Retail Trade Industry Case Study
Productivity Commission
GPO Box 1428
CANBERRA CITY ACT 2601

Submission from Gilmour's Pty Ltd, trading as Gilmour's Comfort Shoes

Gilmour's Pty Ltd is a family owned specialist footwear retailer, concentrating on the comfort, "hard-to-fit" and orthopaedic sectors of the market. We operate six shops in Australia (three in Melbourne, two in Brisbane and one in Sydney) and we have plans to open a seventh (in Adelaide) in the next few weeks. Because our business requires larger stocks and more intense staff/customer contact than a normal footwear retailer, we carry more shoes than average and bear higher labour costs. We have approximately 50 employees, mainly women, many part time. The higher costs of inventory and labour lead us to seek higher unit prices than average; but we also avoid some of the stock obsolescence and mark-downs of the fashion and general footwear retailers.

In our submission to the 2011 Retail Industry Enquiry we sought recommendations to:

* eliminate the arbitrary and unenforced Bulky Goods zoning rules
* leave on-line retailing unfettered in the interests of competition
* simplify regulations, abandon GST exemptions and adopt uniform data collection for taxes in Federal and State jurisdictions.

The Commission made recommendations in 2011 which seemed largely to endorse these pleas, but we note that there are still few or no noticeable changes to the either the Bulky Goods or GST anomalies or the data collection mess.

In this submission we provide more information on cost structures in our business and highlight again the particular areas of cost which affect our competitiveness.

We would re-iterate our pleas in respect of the three matters above which we believe impinge on our capacity to compete with internation retailer, but would also like to draw the Commission's attention to the questions

* Is employment law in Australia too restrictive and costly?

* Is the Productivity Commission and Studies like this a waste of time and money?

Our Cost Structure.

Our business operates through a private company which, like many family owned enterprises, also holds other assets. Extracting our retail figures for the four years to March 31st 2014, our operating ratios can be summarised thus:

Sales Retail	100.0%
Gross Profit	50.9%
Expense	
Communications	5.1%
Finance	3.8%
Information Technology	0.4%
Occupancy	5.0%
Overhead	2.7%
Promotion	4.8%
Staffing	26.5%
Total Expense	48.4%
Income Before Tax	2.6%

We understand that these figures vary from those of mainstream footwear retailers. What follows is a rough commentary on each of the major cost items.

Communications

Our communications costs are higher than Australian averages because of the need to transfer stocks between stores and being forced to look further and further afield, mainly overseas, for the specialised fittings we carry. Communication costs are higher than in most of the major overseas markets, obviously reflecting the distances involved in Australia and those between Australia and the rest of the world.

Telecommunication imposts seem to us to be higher in Australia and than in other markets, but we have long held the belief that business can never have enough car parking, hard disc space or telephone lines, and so we endure the costs of telephone and data services. In fact, we find it difficult to complain about the communications costs in Australia - it is a big country after all, and the distance penalties at least apply as much to our competitors as to us.

However, we remain troubled by the phenomenon that our customers can buy and have delivered from the US a pair of Chinese made walking shoes at a cost lower than we have to pay at wholesale from the US firm's warehouse in Sydney. Troubling to us also is the fatuous argument mounted by some consumer advocates who suggest that the price differential is unfair or that it represents gouging by retailers. How can this be overcome? Let's just try to be more efficient.

Financing and Inventory Costs

Unlike supermarkets or some garment retailers, we endure a slow stock turn – again a function of all those sizes AND widths. This is a limiting factor on our growth and profitability, but it is one shared by all footwear retailers in our specialised sector of the industry and should not be regarded

as a major handicap in the terms of this study, except to the extent that interest rates in Australia are higher than those faced by competitors in the US.
However, try as we might, we find it difficult to complain about interest rates – our last bill roll-over was at a rate of only 2.7% per annum, and while usurious banking charges took the total cost of the funds to more than 4% per annum, the total was still historically low. If, when, interest rates increase, capital intensive retailers like us will be challenged – and we can only hope that US retailers who are competing with us on-line will face equal interest rate penalties.

Information Technology

We believe we have a competitive advantage in global terms with our point of sale computer systems, but we lag behind competitors locally and internationally in our efforts to market our products on-line. This is a management issue for us, and we neither want nor should obtain help from Government policy.

Occupancy Costs and Outrageous Zoning

Because we own two of the properties in which we trade and own other retail premises as investments, our position on retail tenancies is conflicted. By and large we believe the market sets both the rates and the terms of retail tenancies. With many retailers, however, we are alarmed by the concentration of ownership of major shopping centres in so few hands, and by the heavy handed approach that this monopolisation has spawned.

