CCIQ SUBMISSION

RELATIVE COSTS OF DOING BUSINESS IN AUSTRALIA: RETAIL TRADE

2014

CHAMBER OF COMMERCE AND INDUSTRY QUEENSLAND

11 JULY 2014

CONTENTS PAGE

1.0 INTRODUCTION

2.0 KEY ISSUES OF CONSIDERATION FOR THE COMMISSION

2.1 Labour Costs

2.2 Electricity

2.3 Insurance

2.4 Retail Shop Trading Hours

2.5 International Competitiveness and the Digital Economy

3.0 CONCLUSION

4.0 *RETAIL RED TAPE CASE STUDY - COSTS SNAPSHOT*

1.0 INTRODUCTION

The retail sector accounts for 4.1 per cent of Australia's Gross Domestic Product (GDP) and 4.5 per cent of Gross State Product (GSP) in Queensland.[1] As retail makes an invaluable contribution to our national and state economies, either by way of employment, training, or tax revenue, it is critical that government look to continuously adjust its policy settings to reduce the costs imposed on the retail industry and maintain its global competitiveness, particularly for small and medium enterprises operating in this space.

As the international economy continues to recover from the global financial crisis, Australia's domestic economic conditions remain relatively soft, leaving the retail sector exposed to slumps in consumer confidence, downward trending retail sales growth, a strong dollar, and skyrocketing energy and utility costs. CCIQ believes that the impacts of the external economic climate on the retail sector are exacerbated by Australia's inflexible workplace arrangements, high labour costs, and uncompetitive taxation arrangements, in addition to other cost burdens such as energy and insurance.

At present, the capacity of the retail sector to continue to productively contribute to Queensland's economy is being undermined by the costs of doing business in Australia. This submission identifies the numerous cost impediments on retail trade in Queensland and the ways in which such costs are affecting the sector's potential to guide the Productivity Commission's recommendations to Government on much needed reform.

2.0 KEY ISSUES OF CONSIDERATION FOR THE COMMISSION

Labour costs

Labour costs are the most significant expense for small and medium retailers, worsened by the price of labour rising higher than the retail price index in recent years. The correlation between growth in wages (in particular penalty rate increases under the award modernisation process), and the inflexibility of the current national workplace relations system, has meant that businesses are unable to effectively offset wage growth with an increase in productivity levels. In a globally competitive sector, businesses must have certainty and the ability to control and/or manage cost increases to ensure productivity growth offsets wage increases. CCIQ believes the current workplace relations regime under the Fair Work Act undermines small business capacity for offsetting wage growth with increased productivity and this directly impacts their viability.

Of particular concern to CCIQ is the growing youth unemployment crisis emerging across Australia due to the significant labour costs for employing juniors under 21 years of age. For example, the recent decision by the Fair Work Commission to increase the rate of pay for 20 year old retail workers to bring their pay rates in line with the adult wage gives employers little incentive to take on junior workers and train them up under the existing workplace relations framework. From 1 July 2014, 20 year old retail workers, currently paid 90 per cent of the adult rate, will be entitled to 95

[1] Australian Bureau of Statistics 2014, Retail Trade, Australia, May 2014, cat. no 8601.0, ABS, Canberra.

per cent of the adult rate. From 1 July 2015, this will increase to 100 per cent of the adult rate. The implications of the ruling are wide-ranging, particularly for an industry already dealing with the twin challenges of international competition and high fixed costs. Businesses argue the ruling presents a tight transitional period for implementation of the increase, which has come on the back of increases to the minimum wage and increases to award wages following the 2013/14 Annual Wage Review. Employers will now be required to pay entry level retail workers around $68 more per week under adult rates of pay (in addition to the AWR increase), which is highly likely to set a precedent for further increases to junior wage rates for 18 and 19 year olds. While large retailers have been paying 20 year olds adult wage rates in accordance with enterprise bargaining agreements, it is the case that smaller retailers have adhered to the lower award rate – because they simply could not afford to pay the bargained outcomes that their larger counterparts do. Under this decision, the capacity of employers to pay mandated wage increases is once again being ignored. This does not change the fact that small businesses remain hamstrung by increases to costs, with the pay rise to negatively impact the viability of retail businesses and employment growth more broadly, ultimately placing the sector under further pressure in an already challenging trading environment.

