However, even Zara has seen the benefit of integrating its b&m stores with online channels, with reports that in the last quarter of 2010, it launched online stores in the six countries that make up about 40% of its sales. [23]

[22] 'Australia's strong economy has attracted the attention of well-known international names such as Banana Republic, Hennes & Mauritz (H&M), Uniqlo, Victoria's Secret and Old Navy, all of which are reportedly considering opening stores.' http://www.smh.com.au/business/buckle-up-fast-fashion-is-here-20110415-1dhj3.html Last accessed 11 May 2011.

[23] http://www.smh.com.au/business/buckle-up-fast-fashion-is-here-20110415-1dhj3.html Last accessed 11 May 2011.

Innovation in b&m and online retailing

Innovative b&m stores have been focusing on what they are able to provide beyond the traditional role that b&m stores have in the retail field. Alternatively, retailers are integrating their online channels with their b&m stores.

Retailers such as Apple and Nespresso (which recently opened boutiques in Sydney and Melbourne) have embraced the idea that a b&m store is not necessarily about an isolated transaction, but about creating and managing a relationship with consumers.

> *I think physical retail stores (with the exception of clothing) will become concept stores or showrooms where you can touch or try out the items but then order online (either at home, or in the store) for home delivery (or even warehouse pickup).*
>
> *…Online shopping will not entirely replace face-to-face shopping, as it is a social experience as well as a practical one.*
>
> Source: CHOICE Survey (May, 2011)

These types of 'showrooms' around the world indicate that the b&m stores in Australia have room to innovate to keep their stores relevant. These include The National Geographic's flagship store in London, which is set over three floors and includes an exhibition area, auditorium, tapas café, travel desk and photography studio, and 'Adidas Runbase', an Adidas store in Tokyo that combines its retail range with 16 showers and 248 lockers.[24]

Other retailers have been integrating their online channels with their b&m stores. Argos, a catalogue retailer in the UK, advertises its products in catalogues that consumers can then order online or over the phone and either pick up from one of the Argus b&m stores or get delivered. Argus estimates that '[o]n average, 17 million UK households, or around two-thirds of the population, have an Argos catalogue at home at any time.'[25]

Research also indicates that **by integrating their online channels with the b&m stores, retailers may indeed receive more of the consumer dollar**. It was recently reported that 'Deloitte Research British last year found shoppers who use more than one channel – such as stores or online – before buying will spend 82% more per transaction than those who shop only in stores. Online "pre-shoppers" also spend an average of 41% more in bricks and mortar stores according to Yahoo and ComScore research in 2007.'[26]

[24] http://www.shopnatgeo.co.uk/Store-Information-a/135.htm ; http://www.springwise.com/retail/runbase/ Last accessed 19 May 2011.

[25] argos.co.uk Last accessed 11 May 2011.

[26] http://www.smh.com.au/lifestyle/shopping/online-the-new-black-but-malls-still-sparkle-20110413-1de64.html Last accessed 11 May 2011.

Traditional online retailers such as eBay are also embracing the new opportunities offered by improvements in technology. It recently purchased Milo.com, a US website designed to help shoppers find products available in real-time at their local b&m stores and compare prices with those from online retailers. Milo.com has also been integrated by eBay in its red laser barcode application for use in smartphones.

The impact of online retail on the Australian economy

In recent months there has been increased attention to the impact of online shopping on Australian retail jobs, driven largely by high profile campaigns by the retail industry. The National Retail Association predicted that 50,000 jobs would be lost as a result of the shift towards online retailers.[27] However, such figures fail to take into account jobs created by online commerce. An increase in online retail is likely to result in growing demand for employees both in retail functions as well as the IT and logistics industry.

This prediction also overlooks that revenue lost from one sector of the economy will end up in another. Even losses of sales to overseas vendors will create added wealth for consumers who will be looking to spend their savings elsewhere. There are also a growing number of Australian online stores that are successful internationally and able to draw in greater wealth to Australia subsequently.