Our occupancy costs are lower than average because we own some of our premises, and the fact that we do not account for their use at market rates. Because we have borrowed against the security of our own stores, part of the finance cost also could be attributed to occupancy. Further, we need large storage areas to hold our large stocks. Carrying sizes <u>and</u> widths in many lines means we can hold many times the number of pairs as a "normal" shop.

A typical Gilmour's shop holds 8,000 pairs, compared with a 'normal' shop's holding of perhaps 2,000 pairs. The need for larger storage areas forces us out of high rent areas into what, charitably, might be called "lower tier" retail locations.

An occupancy factor which affects our competitive position remains the issue of zoning.
As we explained in our 2011 submission, this limits our expansion and viability. Right now, we are still trying to negotiate the minefield of bulky goods/general retail zoning to set up a new shop in Adelaide.

It is perhaps a pointer to South Australia's laggard economic performance that it is taking us months to find, lease and obtain approvals to operate in Adelaide. In order to trade in the shop which we have agreed to lease, we have had to engage professional help in showing how many square metres of the property will be storage, how many retail and how many staff amenities and the like. The property we are to occupy is in a retail zoning but the previous occupant had obtained permission to use it as an office, and our plans seem to be too much for the local bureaucracy which considers its important to rule on such issues.
In the past such rigmarole has deterred us – and we guess many other businesses – from trying to trade in Adelaide; but we are determined and will persist.

Because specialist businesses like ours are more common in the US than here, we are in a position to compare South Australia's bureaucracy with that in most American states, and we have concluded that starting a shop in California would be easier for us than struggling with Adelaide's archaic approach to planning. Perhaps South Australia's smug pride that it was settled without convicts has led its bureaucrats to be fearful of any outsider.

It is hard to avoid the conclusion that the South Australian Bureacracy would rather people send their money overseas buying specialty goods on line than allow local businesses to set up shop. The zoning limits in place make it almost impossible such businesses to find premises, and when they do, the planning limitations for shop space, storage and so forth inside those shops, is so restrictive, there's not enough room to hold the products to sell to the customers.

Overhead Costs

Like many small businesses, we pride ourselves on keeping the overheads under control, and we believe that we suffer no significant penalty in this area compared with either local or overseas competitors. There are some issues with energy costs, however. Because our competitors face the same energy costs as we, these cause us little worry. But there has been an extraordinary trend by energy providers (and other utilities) to shorten the time allowed to pay. The concept of 30 day accounts has been bastardised or abandoned altogether, with utilities demanding payment within 14 days of invoice dates. Some utilities have sought to shorten the payment cycle so much that their own systems cannot process payments made within the due time and they have issued reminder notices even though the bills have been paid. The shorter payment cycle for most utilities is an irritation rather than a major competitive disadvantage.

Lumped with overheads, however, we hold a special concern for the heavy imposts imposed on our business, on industry and the community generally by the Productivity Commission itself. At a time of straightened budgetary circumstances, we believe the Australian community should be asking whether we are getting fair value for the expenditure of $800-million a year of direct administrative expenditure on public inquiries and other government commissioned projects, including the Productivity Commission.
Businesses like ours, which have to pay their way and meet payrolls, rents and taxes every week, see the Productivity Commission and its ilk as morgues in which governments try to bury controversial issues.
The sad and limited outcomes from the Commission's 2011 report on retailing are worth noting – there was little result, but the issues seemed to go away or excuse Government inaction for a few years.
In business - whose economic cost of making submissions to such enquiries should be added to the $800 million above – we are unable to refer our worries to outside parties with abundant budgets; instead we have to make a decision TODAY, implement it TOMORROW, or risk GOING BROKE.

We suggest that the Productivity Commission be wound up, and further enquiries and studies of economic matters be referred to a committee of young Turks in Treasury who are young enough to be daring and ambitious enough to make their names in Government circles. If the Productivity Commission was able to live up to its name, surely it would be recommending means by which the $800 million spent on studies should be eliminated.

Promotion Costs

Because we are not represented in top tier locations and cannot rely on passing trade, and because we are a destination retailer, we try to compensate by accepting a heavier than average promotion cost. We wince when a birthday greeting to a favoured customer costs a dollar to print and post, but we acknowledge that sending such a card 3,000 km across the country is a miracle, and we are unable to make an argument against promotion costs generally.