Further, labour on-costs and administrative burdens, such as payroll tax and workers' compensation, contribute substantially to rising businesses costs and are restricting businesses' ability to focus on growth. Many businesses in the retail sector are heavily regulated across a number of areas. In light of decreased consumer confidence and international competition, retailers are calling for regulatory reform to ease the pressure on businesses already operating in a challenging environment.

Wages, salaries, superannuation, workers' compensation and payroll tax comprise the pool of expenses for the retail sector with respect to labour costs. Already under stress from the post-GFC 'cautious consumer' and increased international competition online, businesses are debilitated by general wage growth and the imposition of penalty rates during 'unsociable hours'. It is without doubt that the single most significant issue for small and medium enterprise operating in the retail sector is penalty rates. Amendments to the Fair Work Act in 2013 also saw penalty rates entrenched in legislation for the first time. Section 134(1) (a) provides that modern awards must take account of 'the need to provide additional remuneration' for employees working overtime, 'unsocial, irregular, or unpredictable hours', weekends, public holidays or shift work. This means that any review or application to vary a modern award must take account of this objective. Simply put, employers' ability to trade at times when it is most profitable to do so is restricted by penalty rate requirements.

As the retail industry is highly reliant on flexibility in the workplace, the business community argues the current Fair Work system, particularly penalty rates and the ongoing increase in the level of award wages, substantially increases total employment costs and negatively impacts operational flexibility. This means that the retail sector is reluctant to take on the additional costs of employment as a result of the imposition of a multi-layered regime of high costs on businesses by way of Australia's current industrial relations framework.

Additionally, workplace health and safety compliance measures, trading hours, and food labelling requirements all represent further examples of costs that require government policy direction to ease the cost burden on small and medium enterprise in the retail sector. CCIQ agrees with the Commission's preliminary findings that workplace regulations are the key driver of retail labour costs and understands that such issues will be more fully canvassed by the Productivity Commission's review of the workplace relations framework.

With respect to the international competitiveness of Queensland business in this space, CCIQ urges the Commission to note that Australia has the highest minimum wage globally, a penalty rates regimes that impacts on the 24/7 nature of the industry, and the longest running compulsory superannuation scheme in the world. CCIQ believes the collective impacts of such cost impositions on small and medium business is directly affecting their ability to compete with international retailers.[2]

Electricity

Small and medium retailers have cited exorbitant increases in energy supply costs as a key cost of doing business. Electricity prices have doubled on average for business over the past seven years, which has created an enormous hurdle for businesses trying to remain competitive. At present, utility costs as a percentage of doing business are unsustainable and threaten to erode Queensland's economic competitiveness.

Further to this point, small and medium enterprise has not been the recipient of government funded energy efficiency programs or compensation packages associated with the suite of green initiatives implemented by the former federal government. Unlike household energy consumers, businesses have been largely neglected in this area and have thus been forced to absorb cost increases into their pricing structures. The impact of the Carbon Tax and the Renewable Energy Target has significantly contributed to the utilities pressure businesses are under.

CCIQ urges the Commission to note that when prices rise dramatically for small business in one business expense line item such as electricity, the flow on effects are that businesses spend less money on capital expenditure and employment, which ultimately impacts the health of the wider economy. Similarly, the rise in electricity costs for households means consumers have less discretionary income to spend in retail stores, resulting in the reduction of overall spend in the economy.

Queensland's electricity costs represent a major influence on whether economic growth can either be stimulated or suppressed. As with other 'costs of doing business', it is critical that energy costs return to sustainable levels to ensure Australia's energy sector is internationally competitive.[3]

---

[2] For more information on labour costs, please see CCIQ's Workplace Relations Blueprint: *A Workplace Relations Framework for Modern Businesses* found at https://www.cciq.com.au/advocacy/blueprints/workplace-relations-blueprint/.

