

**MASTER
GROCCERS
AUSTRALIA**

Submission by

MASTER GROCERS AUSTRALIA /

LIQUOR RETAILERS AUSTRALIA

to the

**Standing Committee on Education and
Employment**

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**LIQUOR
RETAILERS
AUSTRALIA**

Independent Liquor Outlets

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ABOUT MASTER GROCERS AUSTRALIA / LIQUOR RETAILERS AUSTRALIA

Master Grocers Australia / Liquor Retailers Australia ('MGA/LRA') is a national employer industry association representing independent grocery and liquor stores in all States and Territories. These businesses range in size from small, to medium and large, and make a significant contribution to the retail industry, accounting for approximately \$14 billion in retail sales.¹

There are 2,700 branded independent grocery stores, trading under brand names such as: Supa IGA, IGA, IGA Xpress, FoodWorks, Foodland, Farmer Jacks, Supabarn, Friendly Grocers, and SPAR, with a further approximately 1,300 independent supermarkets trading under their own local brand names. In addition, there are numerous independent liquor stores operating throughout Australia and trading under names such as: Cellarbrations, The Bottle O, Bottlemart, Duncans, and Local Liquor, which are either single or multi-store owners. These stores are comparatively much smaller when juxtaposed against the large supermarket chains of Coles and Woolworths which combined represent approximately 80 per cent of the retail supermarket industry.

MGA/LRA thanks the Standing Committee on Education and Employment ('the Standing Committee') for the opportunity to make a submission in relation to the inquiry into inhibitors to employment for small businesses and disincentives to working for individuals.

THE RETAIL INDUSTRY

The retail industry is a significant contributor to Australia's economy and employment levels. There are more than 133,000 retail businesses in Australia, contributing around 5 per cent of gross domestic product and 9 per cent of total hours worked in the Australian economy.² Food retailing – the bulk of which in terms of turnover comes from supermarkets and grocery stores – accounted for around 48 per cent (\$108.2 billion) of total retail turnover in 2013-14.³

Approximately 95 per cent of all retail businesses are either non-employing or small businesses (1 – 19 employees)⁴, and around 51 per cent of retail employees work in a full time capacity, with the remaining portion working either on a part-time or casual basis.⁵ Despite generating \$69.7 billion in economic output, the retail industry's contribution to the overall economy has been declining, albeit slightly, over the past decade.⁶

The Australian retail sector, particularly independent supermarkets, employs a far greater proportion of the least-skilled and most vulnerable workers in Australia, including youth, students, single parents, non-primary income earners in households, trainees, apprentices, and mature-aged workers returning to the workforce.

The retail industry, as distinct from other private sector industries, employs a greater proportion of juniors, and is the most heavily reliant on pay scales. The Fair Work Commission's Research Report 6/2013 corroborates this point, revealing that the retail trade employs the highest proportion of award-reliant juniors, with 30 per cent out of the total non-public sector award-reliant workforce.⁷

¹ PricewaterhouseCoopers, *The economic contribution of small to medium-sized grocery retailers to the Australian economy, with a particular focus on Western Australia* (June 2007), p iv

² Productivity Commission 2014, *Relative Costs of Doing Business in Australia: Retail Trade*, Research Report, Canberra, p 2. Ibid p. 38

⁴ ABS, *Counts of Australian Businesses, Including Entries and Exits, June 2010 to June 2014*, April, Canberra, Catalogue No. 8165.0

⁵ ABS, *Labour Force, Australia, Detailed, Quarterly, Nov 2014*, Catalogue No. 6291.0.55.003.

⁶ Productivity Commission 2014, *Relative Costs of Doing Business in Australia: Retail Trade*, Research Report, Canberra, p 37.

⁷ Fair Work Commission, *Research Report 6/2013 Award reliance* (December 2013), p. 70.

The Fair Work Commission's research paper into the extent and composition of the award-reliance sector, yielded findings that the second highest proportion of award-reliant businesses were retail businesses (44 per cent), and for award-reliant organisations in retail trade with more than three-quarters of their workforce award-reliant, a higher proportion reported that their workforce reduced (33 per cent) and a lower proportion reported that their workforce stayed the same (49 per cent) than for all award-reliant organisations with more than three-quarters of their employees being award-reliant.⁸

The Fair Work Commission's Research Report 1/2015 which provides a data profile of Australian businesses using the Australian Workplace Relations Study and the Award Reliance Survey indicates that small businesses in retail trade had the second highest proportion of award-reliant employees than any other industry. Specifically, for small businesses with up to half of their employees award-reliant, the retail trade had the highest proportion of such businesses (17.3 per cent); and for small businesses with more than half of their employees award-reliant, the retail trade had the second highest proportion of such businesses (20.6 per cent). This trend of award-reliance in the retail sector was also largely reflected with large businesses.