Crikey also recently reported that '[a]ccording to ABS data, since the end of 2009, when the [retail] industry was propped up by two rounds of stimulus payments from the Rudd government, it has grown strongly in terms of employment – in fact, more strongly than its recovery from the slowdown in 2000 and much more strongly than its recovery from the 1990s recession. Despite cautious consumers, heavy discounting and, of course, the alleged threat of the internet, in the 12 months to February, retail put *on* 50,000 jobs.' [28]

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[27] http://www.heraldsun.com.au/news/Internet-shopping-to-cost-50000-Australian-jobs-in-next-five-years-national-retail-association/story-e6frf7jo-1226046628871 Last accessed 17 May 2011.

[28] http://www.crikey.com.au/2011/04/29/the-mysterious-maths-of-retailing-and-the-threat-of-online/?source=cmailer Last accessed 18 May 2011.

International pricing differentials

As discussed already, the main motivation for the majority of Australian online shoppers is the pursuit of lower prices, and as the data provided below indicates, this is likely to result in very significant savings for those Australians willing to overcome the barriers to online shopping.[29]

While there has been much debate about the role of the Goods and Services Tax (GST) in causing the price disparity between products sold in Australian stores and products purchased from overseas via the internet, as the data below shows, it is inconceivable that the exemption from the 10% GST for goods worth less than $1000 that are imported by an individual could fully account for the price discounts available to consumers purchasing products online from overseas suppliers.[30]

There is no doubt that being able to take advantage of a stronger Australian dollar by shopping online directly from overseas suppliers is a significant motivator for Australian consumers. This is also facilitated by the fact that consumers are able to easily access up-to-date exchange rates.

In addition to the GST, there are a range of other factors that might explain the price disparity between many products sold through Australian retailers that are also available from online overseas suppliers. These reasons include:

1) differences in labour costs[31]

2) differences in retail rents[32]

3) higher quality after-sales service[33]

4) higher profit margins[34]

5) differences in distribution costs

6) differences in wholesale costs

7) differences in regulatory costs.

Arguments have been raised that Australia has high labour costs compared with US retailers, which affects their international competitiveness.[35] However, as the Productivity Commission

[29] Australia Institute (2011).

[30] Australia Institute (2011).

[31] Australia Institute (2011).

[32] Australia Institute (2011).

[33] Australia Institute (2011).

[34] Australia Institute (2011).

choice

has highlighted in its Issues Paper, the take-home pay 'after the payment of commissions, which are said to be much more prevalent and generous in the USA than Australia' can be higher in the US compared with Australia (see page 35). If this is the case, the labour costs incurred by Australian retailers could not be used to justify the very large disparities in domestic and international retail prices.

The issue of Australia's retail prices is more complex. Retail rent prices are determined largely by the willingness of retailers to pay for floor area with a large volume of potential customers moving past. The more profitable a retail outlet is, the higher the rent it will be able to afford, and the highly concentrated ownership structure of retail property in Australia has resulted in a significant portion of the high prices charged by Australian retailers being acquired as rent by the owners of the retail properties.[36]

While there can be little doubt that b&m stores can provide some customers shopping for some products with higher quality service – for example the ability to try on clothes or hold fresh fruit and vegetables – there can also be no doubt that many customers do not require such service, are not willing to pay the high price charged for that service in the form of higher retail prices[37] or are not in fact receiving a higher level of customer service (see 'The extent to which Australian b&m stores meet consumers' expectations').

Distribution costs may be an issue for retailers (see 'Logistics' below under 'Impediments to online retail'). However, it seems unlikely that this fully accounts for the significant price differences between domestic and international retailer prices.

While there may be differences in wholesale costs, it seems unlikely that this also fully accounts for the significant price differences. Many popular products, such as clothes and shoes, electrical and electronic goods, are also made in China or other Asian countries and exported to the US as well as Australia. In relation to clothing and footwear imports (above the low-value threshold), customs duty was also reduced on 1 January 2010, thereby further decreasing costs for retailers[38]. This is particularly the case given the appreciation of the Australian dollar in recent times, which would have significantly lowered the wholesale costs for some retailers. It does not seem that the adequate levels of savings that retailers have made through the appreciation of the Australian dollar have been passed on (or passed on quickly) to consumers (see 'The appreciation of the Australian dollar and whitegoods').