Staffing Costs

Customers who come to Gilmour's shops – such as ladies who need a very slim fitting, those who need extra width, or men who want size 17 EEEEE – also require more detailed attention and this means the direct one-on-one involvement of staff and customer. This translates to high staffing costs. Here is a break-down of our staffing costs in the four year period referred to above.

Staffing Detail	% of Income
Payroll Taxes	0.7%
Salary Sacrifice Expense	0.3%
Staff Amenities	0.1%
Staff Meals	0.1%
Staff Training	0.1%
Superannuation	2.6%
Wages & Salaries	22.3%
Workers' Comp Expenses	0.3%
Total Staffing	26.5%

In the 95 years in which we have operated, we have embraced a traditional retailers' economic view of wages – that more wages are good for retailers, because more wages mean more spending. We continue to hold this view. But our plea is for more flexibility as to when we employ staff.

There is mounting evidence of a shift in the peaks of retail spending to weekends and public holidays – a trend which followed the flow of more women into the work-force, their wish to shop when they are not working, and a trend encouraged by large firms big enough to negotiate special enterprise agreements with their staff and big enough to set the retail agenda. But firms like ours, dependent on award arrangements are pinned down to the spending patterns of decades ago.

Long before trading hours in the Eastern states were liberalised, we held the view that it was no business of government to decide at what times consenting adults should be free to conduct trade to their mutual advantage. This remains our position. However, the rigid restraints of industrial awards have corrupted the ideal of free trading hours. It is not possible for us to trade economically on public holidays or Sundays because of the high penalty rates imposed by the award system. We are too small to negotiate an enterprise agreement and so we are locked into a straight-jacket of restricted trading days. The food and hospitality industries sometimes find it feasible to impose a surcharge, usually around 15% on meals and accommodation on weekends and public holidays (a ridiculous impost in a country trying to boost tourism), but we fear this would not work when dealing in merchantable goods like shoes which can be exchanged or returned.

Of course there is a contributing factor pushing labour costs in our business - our emphasis on professional fitting and service - but we would be delighted to extend our hours of trade if we could and would hope to capture a larger share of the retail dollar.

Colleagues in the same sort of field as us in the US consistently point to the extraordinary difference in hourly wage rates between the two markets. On our calculations, a US retailer in the same "sit and fit" business as ours would pay staff little more than half our hourly rate at any time of the week, with no holiday or week-end penalties; and the US retailer would not be saddled with the same on-costs as Australian employers. This factor, and economies of scale make shoe prices in the US, particularly in our speciality, lower than in Australia, and this leads customers to on line shopping at US companies.

There is a broader point about restrictive labour laws in Australia which we would suggest the Commission consider, and that is that awful cost which limited days of work impose on the economy generally. How much further use would the community gain from infrastructure like roads and public transport if days of work and trade were staggered instead of being concentrated in five days a week?

Taxes

By and large we do not consider our business penalised heavily by taxes.
The taxes and like imposts which we face are: GST, Import Duties, Payroll Tax, Workers' Compensation insurance, Land Taxes and Rates, and Income Tax. In our view, there is a compelling argument in favour of eliminating exemptions to GST. We touched on this issue in our submission to the Commission's 2011 Study, and it has been eloquently put in many contributions to the debate.
Import duties have been reduced in recent years but remain a significant burden on some imports; and coupled with them is a plethora of different costs associated with clearing import shipments.
Payroll taxes we face at present are 5.45% in NSW, 4.9% in Victoria, 4.75% in Queensland and 4.95% in South Australia. We consider these taxes a disincentive to employment. Every month when we remit some thousands of dollars to the various state treasuries, we discuss among ourselves how many extra hours we could provide for our staff or how many juniors we could employ with those funds.
Workers' Compensation arrangements in the separate States also vary, and again there is no uniformity in the type of reporting required for each state. Income tax at the company rate of 30%, in our view, is fair and manageable.
Land Taxes and Rates deserve a comment; the boom in property prices has provided a bounteous flow of funds to state and local government budgets; our one shop in Sydney – ONE SHOP – has combined land taxes and rates approaching $28,000 a year. OUCH!

This Submission

We have dedicated about 50 working hours to preparing this submission, drafting it, checking and proof-reading. We do not expect to recover these costs, and can only pose the questions:

* Was it worth the cost, reckoning that the chances of a constructive outcome from any Productivity Commission study are about zero?

And

* Should we just write off our costs as commercial therapy - in that at least they make us think about our business and pinpoint some areas needing improvement?

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