



Australian
Retailers
Association

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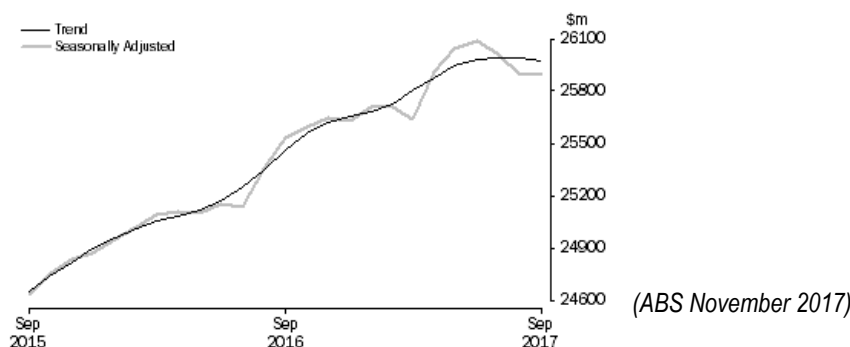
ARA SUBMISSION: RETAILER PERSPECTIVE ON IMPACTS TO LOCAL BUSINESS FROM GLOBAL INTERNET-BASED COMPETITION

Friday 1 December 2017,

Introduction:

Retailers are facing strong headwinds in sustaining growth, due in part to the challenges posed by a marked increase in online competition from overseas retailers. In the retail industry, the internet has allowed access for Australian consumers to brands and retailers which were, or continue to be, unavailable locally. Whilst this may benefit consumers, the impact on the local industry in the long run remains to be seen.

This, combined with a range of other unique pressures are impacting on the ability of retailers to continue to contribute to employment, economic growth, and goods and services provision. According to Retail Trade Figures from the Australian Bureau of Statistics, retailers continue to struggle. Turnover rose from \$25.6 billion to \$25.9 billion in September 2017, representing an overall 1.44 per cent increase year-on-year. This is well below the seasonally adjusted year-on-year inflation figure for September 2016-17 of 1.9 per cent.



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The challenges are greater for SME retailers attempting to sustain growth in an increasingly competitive environment. With around 95 per cent of all retail businesses being small businesses¹, it is increasingly clear that further support is needed when responding to the unique challenges faced by SME retailers.

One recent report highlights one third of Australian retailers do not feel they are in a good position with basic requirements such as staff, stock and shipping². Labour and occupancy costs continue to beleaguer retailers in Australia, which are cost pressures not faced by overseas or online competitors. These issues, along with red tape, taxation, innovation and skills reform are key drivers to furthering the successes of local retail.

Regulatory Burden:

Red tape remains an impediment to all business investment - the retail industry is no exception. Trading hours, planning regulations, licensing continue to stifle potential productivity gains:

Red Tape:

Anti-competitive planning and zoning laws contribute to the upward pressure on costs for the local retail industry. High overhead costs contribute to the difficulties faced by retailers re-investing in productivity gains. Less money to re-invest means less ability to compete, especially in a globalised trading environment, which does not always require physical premises in order to compete.

Affordable and reliable supply of retail space remains an ongoing issue. According to Cushman and Wakefield's 2017 report, Australia is the seventh most-expensive place in the world to rent retail space. This is compared to Australia's position as the world's 12th-largest economy.

Additionally, the increase of suburban shopping centre space has at times contributed to a decline in localised retail along main streets. Some suburban and regional locales have seen abandoned retail space, low levels of consumer spend and, at times, a rise in anti-social behaviour. A lack of incentives for people to go to their local shopping strip or town centre decreases footfall and increases the pressure on SME retailers. This is exacerbated by cross-border online purchases taking money away from local areas, leading to less market diversity and competition.

Complexities resulting from cross-overs between local and state government regulations can make it difficult for SME retailers to grow their businesses. Navigating the differences between regulation at all levels of government, and burdensome reporting contributes to high transaction costs and compliance

¹ Productivity Commission 'Costs of Doing Business: Retail Trade Industry' report 2015.

² Temando and Australian Retailers Association '#stateofxmas' report 2017.

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burden. Companies should not have to comply with extra compliance obligations just because of regulatory duplication.

The ARA would like to see all levels of government commit to prioritising SMEs, including SME retailers, with reform of planning and zoning regulation, reducing complexities and costs of compliance. Administration tasks should be simplified and centralised, especially with regards to permits and licensing.

Therefore, the ARA calls on government to streamline regulation, removing unnecessary duplication, centralising business registers and bureaucratic processes. Serious action must be taken to reduce the regulatory burden for SMEs.

Trading Hours:

Inconsistencies both within and between jurisdictions continue to pose a barrier to productivity to the local retail industry. Harmonising trading hours across the board will assist in increasing retail trade, sustaining economic growth and providing greater employment opportunities, especially for young workers and students.