[3] For more information on electricity prices, CCIQ submission to the QCA consultation paper "Regulated Retail Electricity Prices 2013-14: Costs Components and Other Issues" found at https://www.cciq.com.au/assets/Documents/Advocacy/CCIQ-submission-on-the-Retail-Pricing-Determination-and-Other-Issues.pdf

Insurance

The cost impost of rising insurance premiums has emerged as a major constraint on businesses in Queensland. Escalating insurance costs are leading to concerns that some businesses may now be inadequately protecting their assets by under-insuring or foregoing insurance altogether. CCIQ has been alerted to growing concerns regarding soaring costs of insurance premiums, particularly in North Queensland, Far North Queensland and South West Queensland following natural disaster events. On average 5.74 per cent of overall business costs are comprised of insurance premiums.[4]

On average, insurance premiums have increased by 58.2%. In their latest insurance renewal, two in five businesses have changed insurance companies as a result of rising prices. Of concern, 12.3 per cent of businesses reported that they are underinsured and 4 per cent have discontinued their insurance cover, which is in line with the 4.8 per cent of businesses who reported they do not have business insurance.[5]

Businesses have experienced detrimental impacts in a number of areas as a direct result of rising insurance premiums. Many businesses have noted their inability to pass these costs on to the consumer, particularly those engaging in competitive markets. Accordingly many businesses have had to absorb the increases themselves. CCIQ's insurance survey revealed that 51.3 per cent of businesses reported decreased profitability in their everyday operations as a result of rising premiums. Another 26.1 per cent reported decreased investment opportunities as a result of higher insurance costs.[6] Decreased profitability and investment opportunities directly impact on a businesses' ability to remain competitive and viable.

CCIQ believes there are a number of things government can do to relieve cost pressures on businesses in the area of insurance including better regulation of the insurance industry, allowing foreign insurance companies to enter the market, and addressing market failure in regions such as North Queensland to name a few. Overall, government needs to recognise the excessive impact insurance premiums are having on Queensland small and medium enterprise and consider this as a key cost of doing business in the retail sector, particularly in northern Queensland markets.[7]

Retail Shop Trading Hours

The anomalies present in Queensland's existing shop trading hours framework are disadvantaging small business. Thirty six different zones define which business can trade during certain times and confusion around trading category, location, product type, activities, ownership structures, and number of employees, makes Queensland the most restrictive trading hour's framework in the country. As a result, businesses are incurring significant costs when they are prevented from trading to the extent to they would like and the extent to which their customers demand. They are forced to forego trade, which is directed to other retailers or in some industries, online overseas shopping.

---

[4] Queensland Business Insurance Report, Chamber of Commerce and Industry (CCIQ) July 2014.
[5] Ibid.
[6] Ibid.
[7] For more information, please see Queensland Business Insurance Report, Chamber of Commerce and Industry (CCIQ) July 2014 found at https://www.cciq.com.au/advocacy/submissions/.

For example, motor vehicle dealerships are not allowed to sell ride-on movers on Sundays due to the current restrictions in the legislation, yet larger 'hardware' chains that sell the same product are permitted to trade. Similarly, caravan and boating retailers are able to open on Sundays to display vehicles and discuss their features, but cannot make a representation of price or make a sale .It is the same with the caravan and boating industries, where retailers can open on Sundays to display vehicles and discuss their features, but cannot make a representation of price or make a physical sale.

CCIQ notes the inclusion of information provided by Woolworths in the interim report released by the Commission (Box 1, p. 10). Woolworths calls specifically for the national deregulation of shop trading hours in an effort to address inconsistencies in legislation across state jurisdictions in Australia. CCIQ believes a more nuanced policy approach to shop trading hours is required in this instance. As a body, CCIQ is against the complete deregulation of shop trading hours as it is the only tool for maintaining a comparative advantage for small business against large retailers. The Chamber urges the Commission to take into account the view of small business when investigating solutions to increase competiveness in the market and lower the costs of doing business for small and medium retailers.

International Competitiveness and the Digital Economy

Retailers across Queensland are feeling the negative flow-on effects of the recent boom in customers purchasing cheaper goods from overseas-based retailers online. Small and medium bricks and mortar retailers are finding it impossible to compete purely on price with overseas online retailers. As a result of increased competition from international markets and consumer reticence in the post-GFC climate, growth of retail sales has lagged considerably.

