



Australian Government
Department of Industry,
Innovation and Science

Inquiry into impacts on local businesses in Australia from global internet-based competition

Department of Industry, Innovation and Science
Submission

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Introduction

The Department of Industry, Innovation and Science (the Department) welcomes the opportunity to provide a submission to the House of Representatives Standing Committee on Industry, Innovation, Science and Resources (the Committee) Inquiry into impacts on local businesses in Australia from global internet-based competition. Enabling Australian industries to be globally competitive, including through digital channels, is central to the Department's vision. The Department works closely with industry, businesses, the science community and other stakeholders, and across governments to help build a globally confident and outward looking Australian economy through: supporting science and commercialisation; growing business investment and improving business capability; and simplifying doing business.

The high standards of living Australians have enjoyed over our record-breaking 26 years of growth have been enabled by our open and competitive economy. Our economy is always undergoing change, and competition from global internet-based businesses is just one of many forces impacting local Australian business, including technological change, globalisation, and changing consumer preferences. Continuing to adapt to these forces will enable the Australian economy to continue to grow and improve the well-being of Australians

The Department notes the Committee is considering the following questions under the Terms of Reference (ToR):

1. How has/will the existing retail industry cope with changes to the sector's landscape brought about by the existence of global online retail business?
2. What are the consequences for small businesses in terms of new competition and access to digital platforms?
3. How are small businesses responding to digital change and what is their uptake of new digital business services?
4. What impacts do the above have on employment, including employment levels and conditions?
5. What roles can the Commonwealth Government and Parliament play in fostering innovation for Australian businesses to respond to these challenges?

In this submission we begin by exploring the broad economic impacts of online competition, the context of the Australian retail industry, and the impact of internet-based competition on large¹ and small retailers and the opportunities and challenges they face (ToR 1, ToR 2). We then consider the impact on large and small non-retailers and the challenges and opportunities they face (ToR 2), examine how businesses are responding to digital change (ToR 3) and the impacts on employment levels and conditions (ToR 4). Finally we outline the role for government in assisting businesses to

¹ Unless otherwise specified, medium businesses are grouped with large businesses.

respond to the challenges and opportunities created by global internet-based competition (ToR 5), with a particular focus on the Industry, Innovation and Science Portfolio.

Overview

Broad economic impacts

- Global internet-based competition helps to drive competition and is beneficial for the economy, consumers, and living standards.
- For individual firms, however, the impact of global-internet competition is mixed and depends on the size and business model of each firm, and the types of products and services they offer.
- Table 1 (overleaf) outlines potential impacts for Australian businesses based on their characteristics.

Impacts on retailers (*ToR 1*)

- Online selling has meant that the retail industry is operating in an increasingly complex and dynamic environment, where competition takes place across borders on different platforms.
- Online retail spending in Australia is still a low proportion of total retail spending, but growth in turnover and employment in online retail has been rapid.
- Larger traditional retailers will face significant competitive pressure but will also have the opportunity to use digital and online channels to enhance customer experience in their 'bricks and mortar' stores.
- For smaller retailers, the impacts will be more varied: (*ToR 2*)
 - Many businesses are already embracing online selling.
 - Sellers of niche products that have international appeal are likely to benefit from access to global markets through the platforms of large online retailers. Use of these platforms does not require a large investment in digital skills.
 - For businesses able to use global digital platforms, evidence suggests they will become exporters, which will tend to make them more successful.

Impacts on non-retailers

- Larger businesses which enable online selling such as digital service providers are likely to benefit from increased demand for their services. For large transport and logistics firms the impact will depend on whether they are competing directly with the distribution networks of large online retailers.
- For smaller non-retail businesses: (*ToR 2*)
 - Manufacturers selling niche consumer products are likely to benefit from access to global markets through access to digital platforms;
 - Logistics providers in areas not served by large online retailers' distribution networks may see an increase in demand for delivery of online selling;
 - Services businesses are likely to benefit from increased demand as consumers who save on retail spending by shopping online will have more money to spend elsewhere.

Table 1: Likely Impact of global-internet competition on Australian businesses by business characteristics²

Impact by business characteristics		
Retailers	Large retailers	<ul style="list-style-type: none"> Large ‘bricks and mortar’ retailers such as department stores, and existing domestically focused low-cost online retailers are <i>likely to face significant competitive pressure</i>. Large retailers who are able to innovate and adapt their business models to provide high quality in-store or local services that online competitors are unable to provide will <i>face competitive pressure but may be able to attract consumers by differentiating their products and services from online only retailers</i>. Large online retailers whose product range and customer service is competitive with global retailers <i>will face competitive pressure but may also benefit from an increase in online shopping</i>.
	Small retailers	<ul style="list-style-type: none"> Small traditional retailers selling homogenous products which can be obtained more cheaply online are <i>likely to face significant competitive pressure</i>. Sellers who meet demand for locally produced goods and in-store services that online competitors cannot provide <i>will not face direct competition</i>. Niche sellers whose products have international appeal are <i>likely to benefit from access to global markets through their own platforms or the platforms of large online retailers</i>.
Non-retailers	Large businesses	<ul style="list-style-type: none"> Transport and logistic companies are likely to face mixed impacts. They will <i>face competition from the distribution networks of international online retailers, but increased demand from online sellers not using these platforms</i>. IT consultants and digital service providers are <i>likely to benefit from increased demand for their services</i> as more businesses use online selling and other digital channels to engage with customers.
	Small businesses	<ul style="list-style-type: none"> Small manufacturers selling niche consumer products are <i>likely to benefit from access to global markets through access to digital platforms</i>. Small logistics and transport businesses operating in areas not served by large online retail distribution networks are <i>likely to benefit from increased online retail spending</i>. Small services businesses are <i>likely to benefit from increased demand as consumers who save on retail spending by shopping online will have more income to spend elsewhere</i>.

² Small businesses employ less than 20 people, and large businesses employ 200 or more people. Some medium businesses (employing 20 to 199 people) may have characteristics matching those of small businesses as described in this table, while others may be more similar to large businesses.

Digital uptake from business (ToR 3)

- Australian retailers are not yet realising the full potential of online platforms and other digital technologies.
- Small businesses – both retail and others – are behind their larger counterparts on uptake of digital. However, small retail businesses are ahead of small businesses in other industries on several uses of digital.

Impacts on employment (ToR 4)

- While growth in retail employment has slowed significantly since the global financial crisis, the strongest growth has been in the non-store retailing group.³
- Increasing global internet-based competition is likely to put downward pressure on retail employment, but this is likely to be offset by growth in other sectors.