The local retail industry cannot continue to operate under this multi-layered and restrictive trading environment when faced with the 24/7, globalised nature of online retail. Retailers across all areas of Australia, urban and rural, deserve the opportunity to compete unrestricted against the encroachment faced by overseas online competition.

The ARA calls on all levels of government to lift trading hours restrictions on retailers to facilitate a more level playing field, especially for SME retailers.

Tax:

Australia's cumbersome taxation system continues to weigh heavily on business and consumers alike. Taxation and compliance cost pressures are exacerbated in an environment with increased competition.

The ARA supports the Government's proposal to reduce company tax rates. High rates of corporate tax discourage investment and stifle competition, especially with overseas businesses who enjoy better trading conditions. Recent moves by several of Australia's G20 counterparts to reduce corporate tax rates by 2020 will place Australia further behind the world's advanced economies³.

It is impossible for retailers to compete fairly against companies which operate out of lower taxing jurisdictions, as the higher cost and regulatory burden hampers re-investment in innovation. The ARA

³ Oxford University Centre for Business Taxation 'G20 Corporation Tax Ranking' report 2016.

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calls for renewed vigour in lowering the Corporate Tax rate and reviewing and streamlining the tax system as a whole.

This has allowed international companies to gain a foothold in the Australian market, in both the online and physical marketplaces. According to data from the Deloitte Global Powers of Retailing Report, 15 of the world's top 50 e-tailers are now selling online to Australia; all are based overseas⁴.

Levelling the taxation playing field is crucial to the success of Australian retail. This is an important measure to increase business confidence, which will have associated benefits to productivity and employment, and to stimulate innovation and retail entrepreneurship.

LVT GST:

The ARA has advocated for a level playing field in backing changes to the Low Value Import Threshold (LVT) for GST. Australian retailers have long been at a disadvantage to overseas retailers selling to Australia without having to impose GST. This has resulted in local retailers, both bricks-and-mortar and online, effectively placed under a higher tax burden due to the discrepancy in GST collection.

The ARA supports the recent Productivity Commission findings on lowering the LVT and recommended Vendor Collection Model. We urge Federal Parliament to implement these changes without delay, no later than 1 July 2018.

However, the ARA believes the Vendor Model does not go far enough and Australian retailers will continue to face a competitive disadvantage to their overseas counterparts trading online. Whilst the vendor model is the quickest and easiest to implement, loopholes will continue, and capture rates will remain low. This remains a consistent issue for Australian retailers due to the low rates of collection by the Vendor model.

Australian retailers are unable to compete on price, or innovation, with overseas retailers who market products to Australian consumers if loopholes and exemptions continue. This is especially true given the increasing uptick in online shopping, which has placed Australian businesses at an increasing disadvantage to overseas competition. The ARA believes the current model should be expanded to include additional collection measures, such as transporter liability, to further reduce the inequalities faced by Australian retailers.

Other Taxation Measures:

Payroll tax – though not a Federal issue, it is incumbent on the national government to show leadership to work with the states in reducing the overall tax burden. Payroll tax acts as a disincentive to increasing employment, hampering growth by penalising businesses for capitalising on human resources. Whilst

⁴ Deloitte 'Global Powers of Retailing' report 2017.

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efforts have been made by all states to alter payroll tax rates, the truth remains that it continues to be an inefficient tax, placing an unnecessary burden on growth.

The ARA continues to advocate for a simpler, fairer and more effective tax system. The compliance burden on SME retailers remains unnecessarily cumbersome; abolishing inefficient taxes and simplifying the system will assist them in their efforts to comply. Furthermore, lowering compliance costs for local retailers will remove another unnecessary disadvantage to overseas competitors.

Leaky Border:

While retailers are happy with the recent moves to implement collection of GST on overseas purchases, our experience on duty products informs us there will be a considerable lack of compliance at border. This is an issue we believe is systemic and needs to be addressed as part of the internationally exposed modern consumer economy.

These issues not only affect the level playing field for retailers - they also impact Federal and State Government revenue.

Through both the Black Economy Taskforce, of which I am a member of the industry advisory committee, and the Productivity Commission Inquiry on Low Value GST Collection, the ARA has been pursuing measures which can address collection of both consumer taxes on all overseas purchased consumer goods as well as duty owing, particularly on excise products.

One estimate we subscribe to is that a more thorough collection method for online GST, involving transporter carrying liability for taxes owing on goods, could raise an additional \$1.5 billion over five years.

In addition, the same measure could help the ATO raise \$5 billion in excise and GST on tobacco alone this financial year. Calculations to produce the exact figure for alcohol are continuing.