Changes in consumer behaviour away from purchasing goods at traditional bricks and mortar retailers are largely due to the accessibility of cheaper products online however, a number of other factors have made online purchasing more attractive such as the appreciation of the Australian dollar, convenience and availability of online shopping, greater range of goods available, and the emergence of 'm-commerce' (the use of mobile devices). Many small businesses in the retail industry pointed to overseas competition via online purchasing as 'killing profitability', and thus directly affecting the ongoing viability of many businesses in retail.

Technological innovation has presented the small business retail sector with both opportunities and challenges. The use of smart devices has assisted with client enticement and loyalty via social media applications and provided for virtual shopping alternatives. However, competition with overseas retailers selling at lower prices, skills shortages in digital technology in retail, the growth of non-store channels, and general hesitancy of bricks and mortar stores to take up digital sales techniques has exacerbated such challenges.

Research conducted by CCIQ via the Digital Readiness Study provided a number of insights into how businesses are using digital technologies to engage with their customers. Significantly, the annual study identified a gap between businesses relying on traditional methods, and those able to adapt and respond to digital innovation. Businesses told CCIQ that a lack of knowledge, inadequate infrastructure, high cost of freight, skills shortages of IT expertise, and ongoing costs were a few of the factors that contributed to business reluctance to take up digital technologies to increase competiveness with online retailers.[8]

In this light, CCIQ encourages the Commission to note the ways in which existing costs on small and medium enterprise, such as those listed in this submission, are impacting the take-up of digital technologies and thus preventing businesses from effectively competing with online stores.[9]

CONCLUSION

CCIQ believes the Productivity Commission's Inquiry into the Relative Costs of Doing Business for the retail sector is an excellent opportunity to consider what improvements can be made to manage to cost impositions on small and medium retailers. The health of the small businesses in the retail sector is critical to the health of the economy, and in this light, CCIQ urges the Productivity Commission to provide recommendations to government that set the appropriate conditions for SMEs to perform at their best.

---

[8] Digital Readiness Study 2012, Chamber of Commerce and Industry Queensland (CCIQ).

[9] For more information on small business and the digital economy, please see CCIQ's Digital Readiness Study found at https://www.cciq.com.au/industries/technology/digital-readiness-study/digital-readiness-study-2012/

Figure 1 Retail Red Tape Case Study - Costs Snapshot

The effect of red tape on this sector is two-fold: retail and wholesale business are directly affected by the red tape and regulatory burden that they themselves must comply with; and indirectly their sales and revenue is affected by the negative affect that cumulative compliance burden has on other businesses, consumers and suppliers.

Case Study: Retail Supermarket (Sunshine Coast)

About the Business: The business operates an independent supermarket on the Sunshine Coast. The primary supermarket has been operating for 17 years, with a second store being acquired in 2002. The business employs 100 staff (50 FTE + 50 casuals) across the two separate stores.

Case Study Overview:

- annual compliance costs this business over $230,000
- total cost of compliance represents approximately 10% of annual profit.
- $94,000 for compliance with workplace health and safety regulation
- over $60,000 on fair trading regulation.
- Recent applications to government for business development and expansion cost the business over $300,000.
- Annually compliance activities cost the business over 1760 hours, the equivalent of 1 FTE.

Case Study: Motor Vehicle Dealership (North Queensland)

About the Business: The business is a family owned and run, second generation business specialising in the sale of new and used motorcycles, ATVs, carts and other off-rad vehicles and machinery. The business also provides after-sales services, retails parts and accessories and offers finance and insurance services.

Case Study Overview:

- annual compliance cost equals $246,000
- $67,000 spent on compulsory premiums, fees and charges annually
- 2116 hours spent annually on red tape administration and reporting
- Fair trading regulation costs $118,000 and 1386 hours each year
- Transport and vehicles regulations cost the business $35,000 annually

Source: CCIQ Red Tape Case Studies[10]

[10] For more information for the cost of red tape on small and medium enterprise, please see CCIQ SME Red Tape Case Studies found at https://www.cciq.com.au/advocacy/campaigns/cciq-s-sme-red-tape-challenge/red-tape-calculator-and-sme-case-studies/