The most accurate explanation for the price differences between many goods sold in Australia and the price of identical products sold overseas appears to be the difference in the profit margin obtained by the retailer. The following sections provide an insight into how Australian

35 http://www.crikey.com.au/2011/05/09/online-retailing-the-great-australian-gouge/ Last accessed 23 May 2011.

36 Australia Institute (2011).

37 Australia Institute (2011).

38 http://www.treasury.gov.au/documents/2040/PDF/06_EM_Briefing_for_meeting_with_Solomon_Lew.pdf , http://www.treasury.gov.au/documents/2040/PDF/07_Note_Retail_profitability.pdf Last accessed 20 May 2011.

retailers have managed to charge far higher prices for their products than their overseas competitors.[39]

According to the Australian Bureau of Statistics (ABS), the mark-up on products sold by retailers of clothes and shoes averaged 142%.[40]

Table 4 – Product average mark-up by type

Product type	Average mark-up
Clothes and shoes	142%
Other manufactured products	97%
Electrical and electronic goods	85%
Furniture	76%
Books newspapers and magazines	52%
Fresh food	47%
DVDs and music	40%
All goods wholesale or retail mark-up	65%

Source: ABS (2010) Australian National Accounts: Input-Output Tables - Electronic Publication, Final release 2006-07, Cat 5209.0.55.001. No. 23, December.

Source: Australia Institute (2011)

Examples of international price differences

In order to further establish the veracity of claims about the large price differences for similar or identical products that exist internationally, international comparisons on a range of products are discussed below. The comparisons below where provided by the Australia Institute are identified as such.

[39] Australia Institute (2011).

[40] Australia Institute (2011).

Televisions

There are links to many country sites from the international Sony site, many of which have actual or suggested retail prices. Where necessary, online searches in the country specified were performed. The Australia Institute conducted price comparisons on the 40-inch Sony Bravia KDL40NX710, which in some countries has been updated by the KDL40NX720.[41]

Table 5 - Sony BRAVIA KDL40NX710/20

	Local price in local currency	A$ equivalent*	Differential %
Australia	1999.00	1999.00	0
US	1079.00	995.85	100.7
UK	999.00	1520.78	31.4
Malaysia	5999.00	1854.98	7.8
Singapore	3299.00	2487.00	-19.6
France	950.00-1018.00	1293.00-1385.00	44.3-54.6
Vietnam	29,900,000.00	1334.00	49.9

* exchange rate as at 28 April 2011

Note the prices identified are retail prices and include local taxes.

Source: Australia Institute (2011)

These findings show that Australian consumers face a price up to 100% above the US price, and well above other countries even where local taxes are included. For example, the UK and France have higher VATs than the Australian GST (20% and 19.6% respectively).[42]

Whitegoods

It is easier to compare products such as music and books than it is to compare those such as whitegoods without actually inspecting items in Australia and overseas. However, it is possible to form a picture of the overall price of classes of different products even when exact information for a particular product, such as the Sony television described above, is not available.[43]

[41] Australia Institute (2011).

[42] Australia Institute (2011) whose source is www.oecd.org/ctp/taxdatabase; http://www.bbc.co.uk/news/uk-politics-12145417 Last accessed 23 May 2011.

[43] Australia Institute (2011).

Using CHOICE data on washing machine prices[44] in Australia and comparing the same products sold in Australia and the UK, price ranges were obtained from an online consumer information system that identifies stores and prices. The products concerned came from the Electrolux, Haier, Hoover, LG, Miele and Siemens ranges. On average, recommended retail prices in Australia were between 74% and 102% higher in Australia.[45]

Music

The following table is a survey of the price at the Amazon store (US) and the difference between it and the Australian price as represented by Sanity, which operates both b&m and on-line shopping, as well as JB Hi-Fi.