The role for government (ToR 5)

- Attempts to slow disruptive change will make Australians worse off. Instead, we need to take advantage of the opportunities new technology and innovation present. The Australian Government plays an important role in supporting businesses by promoting a low cost and competitive business environment, and fostering innovation and business capability.
- The Australian Government is focused on maintaining a low cost business environment that enables competition and innovation, including through effective tax, regulation and competition policies.
 - For example, the Department is working to make it easier to start and do business in Australia through the National Business Simplification Initiative.
- To succeed in a more digitally enabled and internationally competitive market, our businesses need to be innovative, be able to engage internationally, including through digital platforms, and be digitally capable. It is therefore important that the Australian government play a role in lifting business capabilities and innovation where market failures exist. For example:
 - The Digital Economy Strategy will set out a forward plan to address emerging digital economy opportunities and challenges and will consider ways to increase business digital capability.
 - The Research and Development (R&D) Tax Incentive encourages companies to engage in R&D benefiting Australia
 - The Entrepreneurs' Programme supports innovation capability and the development of an entrepreneurial culture.
 - The National Innovation and Science Agenda sets a focus on science, research and innovation as a long term driver of economic prosperity and growth.

³ Non-store retail includes direct selling and internet retailing.

Broad economic impacts of online competition

Global internet-based competition helps to drive competition and is beneficial for the economy, consumers, and living standards. Its impacts are disrupting almost every industry, including media, entertainment, financial services, transportation and accommodation. In this respect the disruption expected in the Australian retail industry from the growth of online digital marketplaces such as Amazon, eBay and Alibaba is part of a broader transition to the digital economy.

The benefits of increased global internet-based competition flow primarily to consumers. Increased competition between retailers leads to a wider range of goods and services being available, at lower prices. This increases consumer welfare and disposable income, which increases spending, particularly in service sectors and lifts economic growth and creates employment across the economy.

Online retail is also delivering greater power to consumers which also increases competition and drives down prices. Digital platforms associated with online retailing, like social media and aggregator websites, provide consumers with more information on the quality of products and on the firms that produce them. Aggregators and comparison websites act as intermediaries that reduce search costs by bringing disparate information together in one place. This makes it easier for consumers to compare products, particularly if the platform allows users to compare the features of more complex offerings.⁴

In traditional markets where repeated transactions are infrequent, consumers are largely forced to rely on brand reputation, warranties, and information provided by vendors to assess the quality of products. Online retail platforms that include peer review systems greatly increase the information available to consumers, which enables them to impose market discipline on poorly performing firms.⁵

The arrival of Amazon into Australia will likely increase choice, empower consumers and reduce prices, with UBS predicting that Amazon's entry could reduce headline inflation by 0.25 per cent.⁶ Amazon's entry into other markets has been associated with price drops, notably in the case of the recent takeover of Whole Foods in the United States, a supermarket chain known for natural foods and high prices. Some larger retailers in Australia have suggested they will also lower prices to compete with Amazon.⁷

⁴ *Digital Disruption: What do governments need to do?*, Productivity Commission, 2016, <https://www.pc.gov.au/research/completed/digital-disruption>

⁵ Ibid

⁶ *Amazon entry to Australia will hit retailers, landlords and economy: UBS report*, Australian Financial Review, 1 August 2017 <http://www.afr.com/business/retail/amazon-entry-to-australia-will-hit-retailers-landlords-and-economy-ubs-report-20170731-gxm2ko>

⁷ Ibid

The Australian retail industry

Global internet-based competition is impacting on sectors across the economy. The retail sector is of particular interest due to its economic importance and the recent arrival of Amazon in Australia. The retail industry contributes 4.3 per cent of gross domestic product⁸ and employs 10 per cent of the national workforce.⁹

The Australian retail industry has historically been relatively concentrated and protected from the impacts of globalisation.¹⁰ Until recently, our geographic position and small market, combined with other barriers to entry, made it unattractive for international retailers to enter.¹¹ Where there had been disruption from new business models (such as low cost department stores in the 1960s and 70s) those disruptions came from existing retailers, rather than new entrants.¹²

This began to change in the 2000s through new entrants such as Aldi, Costco, Zara and Uniqlo. However, the emergence of global internet-based competition is proving to be more disruptive, not only from increased international competition but also from the introduction of new business models that retailers need to contend with. Internet-based competition has created a challenging trading environment for many retailers, particularly as it has come at a time when other factors are also providing challenges for the sector.

The impacts of these challenges are reflected in sluggish growth in the sector over the past decade, as households reduced spending following the global financial crisis. Retail turnover grew at an average rate of 3.8 per cent a year in the decade to 2016-17, down from an average 6.2 percent between 1997-98 and 2006-07 (Figure 1).

Longer-term changes in consumer preference have also placed downward pressure on growth in retail spending. Consumers are now spending relatively more on services, like restaurant meals, and less on goods, like clothes and household items. Department stores have been hit particularly hard (Figure 1).

⁸ ABS cat. No.5206.0

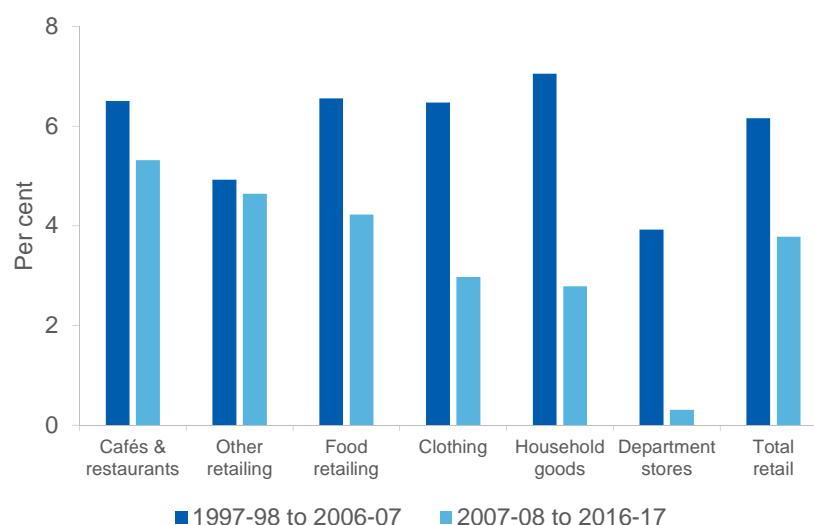
⁹ ABS cat. No. 6291.0.55.003

¹⁰ *Submission to the Productivity Commission inquiry into the Economic Structure and Performance of the Australian Retail Industry*, Australian National Retailers Association, May 2011, <http://www.pc.gov.au/inquiries/completed/retail-industry/submissions/sub091.pdf>, p12