A substantial majority of employees in the independent supermarket and liquor sector are employed on the minimum award rates set by the General Retail Industry Award 2010 ('GRIA'). Consequently, a greater proportion of MGA/LRA members operate under the GRIA. The capacity of the independent supermarket or liquor store retailer to pay its workers is determined by the prices of its products, changes in productivity, the level of industry competition, and basic operational expenses. Better overall economic conditions are only of secondary relevance – they mean that employees who lose their jobs in the award-reliant industry can find employment elsewhere. The burden is ultimately placed on the retailer who will be under pressure to sustain wages to ensure staff retention, or to increase prices which will have less effect on demand and therefore affect overall viability. The unfortunate corollary of this struggle for MGA/LRA members is the stagnation of job creation and business innovation.

THE VALUE OF INDEPENDENT SUPERMARKETS

The supermarket and grocery sector is the largest contributor to retail turnover and it has grown consistently over the last two decades.⁹ Independent supermarkets constitute around 17 per cent of the supermarket industry.¹⁰

More than 115,000 individuals are employed in the independent supermarket industry, either on a full-time, part-time or casual basis, and working across a seven day working week. Given that almost 285,000 people are employed in grocery retailing (including supermarkets) accounting for almost one-quarter (23.9 per cent) of all retail industry employment in Australia¹¹, the value of independent supermarkets cannot be downplayed.

Despite struggling for survival against the likes of Coles and Woolworths, independent supermarkets play a fundamental role in the communities in which they operate, as they are heavily committed to supporting their employees, many of whom include working mothers,

⁸ Ibid p. 70.

⁹ PricewaterhouseCoopers, *The economic contribution of small to medium-sized grocery retailers to the Australian economy, with a particular focus on Western Australia* (June 2007), p iii

¹⁰ Ferrier Hodgson – Ferrier's Focus May 2011, from *Wesfarmers and Woolworths annual reports 2010*, NARGA November 2010 Report, *Master Grocers Australia December 2010*

<http://www.stuartalexander.com.au/aust_grocery_market_woolworths_coles_wholesale.php>

¹¹ ABS, *Labour Force Survey – Detailed Quarterly – May 2013*, Catalogue No. 6291.0.55.003, Data cube E06, Employed Persons by Sex, Industry, State, Status in Employment.

tertiary students, school children, trainees and apprentices. Further, independent supermarkets are a key means for developing transferable job skills (e.g. interpersonal and communication skills) which enables employees who work in the industry to better enhance their abilities and qualifications, thereby contributing to social and economic participation. The flexibility which they offer by way of employment options – offering both permanent and casual positions – as well as providing opportunities to those who wish to aspire to managerial levels, denotes their importance in encouraging and increasing labour force participation.

Beyond the economic importance of independent supermarkets in providing thousands of entry-level employment opportunities, they also generate significant social and environmental benefits for their local communities. For example, the identification as a community supermarket means the independent supermarket is a means to connect the local community and invariably contributes to community synergy. A large proportion of independent local supermarkets are found on high street locations which are easily accessible via walking means. By comparison, large national chain stores generally open in large shopping centres and choose areas of land which are cheaper and faster to develop, as opposed to opening in an established town centre. These store locations and the development of large car parks ultimately discourage the use of public transport or walking and favour driving, which thus contributes to pollution and adversely affects the environment. Consequently, the presence of independent supermarkets helps contribute to reducing traffic congestion, pollution, and car parking shortfalls.

In addition, independent supermarkets and liquor stores enhance competition and consumer choice which is fundamental in Australia given the market concentration in the supermarket industry. Although they lack in resources by comparison to Coles and Woolworths, independent supermarkets focus more so on variable price merchandising, product selection, convenience and customer service, so as to offer customers a different and more distinct experience in grocery shopping.

The financial prosperity of independent supermarkets and liquor stores is crucial to sustaining businesses which support these retailers. These independent supermarkets source a greater proportion of their goods and services from local producers and local service providers (e.g. local accountants, local printers, and local storage, warehousing and wholesalers), and account for a larger proportion of grocery employment than the market share they hold. In contrast, these types of support services would likely be procured interstate or centrally by major grocery retailers. Therefore, as PricewaterhouseCoopers validly points out in its report on the economic contribution of small to medium-sized retailers to the Australian economy:¹²

The local businesses and employees supported by independent retailers, and the communities in which independent grocery retailers operate who gain significant social and community benefits as a result of the economic participation of small to medium sized enterprises, would be adversely impacted by any reduction in their market share.