Table 6 - Top 12 music items, 28 April 2011

	Amazon CD $US	Sanity CD* A$	Differ-ential	JB Hi-Fi CD A$	Differ-ential
Adele: Adele21	9.99	21.99	120%	19.99	100%
Alison Krauss and Union Station: Paper Airplane	11.88	29.99	152%	19.99	68%
Emmylou Harris: Hard Bargain	11.88	26.99	127%	23.99	102%
Paul Simon: So Beautiful or So What	9.99	21.99	120%	19.99	100%
Foo Fighters: Wasting Light	9.99	21.99	120%	19.99	100%
Glee Cast: Glee: The Music presents the Warblers	9.99	21.99	120%	19.99	100%
Mumford & Sons: Sigh No More	9	26.99	200%	19.99	122%
Fleet Foxes: Helplessness Blues (pre-release)	8.99	21.99	145%	19.99	122%
Adele: Adele	9.99	24.99	150%	12.99	30%
Beastie Boys: Hot Sauce Committee Part 2	9.99	24.99	150%	19.99	100%
Stevie Nicks: In Your Dreams	11.88	24.99	110%	#	0%
Explosions in the Sky: Take Care, Take Care, Take Care	7.99	24.99	213%	24.99	213%
Average	**10.13**	**24.49**	**144%**	**20.17**	**106%**

*Single CD price - usually less if more than one purchased # not in stock at store visited
Exchange rates calculated in the week commencing 25 April 20111.

Source: Australia Institute

[44] These prices are the recommended retail prices as set by the manufacturer in the period leading up to February 2011. This is with the exception of some manufacturers which refused to disclose a recommended retail price in which case CHOICE used a price at which the particular product is available.

[45] Australia Institute (2011).

These figures show a massive advantage for consumers in the US compared with Australian consumers. The average CD is 144% more expensive at Sanity than it is at Amazon. JB Hi-Fi is known as a discount store and so may be expected to have lower prices, but they are still 106% higher than Amazon in the US. On average, each CD cost $20.17 at JB Hi-Fi compared with $24.49 at Sanity.[46]

Below is a table showing the price differences for the same albums at the iTunes US and iTunes Australia store.

Table 7 - Top 12 music items, 28 April 2011 (iTunes US compared with iTunes Australia)

	iTunes USD	iTunes AUD	iTunes US in $AUD	Differential AUD
Adele:Adele21	$10.99	$16.99	$10.34	64%
Alison Krauss & Union Station: Paper Airplane	$9.99	$16.99	$9.40	81%
Emmylou Harris: Hard Bargain	$11.99	$16.99	$11.28	51%
Paul Simon: So Beautiful or So What	$9.99	$16.99	$9.40	81%
Foo Fighters: Wasting Light	$9.99	$16.99	$9.40	81%
Glee: The Music presents the Warblers	$9.99	$16.99	$9.40	81%
Mumford & Sons: Sigh no more	$9.99	$16.99	$9.40	81%
Fleet Foxes: Helplessness Blues	$9.99	$16.99	$9.40	81%
Adele: Adele (Adele 19)	$9.99	$16.99	$9.40	81%
Beastie Boys: Hot Sauce Committee Part 2	$14.99	$20.99	$14.10	49%
Stevie Nicks: In Your Dreams	$11.99	$16.99	$11.28	51%
Explosions in the Sky: Take Care, Take Care, Take Care	$9.99	$17.99	$9.40	91%
Average	$10.82	$17.41	$10.18	73%

Note: Exchange rate from www.rba.gov.au/statistics/frequency/exchange-rates.html on 19 May 2011

These figures also show a significant advantage for consumers in the US over Australian consumers. Australian consumers pay an average 73% more. On average, each CD cost the

[46] Australia Institute (2011).

equivalent of $AUD10.18 from the iTunes store in the US, compared with $AUD17.41 from the Australian iTunes store.