The ARA proposes that, like in a number of other countries, transporter and postal services take responsibility for what they are shipping and, consequently, any taxes or duties due on those products.

These measures are already operating offshore; there are cases in the US where a transporter was charged with state consumption tax duties owing after spot checks, and as postal agreements come into place the same system will work with small postal goods here in Australia.

The modernised transporter model is also a significant improvement over the legislated model because:

- (i) The modernised transporter model ensures a level playing field for Australian retailers. The Australian government estimates that five years after implementing the legislated model, it will still only be able to collect GST on just over half LVIGs entering Australia.⁴ In comparison,

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under the modernised transporter model, the Australian government could collect GST on 95 per cent of LVIGs.

- (ii) The modernised transporter model can be implemented beginning 1 July 2018 with higher rates of compliance and GST collections. In Year 1 of implementation, Australia will collect more than twice the amount of GST under the modernised transporter model versus the legislated model, and up to \$1.5 billion or 125 per cent more in GST over a five-year period.
- (iii) The modernised transporter model will generate greater State and Territory revenue⁷ at minimal cost to the government, Australia Post and other transporters. New South Wales, Victoria, and Queensland would each forgo more than \$340 million in GST revenues over a five-year period under the legislated model.

Payments Reform:

Payment costs remain an ongoing cost barrier for physical-store retailers competing against overseas and online merchants. While these cost pressures extend across retailers of all sizes, SME retailers bear a heavier burden, in relative terms.

Physical retailers face increasing transaction costs due to a lack of choice when routing dual-network card payments. Cards which feature 'tap-and-go' technology are automatically routed through credit, rather than the least-cost eftpos option. This is a cost burden not borne by overseas retailers selling to Australians online. Recent estimates have placed this figure at \$450 million per annum in extra costs to local retailers⁵.

The ARA continues to advocate, through the Australian Merchant Payments Forum (AMPF), for least-cost routing for Australian retailers. The ARA believes retailers should be provided with the option to route through eftpos, which will reduce costs for both consumers and merchants alike. The ARA is currently seeking support from the Reserve Bank of Australia and other stakeholders to assist in levelling the playing field for the local retail industry.

Fraud:

Card Not Present (CNP) fraud also continues to proliferate as an issue. Current estimates place the cost of online fraud to Australian merchants at around \$250 million per annum. While fraud-detection technology, such as 3D Secure, exists, the costs of implementation are high, especially for SME retailers. As other jurisdictions begin to implement technology to tackle fraud, there is a risk that this figure will escalate as fraudsters begin to more-frequently target Australia.

⁵ BankingDay November 2017

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Tackling CNP fraud will better assist Australian retailers to compete against global online competition. The ARA and AMPF are advocating for a mandated and industry-led implementation of 2-factor authentication to assist retailers in tackling fraud online. This would include extra-authentication steps for consumers who do not satisfy specific data requirements when making a purchase.

The ARA is seeking leadership from Government and regulators in implementing these measures. An industry-backed, flexible approach will ensure that SME retailers are more able to detect and prevent instances of fraud at a lower cost. This will also ensure that all consumers will experience a consistent approach, preventing market failure from fear of dropout or migration to other competitors.

Innovation and Resources:

An increasingly globalised environment, has dramatically altered the retail trading landscape. Whilst this has benefited consumers, it has also challenged the local retail industry and restricted growth. Developments in technology have broadened the geographic footprint of many retailers, including international competitors, creating an unprecedented challenge for the local industry. Overseas competition online has placed pressure on local retail, which hinders their ability to re-invest in innovation.

Overall, Australian retailers have been slow to innovate: a recent survey found that 56 per cent of retailers see technological change as a major disruption to their business⁶. International examples in this vein are telling; the 2015 Global Retail E-Commerce Index found that 'many Belgian retailers were late to e-commerce, and as a result, many Belgians are shopping on foreign websites.'⁷ Belgium now ranks just above Australia in this index – the parallels are a stark reminder of the importance of nurturing Australian retail.

This speaks to the necessary advancements required in Australia's technology infrastructure. Business requires access to reliable, easy to set up, and high-quality communications technology at low cost. Younger demographics increasingly prefer online shopping, and have high expectations for convenience and interconnectivity. Indeed, cost pressures are one of the greatest hurdles to any business attempting to modernise their technology to compete in the digital age.

Continued growth in online spending has seen increasing numbers of retailers turning to an omnichannel approach to establish an online presence alongside their traditional bricks and mortar stores. Retailers need support in developing omnichannel strategies and expanding their businesses online to maintain growth. This is especially true for SME retailers, who face a lack of visibility in the online space, which is magnified by global competition. Innovative retail methods and omni-channel strategies are costly to develop and implement.

⁶ Pronto '2017 Australian Retailer Technology Review' 2017.