¹¹ *Economic Structure and Performance of the Australian Retail Industry*, Productivity Commission Inquiry Report, 4 November 2011, <https://www.pc.gov.au/inquiries/completed/retail-industry/report/retail-industry.pdf>, p18

¹² *History says department stores will struggle in the future*, Matthew Bailey, The Conversation, 30 October 2017, <https://theconversation.com/history-says-department-stores-will-struggle-in-the-future-85527>

Figure1: Average annual turnover growth, 1997-98 to 2016-17



Notes: Aggregated original data, average compound growth rate between the first and last financial year in each period

Source: ABS cat. no. 8501.0, Table 1

Online retail still makes up a relatively small proportion of retail turnover in Australia. Available estimates suggest that the volume of online spending in Australia is equivalent to around 6.4 per cent¹³ of total retail turnover.

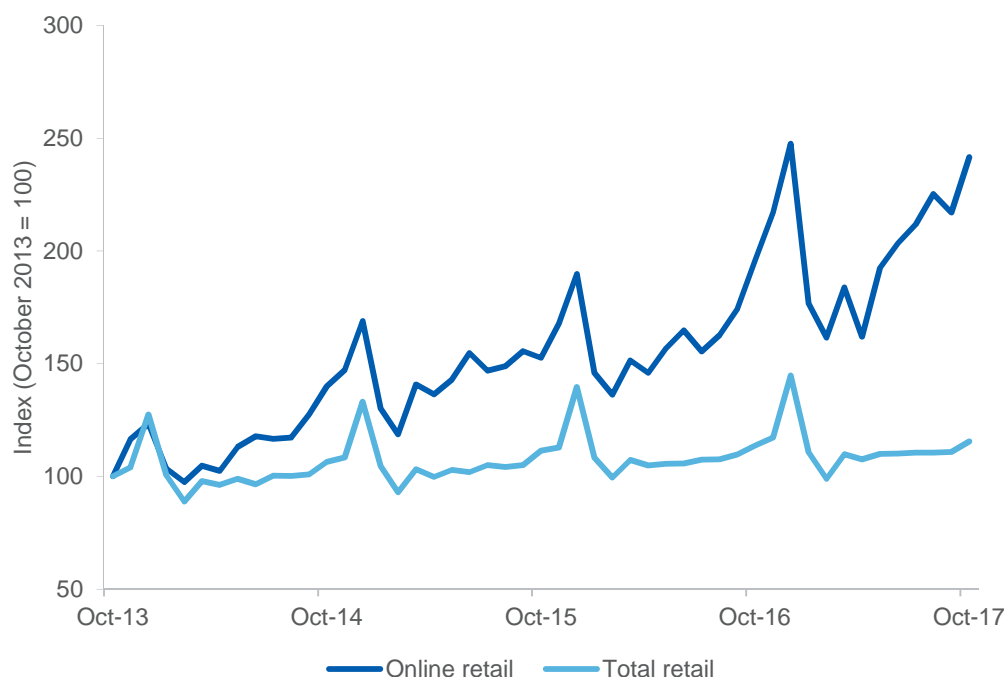
Despite Australia's relatively low levels, online retail has been growing strongly. According to ABS data, online retail turnover has grown 142 per cent since 2013. This compares to just 16 per cent for the retail industry as whole (Figure 2). National Australia Bank transaction data indicates that online retail has grown at an average annual rate of 9.2 per cent in 2017.¹⁴ At present, 80 per cent of online spending by Australian consumers is with domestic retailers.¹⁵

¹³ Average of estimates provided by the National Australia Bank (7.3 per cent, 2017, NAB online retail sales index) and Commonwealth Bank of Australia (5.5 per cent, 2015, Online Retail Report)

¹⁴ Ibid

¹⁵ National Australia Bank, 2017, NAB online retail sales index, In-depth report – September 2017
<https://business.nab.com.au/wp-content/uploads/2017/11/norsi-sept-2017.pdf>

Figure 2: Retail turnover, 2013 to 2017



Notes: Original data. Australian businesses only. The ABS urges caution using online turnover estimates.

Source: ABS cat. no. 8501.0, Table 1 & Appendix A1

Amazon's arrival in Australia is expected to further contribute to the growth of online shopping and significantly impact the dominance of domestic retailers in e-commerce. In the US and the UK, where Amazon has an established presence, online shopping makes up 10 per cent and 15 per cent of retail spending respectively.¹⁶ However, our relatively small and dispersed population, and the challenges this creates for distribution, suggests that Australia will continue to lag most other advanced countries.

In Canada, a country with a similar population spread to Australia, and where Amazon is already established, e-commerce makes up 7 per cent of retail spending. Amazon's sales in Canada started slowly, but is now growing at around 50 per cent a year.¹⁷ This suggests that whilst Amazon's impact in Australia will be immediate, it will take time to gain significant market share – UBS predicts that Amazon will reach 2 per cent of retail sales within 5 years of entering Australia.¹⁸ This compares to a current market share of around 5 per cent in the US.¹⁹

¹⁶ *Will Canadian Retailers Meet Demand as E-Commerce Takes Off?*, BCG, 12 June 2017, <https://www.bcg.com/en-cn/publications/2017/retail-technology-digital-canadian-retailers-meet-demand-e-commerce-takes-off.aspx>

¹⁷ *Amazon entry to Australia will hit retailers, landlords and economy: UBS report*, 2 August 2017, <http://www.afr.com/business/retail/amazon-entry-to-australia-will-hit-retailers-landlords-and-economy-ubs-report-20170731-gxm2ko>

¹⁸ Ibid

¹⁹ *This chart shows how quickly Amazon is 'eating the retail world,'* CNBC 7 July 2017, <https://www.cnbc.com/2017/07/07/amazon-is-eating-the-retail-world.html>

Impacts on retailers

The benefits to consumers and the economy from the trend towards online retail are clear, but the picture for existing businesses is mixed. For traditional “bricks and mortar” retailers, online retail represents not only new competition, but competition from a completely new business model which will pose many challenges. UBS has estimated that the largest category of sales for Amazon in Australia will be electrical (32 per cent), followed by apparel and toys (25 per cent) and sports and leisure (14 per cent).²⁰ Traditional retailers who specialise in these areas will be significantly impacted.