Computer products

The following table is a survey of the prices at the Play-asia.com online store (based in Hong Kong) and the difference between its prices and the Australian price as represented by Dick Smith, which operates both b&m and online shopping. The list of games is based on the top eight-selling video games across all platforms on Amazon.com as at 17 May 2011.

Table 8 – Top eight video games across all platforms on Amazon.com, 17 May 2011

	Dicksmith.com.au $AU	http://www.play-asia.com/ $US ($AU) As at 18 May 2011 1.00 AU = 1.06260 USD	Differential (%)
L.A. Noire by Rockstar Games Platform: PlayStation 3	$79.94	US, No Region Protection / Action; Asia, No Region Protection / Action; US$ 59.90 (56.38) Japan, No Region Protection / Action US$89.90 (84.62)	42% -6%
L.A. Noire by Rockstar Games Platform: Xbox 360	$79.94	Asia, NTSC J / Action US$49.90 (46.97) US, NTSC U/C / Action US$59.90; (56.38) Japan, NTSC J / Action US$89.90 (84.62)	70% 42% -6%
Disney Epic Mickey by Disney Interactive Platform: Nintendo Wii	$59.94	US, NTSC U/C / Action $54.90 (51.67)	16%
Portal 2 by Valve Platform: Xbox 360	$89.94	Asia, No Region Protection / Shooting $49.90 (46.97) Japan, NTSC J / Shooting US$79.90 (75.20) US, No Region Protection / Shooting US$59.90 (56.38)	91% 20% 60%
Just Dance 2 by UBI Soft Platform: Nintendo Wii	$49.94	US, NTSC U/C / Music $37.90 (35.67)	40%

	Dicksmith.com.au $AU	http://www.play-asia.com/ $US ($AU) As at 18 May 2011 1.00 AU = 1.06260 USD	Differential (%)
L.A. Noire by Rockstar Games Platform: PlayStation 3	$79.94	US, No Region Protection / Action; Asia, No Region Protection / Action; US$ 59.90 (56.38) Japan, No Region Protection / Action US$89.90 (84.62)	42% -6%
L.A. Noire by Rockstar Games Platform: Xbox 360	$79.94	Asia, NTSC J / Action US$49.90 (46.97) US, NTSC U/C / Action US$59.90; (56.38) Japan, NTSC J / Action US$89.90 (84.62)	70% 42% -6%
Disney Epic Mickey by Disney Interactive Platform: Nintendo Wii	$59.94	US, NTSC U/C / Action $54.90 (51.67)	16%
Portal 2 by Valve Platform: Xbox 360	$89.94	Asia, No Region Protection / Shooting $49.90 (46.97) Japan, NTSC J / Shooting US$79.90 (75.20) US, No Region Protection / Shooting US$59.90 (56.38)	91% 20% 60%
Portal 2 by Valve Platform: Windows Vista / XP, Mac OS X	$69.94	Asia / Shooting US$39.90 (37.55) US / Shooting US$54.90 (51.66)	86% 35%
Portal 2 by Valve Platform: PlayStation 3	$89.94	Japan, No Region Protection / Shooting US$79.90 (75.19) US, No Region Protection / Shooting $59.90 (56.36) Asia, No Region Protection / Shooting US$49.90 (46.96)	20% 60% 92%
Zumba Fitness by Majesco Sales Inc. Platform: Nintendo Wii	$49.94	US, NTSC U/C / Sports US$44.90 (42.25)	18%