⁷ AT Kearney 2015 Global Retail E-Commerce Index, 'Global Retail E-Commerce Keeps on Clicking' report 2015.

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The ARA calls on government to provide leadership in assisting small businesses to create e-commerce platforms and help to develop IT and marketing expertise to facilitate competition in a globalised environment.

Logistics and Supply Chain:

Australia's domestic supply chain is, at present, sub-optimal, inefficient and reduces the competitiveness of Australian retailers. Consumers expect a seamless, efficient experience when purchasing products across all forms of retail, and retailers are struggling to adapt. International gateway and customs processes delay products arriving from overseas to be sold in Australian stores; retailers are struggling with product availability and replenishment; and this impacts the ability of retailers to provide efficient service to their consumers.

Structural changes are needed to many retail supply chains for retailers to adequately compete in a multi-channel environment. However, there is no reason for retailers to re-orient their supply chains if they lack sophisticated logistics, freight, and parcel delivery options. Economies of scale in Australia also complicate the logistics and fulfilment pressures facing Australian retailers. The difficulties of developing and understanding supply chain standards, ensuring product quality and safety, responding to customer needs, and increasing efficiency and profitability, are magnified in an increasingly competitive environment.

The ARA urges Governments at all levels to simplify regulations, including planning and zoning for warehousing, logistics and transport regulations, and customs and border operations. Australian retailers cannot be successful in diversifying their offering without sophisticated logistics and transport networks. One survey found that 56 per cent of Australian retailers struggle with shipping, especially at peak periods. In addition to this, 63 per cent of retailers used Australia Post for their last-mile delivery⁸. The increase in e-commerce has also placed increasing pressure on Australia Post and other parcel carriers.

The ARA believes Australia's logistics and postal services need to be modernised and expanded to keep up with demand. This will increase the capability of Australian retailers, and other businesses, to compete with overseas online merchants, by offering reliable and affordable delivery services to consumers. Priority should be given to innovative technological solutions, and

Skills:

With the increasing divergence in consumer behaviour, retailers need to be able to retain skilled, knowledgeable and experienced staff to invest in customer experiences and other strategies to continue to grow. In a rapidly evolving, highly competitive retail market, these burdens are especially great on

⁸ Temando and Australian Retailers Association '#stateofxmas' report 2017.

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SME retailers. SME retailers often operate alone, and may struggle to increase skills and drive innovation without quality training programs.

Skills shortages continue to impact on the retail industry, which contributes to the disadvantages retailers face in combatting overseas competition online. Positioning the retail sector as a career choice, and developing skills and expertise is crucial to maintaining the retail industry's place as Australia's largest private industry employer.

Australia's Vocational Education sector has only just begun to recover after years of neglect and disruption. This has led to a majority of students prioritising University degrees and high-paying professional occupations. Action needs to be taken to encourage entrepreneurship in retail, and to prepare the next generation of retail entrepreneurs. Stimulating and encouraging innovation in the local retail industry begins with equipping and educating our budding entrepreneurs.

The ARA calls on government to support educational measures to assist the development of skills and expertise in the Australian retail industry. Specialised Retail VET providers should be given extra assistance and support as the market leaders in equipping the retail industry with the necessary skills for success. This can be achieved through helping to fund retail industry run training courses to improve skills for future retail entrepreneurs.

Summary:

Australian retailers are facing unprecedented challenges to their business. Changes in technology have allowed competition from overseas retailers to threaten the viability of local retailers. The ability for the Australian retail industry to maintain its status as Australia's largest private industry employer, and to contribute to the economic growth and goods and services provision is under threat.

To respond to these changes, the ARA is advocating for a strong response from all levels of Government to global internet-based competition by:

- Supporting SME retailers by reducing and removing unnecessary, inefficient red tape;
- Lifting trading hours restrictions for retailers to facilitate a more level playing field;
- Committing to reducing Corporate tax rates to reduce the burden on Australian retailers;
- Expanding the LVT GST Collection Model to include transporter and postal service liability;
- Show leadership by driving down payments costs for retailers on 'tap-and-go' routing;
- Implement an industry-wide standard for tackling Card-Not Present fraud online;
- Support for innovation and technology in the retail sector, especially for SME retailers;
- Simplification of regulations efficient supply chain, including planning and zoning, customs and border operations, and logistics and transport;
- Modernising Australia Post through innovation and expanding its logistics capacity;
- Take action to support VET in retail and encourage retail entrepreneurship.

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Retailers are adapting to challenges in the sector to the best of their ability. However, they cannot go it alone. Without assistance from all levels of Government to create the right conditions for business, in-house innovation will not be enough.

For more information on our submission, please contact ARA Director of Policy, Government and Corporate Relations, Heath Michael, by email at

Kind regards,

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