On the other hand, there are also opportunities for firms to use their physical stores to differentiate themselves from online sellers, and small businesses will more easily be able to go online themselves by selling through digital platforms such as Amazon.

Large retailers²¹

Large ‘bricks and mortar’ retailers such as department stores, low cost sellers who are not able to adapt their business models, and existing domestically focused low-cost online retailers are likely to face significant competitive pressure from Amazon and other global digital marketplaces. Large online retailers whose product range and customer service are competitive with global retailers will face competitive pressure but will also benefit from a growing market, as more customers shop online.

Major traditional retailers face several challenges. In markets it currently operates in, Amazon’s scale, lack of physical stores, membership based model (through Amazon Prime), and cross subsidisation from its hugely profitable web services business has meant it can offer far greater choice at lower prices than traditional retailers can offer.²²

Amazon uses sophisticated automation to improve efficiency in warehousing, logistics and distribution. Australian retailers selling online will need to make significant investments in automation to offer a comparable service. Amazon’s ownership of data on consumers and suppliers also provides it with a competitive advantage.²³ Australian competitors will need to become more sophisticated in their use of data and networks to compete.

²⁰ *Amazon entry to Australia will hit retailers, landlords and economy: UBS report*, 2 August 2017, <http://www.afr.com/business/retail/amazon-entry-to-australia-will-hit-retailers-landlords-and-economy-ubs-report-20170731-gxm2ko>

²¹ Large businesses employ 200 or more people. Some medium businesses (20-199 employees) may have characteristics matching those described in this section, while others may be more similar to small retailers (less than 20 employees).

²² *The Amazon Tax*, Stratechery, 15 March 2016, <https://stratechery.com/2016/the-amazon-tax/>

²³ *Digital Disruption: What do governments need to do?*, Productivity Commission, 2016, <https://www.pc.gov.au/research/completed/digital-disruption>

Despite the challenges facing the industry, Australian department stores have increased the number of square metres of department store space in recent years.²⁴ In contrast, the US has seen declines by 15 to 20 per cent. Given the experience internationally, the arrival of Amazon, and low profits in the sector, commentators are predicting that Australia's trend of expansion is set to reverse and that the retail footprints of existing department stores will shrink as physical stores lose market share to online retailers.²⁵

Evidence suggests local firms need to do more to prepare for increasing competition from online retailers. For example, research conducted by the Commonwealth Bank of Australia in 2017 revealed that 30 per cent of retailers were unaware that Amazon was planning to enter the Australian market.²⁶ Research from consulting firm McKinsey²⁷ shows that while Australia's retail sector has a 'medium' level of digitisation, it lags behind international peers, particularly in relation to reaching and influencing consumers through digital channels.

Nevertheless, there are opportunities for retailers to use digital and online channels to enhance customer experience in their remaining 'bricks and mortar' stores. Analysis published by the World Economic Forum in 2017 indicates that the ability to 'build a greater understanding of and a stronger connection to increasingly empowered consumers' will be a key determinant of success in retail over the coming decade and beyond.²⁸

Physical stores can differentiate themselves from online channels by the consumer experience they create, shifting from points of sale to platforms for discovery, engagement and experience.²⁹ Customers use a mix of online and physical channels when making purchases. Retailers can augment the instore experience with digital channels such as digital apps to link customers (in-store and elsewhere) to product information and availability.³⁰

²⁴ *Launa Inman says department stores are 'over-traded'*, Carrie LaFrenz, Australian Financial Review, 1 November 2017, <http://www.afr.com/business/retail/launa-inman-says-department-stores-are-over-traded-20171101-gzcoj9>

²⁵ Ibid

²⁶ Commonwealth Bank of Australia, 2017, CommBank Retail Insights, Edition 4

²⁷ *Digital Australia: Seizing opportunities from the Fourth Industrial Revolution*, Simon Blackburn, Michaela Freeland, and Dorian Gärtner, May 2017, <https://www.mckinsey.com/global-themes/asia-pacific/digital-australia-seizing-opportunity-from-the-fourth-industrial-revolution>

²⁸ *Shaping the future of retail for consumer industries*, World Economic Forum, 2017, http://www3.weforum.org/docs/IP/2016/CO/WEF_AM17_FutureofRetailInsightReport.pdf

²⁹ Ibid

³⁰ *Omnichannel Is Dead. Long Live Omnichannel*, Steve Dennis, 23 March 2017 <https://www.forbes.com/sites/stevendennis/2017/03/23/omni-channel-is-dead-long-live-omni-channel/#53658c4f5215>

Small retailers

Small businesses make up 96 per cent of retailers in Australia.³¹ The consequences of global internet-based competition for small retailers will depend significantly on the business model of the firm and the type of product they sell.

Small traditional retailers selling homogenous products which can be obtained more cheaply online are likely to face significant competitive pressure. However, when US small retail businesses were surveyed in the US on the impacts of Amazon, only 26 per cent saw themselves as being in direct competition with Amazon. 31 per cent of small retailers stated that Amazon was “good for business”.³²

The main way that small retailers benefit from the growth in online selling is through the opportunity to sell through online platforms. Online platforms allow small retailers to sell to global markets which would previously have been beyond their capacity to access, and to operate without the need for a physical store or a relationship with a larger retailer. Sellers do not need to invest in highly sophisticated digital skills to use these platforms, meaning the barriers to entry to access global markets through these platforms are low.