	Dicksmith.com.au $AU	http://www.play-asia.com/ $US ($AU) As at 18 May 2011 1.00 AU = 1.06260 USD	Differential (%)
L.A. Noire by Rockstar Games Platform: PlayStation 3	$79.94	US, No Region Protection / Action; Asia, No Region Protection / Action; US$ 59.90 (56.38) Japan, No Region Protection / Action US$89.90 (84.62)	42% -6%
L.A. Noire by Rockstar Games Platform: Xbox 360	$79.94	Asia, NTSC J / Action US$49.90 (46.97) US, NTSC U/C / Action US$59.90; (56.38) Japan, NTSC J / Action US$89.90 (84.62)	70% 42% -6%
Disney Epic Mickey by Disney Interactive Platform: Nintendo Wii	$59.94	US, NTSC U/C / Action $54.90 (51.67)	16%
Portal 2 by Valve Platform: Xbox 360	$89.94	Asia, No Region Protection / Shooting $49.90 (46.97) Japan, NTSC J / Shooting US$79.90 (75.20) US, No Region Protection / Shooting US$59.90 (56.38)	91% 20% 60%
Call of Duty: Black Ops by Activision Publishing Platform: Xbox 360	$69.94	Asia, No Region Protection / Action; US, No Region Protection / Action US$59.90 (56.36)	24%

The prices at the Play-asia.com store highlight how companies such as Microsoft and Nintendo can use technological 'locks' similar to region coding on DVDs and modified chips in games consoles to sell products at different prices to different markets. For example, the L.A. Noire game for Microsoft's Xbox 360 varies in price from US$49.90-US$89.90 across the different regions. The games sold via Play-asia.com where there are no region locks are identified as such with the words 'No Region Protection'.

Secondly, the significant pricing differentials mean Australian consumers are able to save about 90% on the price of Portal 2 for Xbox 360 and PlayStation 3 if they purchase the game from Play-asia.com rather than Dicksmith.com.au. Even with a delivery fee of US$15.40 for

FedEx (which includes tracking and insurance)[47], there are still significant savings to be made.

Another example of retail differences can be seen in a new model of the iMac, an Apple computer. The Australian price starts at $1399; an international comparison shows the variations given in Table 9. The advertisements used to collect this data all have a price expressed in terms of local currency before converting to AU$ (e.g. $X, £X,€X, etc.). In creating Table 9, it has been assumed that Apple is offering the same basic model on which the starting price applies.[48]

Table 9 – iMac price comparison

Country	Local currency	A$ equivalent
Australia	1399	1399
US	1199	1107
UK	999	1521
France	1149	1557
Germany	1149	1557
Japan	108800	1229

Exchange rate conversions conducted during week commencing 25 April 2011.

Prices are retail, although they may not include state-based taxes, for example in the US.

Source: Australia Institute.

The difference is much less significant than seen in the other items reported here. Adjusting for tax, the differences may also be smaller. For example, the Australian price excluding GST would be $1272, and Germany's price excluding VAT is $1308. This raises the obvious question of why the Apple distribution system can supply Australians at roughly world parity, but other companies cannot. Having said this, we note there remains a 26% penalty for buying in Australia compared with the US.[49]

[47] Shipping options range from US$ 3.90 to US$24.90, with the Fedex option the cheapest option that includes insurance and tracking.

[48] Australia Institute (2011)

[49] Australia Institute (2011)

In May 2008, CHOICE conducted a survey comparing the recommended retail Australian and American prices (RRP) for a range of computer products ('Fair play for pricing?', *CHOICE Computer*, May / June 2008). These price differentials highlight that the significant price disparities faced by Australian consumers is not a recent issue. Results are below in Table 10.

Table 10: Comparison between Australian and American prices for computer products (May / June 2008)

	$US price [a] [b]	$AU price [a]	$US price converted	$US price [a] [b]
Windows Vista Ultimate (complete)	$399	$751	$436	$315
Windows Vista Ultimate (upgrade)	$260	$495	$281	$214
Windows Vista Home Premium (complete)	$240	$455	$260	$195
Windows Vista Home Premium (upgrade)	$160	$299	$175	$124
Windows Vista Home Basic (complete)	$200	$385	$218	$167
Windows Vista Home Basic (upgrade)	$100	$199	$108	$91
Apple Time Capsule (500GB)	$299	$429	$327	$102
Apple Time Capsule (1TB)	$499	$699	$544	$155
Sony 8GB Video MP3 Player	170	$319	$186	$133
HP Officejet Pro K8600 printer	$299	$599	$328	$271