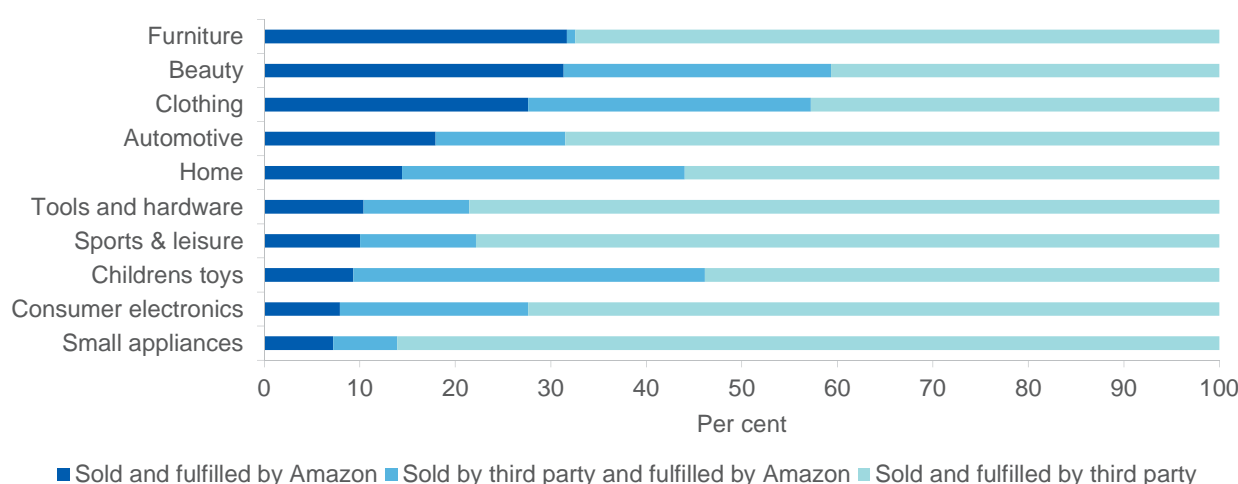
This includes new opportunities for entrepreneurs in regional areas and those balancing family, study and career commitments who previously did not have a large enough local market or did not have the time or resources required to run a store.

For example, Amazon Marketplace allows third-party suppliers to sell new or used products alongside Amazon's standard offerings. In fact, most products currently sold on Amazon Marketplace are supplied by third parties (Figure 3).

³¹ ABS cat. no. 8165.0. Small businesses are businesses employing less than 20 people.

³² *Surprise survey findings: Main Street all over the place on extent of Amazon threat*, 28 September 2017, <https://www.cnn.com/2017/09/27/main-street-business-owners-unsure-about-amazon.html>

Figure 3: Products sold and fulfilled by Amazon vs. third parties



Notes: Credit Suisse generated the data for Figure 3 by taking a sample of 10,600 products sold on Amazon.

Source: Credit Suisse, Australian Retail: Amazon ready or not

Businesses that will benefit from using online platforms are those that do not compete directly with large online sellers on products and prices. These businesses are unlikely to win market share by competing on price alone and will need to compete in quality and design.

The most positive aspect of the likely increased use of online marketplaces by small Australian firms is that businesses who use global digital platforms overwhelmingly tend to become exporters. For example, nearly 90 per cent of Australian small businesses on eBay export globally.³³ This is noteworthy, given that Department of Industry, Innovation and Science research has found that Australian exporters are generally larger than non-exporters in terms of employment, value-added and capital expenditure, are generally also more productive and pay higher wages. Exporting also increases the probability of business survival.³⁴

Small retailers who can continue to do well without accessing online platforms are those that meet demand for locally produced goods (such as local food products) which are unlikely to be available online. Small retailers will also be able to continue to leverage local customer relationships and provide in-store services such as product advice and local expertise which many consumers will continue to value.

³³ *The Marketplace that Matters: eBay celebrates 18 years in Australia*, eBay, 22 September 2017, <http://media.ebay.com.au/marketplace-matters-ebay-celebrates-18-years-australia>

³⁴ *Australian Industry Report 2016*, Office of the Chief Economist, Department of Industry, Innovation and Science, <https://industry.gov.au/Office-of-the-Chief-Economist/Publications/AustralianIndustryReport/assets/Australian-Industry-Report-2016.pdf>, p78

Impacts on non-retailers

The growth in online retail is likely to have flow-on effects to firms which provide digital services, transport and logistics firms, and other areas of the economy.

The impact on transport and logistics firms is likely to be mixed. Large firms competing directly with the distribution networks of online retailers are likely to face significant competitive pressure. Firms that are servicing areas beyond the reach of these networks will benefit from increased online sales. Likewise, larger firms which might form part of online retailers' distribution networks, will benefit from increased online selling in Australia.

Innovative digital service providers are likely to benefit from the growth in the use of online platforms. A prime example is Airtasker,³⁵ which is an Australian-based digital marketplace for performing tasks and local services. Airtasker has recently raised funds to expand internationally, with the UK its first target market.³⁶

Small non-retailers

Most small non-retailers will not be directly impacted by global digital online retail platforms. When surveyed in the US, 83 per cent of small business owners stated that their business is not affected by Amazon, and 7 per cent stated that Amazon helps drive customers to their business.³⁷

However, there are niche Australian manufacturers of high value consumer products who stand to benefit significantly from the use of online platforms. These manufacturers will be able to leverage Australia's worldwide reputation as a producer of safe, high quality products to sell direct to national and global consumers without the need for a physical store or a relationship with a larger retailer.

Small services businesses are also likely to benefit from increased demand as consumers who save on retail spending by shopping online will have more money to spend elsewhere. Small business providers of "luxury" services such as travel, health care, and fine dining may benefit.³⁸ Small logistics and transport businesses operating in areas not served by large online retail distribution networks are likely to benefit from increased online retail spending.

³⁵ Airtasker, <https://www.airtasker.com/>

³⁶ *Airtasker raises \$33 million to hit the UK as Seven West and Exto up stakes*, the Australian Financial Review, <http://www.afr.com/technology/airtasker-raises-33-million-to-hit-the-uk-as-seven-west-and-exto-up-stakes-20171004-gyuez5>

³⁷ *Surprise survey findings: Main Street all over the place on extent of Amazon threat*, 28 September 2017, <https://www.cnn.com/2017/09/27/main-street-business-owners-unsure-about-amazon.html>
Note: these percentages are for all small businesses, the findings for small retailers are discussed above.