	$US price [a] [b]	$AU price [a]	$US price converted	$US price [a] [b]
Call of Duty 4 PC game	$50	$100	$53	$47

[a] = list price

[b] = not including local taxes

[c] = conversion as at 21 March 2008 ($AU1=$US0.92)

CHOICE reported that the entry-level version of Vista Home Basic retailed for $385 for the complete package. The US price was $US199.95, about $218 in Australian dollars as at 21 March 2008 – almost half the cost. Vista Ultimate retailed for about $750 here, while in the US it sold for $US399, about $AUD436 (as at 21 March 2008). Even taking into account GST, one would expect Vista Ultimate to have retailed for about $500 here, yet its $750 price tag was 50% more expensive for Australians.

Comparisons were also done on an earlier version of Call of Duty, Call of Duty 4. It found the Australian RRP was $99, yet it was listed on Amazon.com from $US49.99 (around $53 as at 21 March 2008), a differential of almost 100%.

Additionally, the game could be purchased as a 'digital download' directly from the Steam online distribution service. Here, the product a user downloads is identical no matter where in the world they live – if you download Call of Duty 4 in the US or in Australia, you get exactly the same product. Yet, via Steam, Call of Duty 4 cost $88.50 for Australians but $US49.95 (about $53 as at 21 March 2008) for Americans, even though there are no extra costs involved such as shipping, local channel, market dynamics or duties at play – if anything the consumer pays for distribution with their ISP fees, yet it costs more than 50% more.

There are many excuses for the higher prices that Australian consumers pay, but CHOICE questions their validity when the same price discrimination carries over to identical digital goods delivered via Internet download. **The product a user downloads is identical no matter where in the world they live.** Likewise, tax and standards compliance do not have a significant impact on many products showing this price differential.

If there are problems in international market segmentations that lead to higher prices, it is imperative that companies fix this and not leave it up to Australian consumers to pay for their outdated business models.

While Australians are legally able to circumvent region coding, in practice this can be very difficult or impossible for many consumers. Even though parallel importing is legal for some products, companies can use other technological methods, such as banning international IP addresses and credit card numbers and pushing consumers to ‘local’ websites by identifying the international IP address, to create barriers for consumers attempting to purchase cheaper items online.

CHOICE believes companies should not be able to unfairly use technological methods to price discriminate against Australians.

CHOICE believes that, particularly for digital items (sometimes called intangibles) such as software, movies and music, the prices offered to Australian consumers should not be significantly different to those offered in comparable countries.

The appreciation of the Australian dollar and whitegoods

CHOICE compared our database of manufacturers' Australian RRPs for popular capacity washing machines over the past decade to the value of the Australian dollar against the greenback. While we did not take into account changes in factors, such as the cost of inputs to price or the price of other currencies where washing machines are purchased, the following can be observed:

- Over a 10-year time frame, the median washing machine price across the most popular capacities has remained at almost the same price ($1249 in 2000 compared with $1299 in 2011), but the Australian dollar has appreciated by some 76% against the USD based on yearly averages.
- Over a five-year time frame (from 2006 to 2011), the Australian dollar has increased in value by more than a third (36%) compared with the USD based on yearly averages. The median washing machine price across the three most popular capacities has in comparison increased by almost a tenth (9%, bearing in mind the impact of the GFC on prices worldwide).

Based on the above, it would appear that an increase in the strength of the Australian dollar is not always translated (or translated quickly) into better prices for Australian consumers. It may be that this is the case across a broad range of product categories.

Impediments to online retail

Logistics

In a recent survey conducted by CHOICE (May 2011), we asked members how satisfied they were with a range of factors relating to their most recent online purchase. The area that received the lowest average satisfaction score (7.87 out of 10) was delivery, followed by delivery time (8.22 out of 10)[50]. Common complaints from members included the cost and delivery times of products ordered from Australia online retailers, with some noting that it would be faster and / or cheaper being sent from overseas.