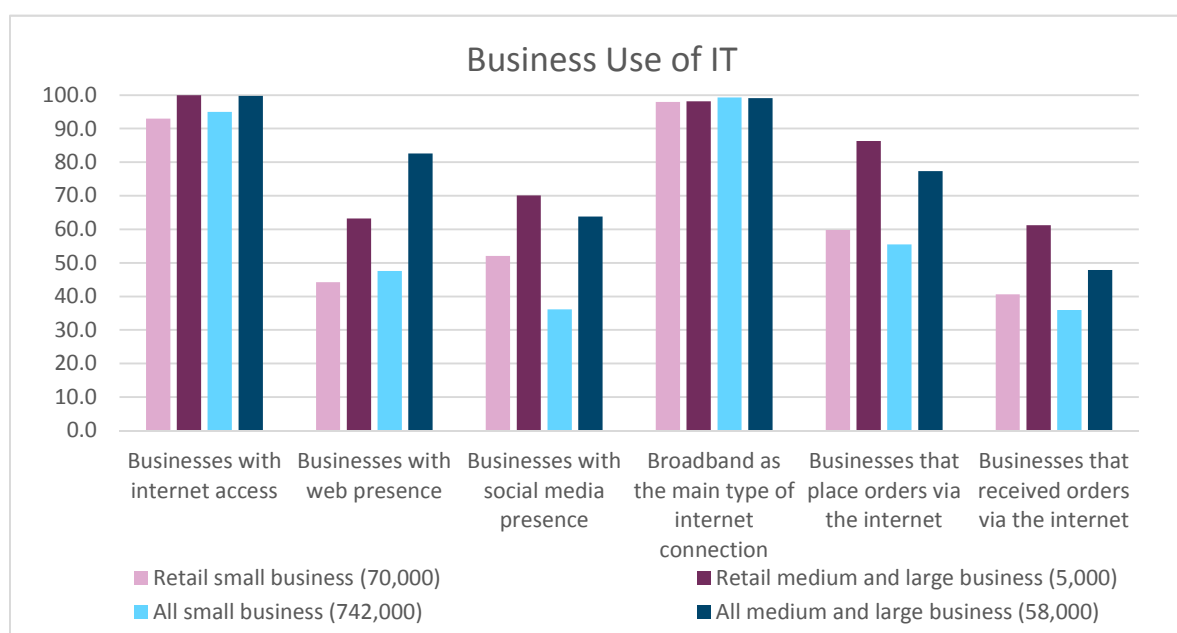
³⁸ Australian Industry Report 2014, <https://industry.gov.au/Office-of-the-Chief-Economist/Publications/Documents/Australian-Industry-Report.pdf> pg 86

Digital uptake by business

Whilst the impact of global internet based competition is likely to differ depending on the size and business model of the firm, what is clear is that in general, digitally enabled businesses will be better placed to succeed. An assessment of the digital readiness of Australian firms suggests that whilst many small businesses are taking advantage of new digital opportunities, there are also many firms that lag behind. For example, research from the Commonwealth Bank of Australia suggests that 80 per cent of small and medium businesses are delaying the adoption of technology that could offer long-term benefits.³⁹

Medium and large retailers are less likely than the average across all sectors to have a web presence but more likely to be using social media, and placing and receiving orders via the internet (Figure 4). Small retailers are significantly behind medium and large businesses on these measures, but are still slightly ahead of the average small business for social media presence, placing orders via the internet, and receiving orders via the internet.

Figure 4: Business Use of IT, 2015-16



Notes: Small businesses employ less than 20 people, medium and large businesses employ 20 or more. The number of businesses in Australia in each category are in brackets.

Source: ABS Cat. 8129 Business use of IT, 2015-2016.

There are a number of reasons why individual small businesses might lag in their uptake of digital technologies. Some businesses are constrained by their legacy, whether this is the culture within a family-run enterprise, generational issues or a reluctance to depart from methods which have

³⁹ *Small business postpone digital adoption*, Commonwealth Bank of Australia, 2016, <https://www.commbank.com.au/guidance/newsroom/small-businesses-research-tech-201609.html>.

traditionally been successful. Some businesses consider they are constrained by the service standards expected by their customers. Others may be held back by a lack of knowledge of how digital technology will benefit the business. The perceived financial cost and time to research, trial and integrate new technology including the uncertainty of return on investment can also hamper digital technology adoption.⁴⁰

It seems likely, however, that these constraints are weakening. Small businesses account for just over one third of all online retail turnover in Australia,⁴¹ and evidence suggests the volume of online retail involving SMEs is growing strongly. In the 12 months to September 2017, sales by online retailers with less than \$2.5 million annual online revenue increased at an average annual rate of 16 per cent. This compares with 10 per cent for businesses with more than \$2.5 million in annual online revenue.⁴² Further, sellers do not need highly sophisticated digital skills to use online platforms.

Data from eBay shows that over 40,000 Australian small businesses are represented on the platform and nearly 3,000 Australian businesses have made more than \$1 million in sales on ebay.com.au.⁴³ Data from the ABS also suggests that those retailers that are selling exclusively online are performing well: non-store retailers have over double the profit margin (9.7 per cent vs 4.3 per cent) of the industry average; and cumulative average growth rates in sales income since 2006-07 is 16.3 per cent for non-store retailers, compared to 3.3 per cent across the industry.⁴⁴ Non-store retailers make up about 9 per cent of retail businesses, and approximately 99 per cent of non-store retailers are small businesses (compared to 96 per cent for the whole sector).⁴⁵

Impacts on employment

Given that the impacts on Australian firms are expected to vary across the economy, the overall net impact of global internet-based competition on employment is unclear. While Amazon's arrival will put further downward pressure on job growth in traditional retail, this may be offset by employment growth in other areas.

⁴⁰ These findings on barriers to the uptake of digital by small business are from a project being undertaken by the Department of Industry, Innovation and Science to better understand the Australian SME landscape and any potential interventions to support SME digital capability. The Discovery phase of this project finished in September 2017 and included 37 in-depth interviews with small business, as well as other stakeholder engagement and a literature review.

⁴¹ National Australia Bank, 2017, NAB online retail sales index, In-depth report – September 2017

<https://business.nab.com.au/wp-content/uploads/2017/11/norsi-sept-2017.pdf>

⁴² National Australia Bank, 2017, NAB online retail sales index

⁴³ *The Marketplace that Matters: eBay celebrates 18 years in Australia*, eBay, 22 September 2017,

<http://media.ebay.com.au/marketplace-matters-ebay-celebrates-18-years-australia>

⁴⁴ ABS cat no 8155.0, Australian industry by subdivision, Table 1.

Note: non-store retailers includes any retailing without the use of a shopfront or physical store presence. Non-store retailing includes direct selling and mail retailing as well as internet retailing.

ABS 1292.0 - Australian and New Zealand Standard Industrial Classification (ANZSIC), 2006

⁴⁵ ABS 8165.0 Counts of Australian businesses, June 2016.

The retail industry employs just over 1.2 million workers, making it the second largest employing industry in Australia. The retail industry is characterised by low skilled jobs, a high share of part-time employment (49.3 per cent, compared with 31.8 per cent for all industries), a high share of female employment (55.8 per cent, compared with 46.5 per cent for all industries) and a relatively young workforce. Growth in retail employment has slowed considerably since the global financial crisis, with growth at just 0.4 per cent a year over the last decade.

Non-store retailing, which includes direct selling and internet retailing, is still a very small (around 1 per cent) share of total retail, but it is rapidly growing. Employment in this group increased by 8 per cent a year over the past decade, five times the average annual rate of growth in total employment over the same period (Table 2).

Table 2: Retail employment by sub-division

	2007 ^a	Average annual growth 10 years prior	2017 ^a	Average annual growth 10 years prior
	'000 workers	Per cent	'000 workers	Per cent
Retail Trade	1180.2	2.5	1233.2	0.4
Motor Vehicle and Motor Vehicle Parts Retailing	85.3	1.4	102.8	1.9
Fuel Retailing	37.3	-1.3	35.4	-0.5
Food Retailing	355.9	2.2	399.5	1.2
Other Store-Based Retailing	656.6	2.5	651.7	-0.1
Non-Store Retailing	6.4	9.8	13.9	8.0
Other ^b	38.7	n/a	29.9	-2.5
Total employment	10324.3	2.2	12121.9	1.6

Notes: ^a Average employment over the 12 months to August ^b Includes Retail Commission-Based Buying and/or Selling, and Non-Store Retailing and Retail Commission-Based Buying and/or Selling not further defined

Source: ABS cat. no. 6291.0.55.003

Some retailers will react to Amazon's low prices by trying to decrease their operating costs (for example, shedding staff). Inevitably, some retailers will exit the market, resulting in job losses. Others may aim to improve the service they provide to customers both online and in-store, which may require more staff in-store.

However, when employment impacts in areas such as logistics and warehousing are included, the direct employment effects of online retail may outweigh losses in physical stores. For example, the e-commerce sector (including growth in warehousing) in the United States added 355 thousand jobs between 2007 and 2016, easily outweighing the 51 thousand jobs lost in the general retail sector over the same period.⁴⁶ Given the fact that Amazon is headquartered in the US these results may

⁴⁶ Mandel, M. 2017, The Creation of a New Middle Class?: A Historical and Analytic Perspective on Job and Wage Growth in the Digital Sector, Part I, <http://www.progressivepolicy.org/wp-content/uploads/2017/03/Tech-middle-class-3-9-17b.pdf>

not translate directly to Australia, but these figures do suggest that fears of widespread job losses are overblown.

In part, this reflects the opportunities for increased specialisation associated with online retail. In traditional retail, consumers must allocate a significant amount of time to commute to the store, walk through the aisles to select the products they want, wait to pay, and commute home. E-commerce moves these formerly non-market activities from the household to the marketplace, creating paid work that increases convenience and allows consumers to allocate that time to preferred activities.

The shift to e-commerce is also improving the quality of jobs. In the United States, wage and salary payments to e-commerce workers increased by almost US\$18 billion since 2007 in real terms.⁴⁷ In contrast, real wage and salary payments to workers in general retail increased by less than US\$1 billion over the same period. Average hourly earnings for workers employed in e-commerce, including fulfilment centres, are US\$21.13 per hour, around 27 per cent higher than the US\$16.65 per hour for workers employed in general retail.⁴⁸

Regional impacts of job losses in traditional retail are also not expected to be significant. Retail jobs are generally centred in urban areas, meaning workers may find it easier to find alternative employment, in contrast to losses in industries centred in regional areas such as manufacturing and mining.

Lower prices in the retail industry will also mean consumers have more money to spend elsewhere, growing employment in other parts of the economy. Amazon's entry and the growth of online retail is also likely to have significant spill-over impacts on particular industries, creating new jobs. For example, digital platforms like Amazon's Marketplace can reduce transport and warehousing costs for small manufacturers, which can improve the profitability of shorter production runs customised for particular consumers. Another growth area, as more businesses move online, is for businesses which specialise in IT support services, and businesses which help small businesses develop and maintain an effective presence on digital platforms.

In terms of employment conditions, there have been reports of poor treatment of staff in Amazon warehouses overseas,⁴⁹ and significant use of temporary and "gig" workers.⁵⁰ Amazon has rejected

⁴⁷ Ibid, measured in 2016 US dollars

⁴⁸ Ibid

⁴⁹ *Inside Amazon: Wrestling Big Ideas in a Bruising Workplace*, Jodi Kantor and David Streitfeld, 15 August 2015, <https://www.nytimes.com/2015/08/16/technology/inside-amazon-wrestling-big-ideas-in-a-bruising-workplace.html>; *Amazon Working Condition Claims Of 'Exploitation' Prompt Calls For Inquiry*, George Bowden, HuffPost UK, 12 December 2016, http://www.huffingtonpost.co.uk/entry/amazon-working-conditions-inquiry_uk_584e7530e4b0b7ff851d3fff

⁵⁰ *Amazon's Stranglehold: How the Company's Tightening Grip Is Stifling Competition, Eroding Jobs, and Threatening Communities*, Olivia LaVecchia and Stacy Mitchell, Institute for Local Self-Reliance, November 2016, https://ilsr.org/wp-content/uploads/2016/11/ILSR_AmazonReport_final.pdf

these reports and encouraged staff to report any mistreatment.⁵¹ Businesses that operate in Australia must comply with National Employment Standards,⁵² and workers can also seek assistance from the Fair Work Ombudsman⁵³ or Fair Work Commission.⁵⁴

The role for government

Attempts to slow disruptive change, like the growth of global internet-based competition, will make Australians worse off. Instead, we need to take advantage of the opportunities new technology and innovation present. To meet the challenges and take advantage of the opportunities created by global internet-based competition, local Australian businesses must be innovative, adaptive and digitally capable. The Australian Government plays an important role in supporting businesses by promoting a low cost and competitive business environment, and fostering innovation and business capability. Supporting businesses in this way helps them to adjust to disruptive forces and promotes flexibility throughout the economy.

A low cost and competitive business environment

The Australian Government plays a key role in ensuring that the business environment enables businesses to compete internationally, innovate and take up digital technologies. For example, the Government is investing in digital infrastructure, to ensure businesses have access to high speed fixed and/or mobile broadband, which is vital to ensure small businesses can access global markets through online retailing, particularly in regional areas.

Ensuring a low-cost business environment will also enable local firms to compete with global competitors. Current whole-of-government economic reforms focused on reducing corporate taxes and cutting red tape (in conjunction with States and Territories) will reduce the cost of doing business and help firms seeking to sell internationally through online platforms do so at a competitive price.