Australian Post charges make some purchases uneconomic.

Most products purchased overseas arrive in Australia very quickly. However, once they're here delivery times can at times be ridiculously slow.

Package from U.S. arrived in seven days: still awaiting package from Victoria after ten days!

Book titles bought not available in-store in Australia, but on order from Australia retailer, delivery time SIX weeks!

The main problem I have with online shopping is the cost of and time taken for delivery!

Don't use as much as I would like to because of delivery charges.

Source: CHOICE Survey (May 2011)

[50] The scale range was 0-10, with 0 being 'not at all satisfied' with '10' being completely satisfied.

Security and privacy

Research conducted by Australia Institute (2011) found the second-most significant factor stopping people from shopping online, after wanting to see things before purchasing, is concerns about security (23% of respondents). Steps must be taken to ensure there are minimal barriers to people shopping online so that nobody is unreasonably being excluded from accessing the benefits that the internet can offer.

CHOICE notes that there have recently been a range of security issues regarding personal information, for example Dell[51] and Sony[52]. In the case of Sony, it was only revealed on 2 May that 'hackers may have stolen [Sony Online Entertainment] customer information on April 16th and 17th, 2011 (PDT)'.

Consumers are at risk of their details being stolen (or have a reasonable suspicion that they may have been stolen) and a lengthy period of time passing before they are informed of this. If consumers are advised as soon as possible of a confirmed or reasonably suspected breach of data security, consumers can then take active steps to minimise the potential damage, including:

- protecting themselves against identity theft
- protecting themselves against financial loss
- notifying relevant institutions of this theft and obtaining replacements noting the inconvenience this can cause
- protecting themselves against other non-financial risks including being subsequently made subject to discriminatory treatment or damage to his or her reputation.[53]

These factors form part of the rationale for introducing a mandatory notification obligation in Australia. Under this approach (subject to the detail), generally speaking an organisation that holds a person's personal information and is then made aware (or reasonably suspects) that this information has been obtained by an unauthorised person would then need to notify the affected person in a timely manner.

In 2008, the Australian Law Reform Commission called for amendments to be made to the *Privacy Act 1988* (Cth) implementing a mandatory notification obligation.[54] This is yet to be introduced.

A mandatory notification system would:

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51 http://www.abc.net.au/news/stories/2011/04/07/3185296.htm Last accessed 18 May 2011.

52 http://blog.eu.playstation.com/2011/05/03/sony-online-entertainment-issues-security-press-release/ Last accessed 18 May 2011.

53 http://www.alrc.gov.au/publications/51.%20Data%20Breach%20Notification/alrc%E2%80%99s-view

54 http://www.alrc.gov.au/publications/For%20Your%20Information%3A%20Australian%20Privacy%20Law%20and%20Practice%20%28ALRC%20Report%20108%29%20/51-data-br Last accessed 18 May 2011.

- provide a strong market incentive and stimulus to organisations to secure databases adequately to avoid the brand and reputational damage arising from negative publicity;

- encourage attention to compliance and vigilance against identity theft; and

- improve accountability, openness and transparency in the handling of personal information by agencies and organisations.[55]

[55] http://www.alrc.gov.au/publications/51.%20Data%20Breach%20Notification/discussion-paper-proposal Last accessed 20 May 2011.

Conclusion

CHOICE believes the exemption from GST for goods costing less than $1000 imported by individuals does not make a significant difference for Australian consumers looking to purchase products from overseas. The available savings far exceed the added cost if a GST were imposed, and consumers are attacted by the greater range of products available outside Australia.

CHOICE believes there is evidence that Australian retailers have not passed on (or passed on in a timely manner) an adequate amount of the savings associated with an appreciating Australian dollar.

CHOICE believes companies should not be able to unfairly use technological methods to prevent Australian consumers from purchasing cheaper products online from overseas.

CHOICE believes the prices of products (particularly digital items such as music and computer software) offered to Australian consumers should be similar to those in comparable countries.