The Department is working to make it easier to start and do business in Australia through the National Business Simplification Initiative. This initiative enables individual entrepreneurs who wish to use international online platforms to easily start businesses and develop and sell products and services. This is particularly important for those balancing family, study and career commitments who may be dissuaded from entering the market if the barriers to starting or running a business are too high.

⁵¹ *Full memo: Jeff Bezos responds to brutal NYT story, says it doesn't represent the Amazon he leads*, John Cook, GeekWire, 16 August 2015, <https://www.geekwire.com/2015/full-memo-jeff-bezos-responds-to-cutting-nyt-expose-says-tolerance-for-lack-of-empathy-needs-to-be-zero/>

⁵² *Employee entitlements*, Fair Work Ombudsman <https://www.fairwork.gov.au/employee-entitlements>

⁵³ Fair Work Ombudsman <https://www.fairwork.gov.au/>

⁵⁴ Fair Work Commission <https://www.fwc.gov.au/>

Competition policy is critically important to enable small businesses to compete globally, including through online platforms. The Australian Government plays an important role in creating a competitive business environment. For example:

- The Australian Competition & Consumer Commission (ACCC) promotes competition and fair trade in markets to benefit consumers, businesses, and the community. The ACCC Chairman has said that while undercutting local businesses on price is not illegal, the build-up of market power by Amazon would be carefully scrutinised.⁵⁵
- Changes to the Australian Consumer Law made in November 2016 protect small businesses from unfair terms in standard-form contracts used by companies such as Amazon.⁵⁶ This will give small businesses more control over how and what they sell via online platforms.
- The Australian Government has established a cross-portfolio taskforce⁵⁷ in response to the Productivity Commission's public Inquiry into Data Availability and Use.⁵⁸ Ensuring small businesses have access to their data, which can be collected by large online retail companies through their selling platforms, will help to encourage innovation and competition.
- Laws passed in June 2017 will require businesses with a turnover of more than \$75 000 to pay GST on goods they import which are valued at \$1 000 or less from 1 July 2018.⁵⁹ This will level the playing field for Australian sellers who are required to pay GST on the goods they sell locally.

The Australian Government can also play a role in creating a competitive environment for digital trade by focusing on building trust in the transition to a digital economy, enabling access to and sharing of data for innovation, and ensuring that regulations in areas such as intellectual property, privacy and competition policy support these digital trade opportunities.

Business innovation, international engagement and digital capability

To succeed in a more digitally enabled and internationally competitive market, our businesses need to be innovative, be able to engage internationally, including through digital platforms, and be digitally capable. Many Australian businesses are well placed to embrace these opportunities, but this capability and ambition is not universal. It is therefore important that the Australian government

⁵⁵ *Amazon gets green light for massive discounts from ACCC chairman Rod Sims*, Patrick Durkin, Simon Evans and Carrie LaFrenz, 3 November 2017, <http://www.afr.com/business/retail/amazon-gets-green-light-from-accc-chairman-rod-sims-20171102-gzdkuk>

⁵⁶ Unfair terms include terms that allow the contract provider to unilaterally vary all terms, broad and unreasonable powers to protect themselves against loss or damage, and an unreasonable ability to cancel or end an agreement. *Unfair terms in small business contracts*, Australian Competition & Consumer Commission, 10 November 2016 <https://www.accc.gov.au/publications/unfair-terms-in-small-business-contracts>

⁵⁷ *Data Availability and Use Taskforce*, Department of the Prime Minister and Cabinet, <https://www.pmc.gov.au/public-data/data-availability-and-use-taskforce>

⁵⁸ *Data Availability and Use*, Productivity Commission, 31 March 2017, <https://www.pc.gov.au/inquiries/completed/data-access#report>

⁵⁹ *GST on low value imported goods*, Australian Taxation Office, 15 November 2017, <https://www.ato.gov.au/General/New-legislation/In-detail/Indirect-taxes/GST/GST-on-low-value-imported-goods/>

play a role in lifting business capabilities and innovation where market failures exist. The Department and the Australian Government more broadly, therefore plays an important role in supporting Australian firms in all three of these areas.

A crucial barrier preventing many businesses from engaging digitally, including in selling online, is a lack of business digital capability. The Digital Economy Strategy, which was announced by the Government in September 2017, is currently being developed within the Department in close consultation with industry, thought-leaders, business and community members. The Strategy will set out a forward plan to address emerging digital economy opportunities and challenges and will consider ways to increase business digital capability. In November 2017, the Government also established a Small Business Digital Taskforce.⁶⁰ The Taskforce will work to ensure that more Australian small businesses can thrive in an increasingly digital economy.

Businesses that are more innovative are better able to adapt their business models, respond to competition and take advantage of new opportunities such as those presented by digital platforms. The Department supports a range of activities that foster innovation and build the capabilities of business. For example, the Research and Development (R&D) Tax Incentive encourages companies to engage in R&D benefiting Australia, by providing a tax offset for eligible R&D activities.

The portfolio also supports innovation capability and the development of an entrepreneurial culture through the Entrepreneurs' Programme. The programme helps build connections between businesses and researchers, accelerate the commercialisation of novel products, processes and services, and supports innovative start-ups to grow internationally. The Entrepreneurs' Programme includes support to improve management capability, in recognition of the important role leadership plays in business competitiveness. This includes advice and support to engage digitally and access global markets.

As well as assistance through the Entrepreneurs' Programme, firms are able to access support and advice for exporting online through the Australian Trade and Investment Commission (Austrade). Austrade connects Australian brands with international retailing platforms such as Amazon and Alibaba, and also engages directly with international retailers to help make selling through these platforms more accessible to Australian businesses. Australian businesses can access tailored advice from Trade Advisers on how best to make use of online platforms.

Launched in December 2015, the \$1.1 billion National Innovation and Science Agenda (NISA) sets a focus on science, research and innovation as a long term driver of economic prosperity and growth. Almost all measures have been implemented — supporting Australians, Australian businesses and our researchers to innovate and succeed. The NISA builds on the Government's existing \$10 billion per annum investment in Australia's science, research and innovation system.

⁶⁰ *Small Business Digital Taskforce*, Department of Industry, Innovation and Science, <https://www.industry.gov.au/smallbusiness/Pages/Small-Business-Digital-Taskforce.aspx>

Through the National Innovation and Science Agenda the Australian Government has tasked *Innovation and Science Australia* with developing a strategic plan for the Australian innovation, science and research system out to 2030. The Plan will help inform how we strengthen Australia's role as a leading innovation nation.