A vast majority of independent supermarket and liquor store retailers are small business owners. These employing and non-employing small business owners often earn less income than employees – despite working longer hours, having more experience, and making significant capital investments. For many MGA/LRA members, if an analysis was undertaken between the hours invested in working in their store and the profits yielded at the conclusion

¹² PricewaterhouseCoopers, *The economic contribution of small to medium-sized grocery retailers to the Australian economy, with a particular focus on Western Australia* (June 2007), p 45.

of each week, many retailers would be found to be earning below the national minimum wage or the minimum modern award wage.

In a context where unemployment rates are high, it is imperative that inhibitors to job-creation and employment are eliminated. The retail industry is a fundamental stepping stone for Australia's youth to enter the employment field. A prolonged period out of the workforce for a young individual places them at risk of a life sentence of poverty and exclusion from the mainstream of our society.¹³ An adequate living standard depends on having sufficient paid work. Unemployment is the chief cause of relative poverty and social exclusion in Australia. It is therefore crucial that the Committee gives due regard to the value of independent supermarkets and liquor stores as part of its inquiry.

MATTERS INHIBITING OR DISCOURAGING JOB-CREATION AND EMPLOYMENT BY PRIVATE SECTOR SMALL BUSINESSES

MGA/LRA members strive to operate viable businesses that provide sustained and ongoing employment to members of the local community. Notwithstanding their valiant efforts, they are inhibited by State and Federal laws and regulations which impose excessive red tape and compliance costs, and restrict expansion to create additional employment. MGA/LRA has identified the following State and Commonwealth issues which we submit, are relevant considerations for the Committee's inquiry:

Liquor Licensing Regulations

An open and free market permitting the sale of packaged liquor in supermarkets enhances competition and aligns with consumer needs in terms of diversity of choice. The existing regulations in Queensland, South Australia and Tasmania which restrict the sale of packaged liquor unnecessarily benefits the likes of Coles and Woolworths, and do not serve the needs or welfare of consumers.

These entities are readily able to obtain hotel licenses and thereafter open detached bottle shops in the area, providing an alternative income stream which cannot be utilised by the independent supermarkets, and therefore making it difficult to compete.

Other States throughout Australia exemplify that there are numerous checks, regulations and facilities established to ensure the responsible service of alcohol and to minimise any perceived harm from alcohol consumption. Any public policy considerations relating to health and safety can therefore be accounted for, and there are no compelling reasons for the disparate treatment of Queensland, South Australia and Tasmania in comparison to other States.

The ability for independent supermarket operators to compete in those markets with a packaged liquor offer (i.e. a whole meal solution) is non-existent and unfair to consumer choice and compromises the efficiencies that independent businesses seek to gain from adding packaged liquor to satisfy consumer demand.

The productivity and efficiency of Queensland, South Australian and Tasmanian independent supermarket businesses will increase, competition and the consumer will be exposed to retail diversity and choice if these businesses are permitted to sell packaged liquor.

¹³ Brotherhood of St Laurence, *Australian Youth Unemployment 2014: Snapshot*, Melbourne, 2015, p 6

Deregulation of Trading Hours

MGA/LRA submits that the push for the total deregulation of retail trading hours across Australia is simply another avenue for Coles and Woolworths to extend and grow their market share, as well as undercut their smaller competitors, resulting in the extinction of independent retail businesses.

Furthermore, in areas such as Queensland where trading hours for non-exempt shops are regulated, consumer-based surveys and petitions have not been presented in those areas which evince a demand by consumers for greater shopping diversity or an extension of trading hours. As such, it remains only a perception that the total deregulation of trading hours in all areas of Australia is both necessary and warranted to promote consumer welfare.

Notions that independent and small businesses are able to differentiate their offerings to fulfil consumer demands and compete in the face of deregulated trading hours must be viewed in the context of the effect on the independent supermarkets – profit margins, stock lines and employee hours are reduced which impacts on the quality of service, therefore having a negative impact on consumer welfare.

Inadequate Competition Laws

MGA/LRA notes that the Harper Review was undertaken as part of the “root and branch” review of the Competition and Consumer Act 2010 (‘CCA’), as promised by the Federal Government prior to the last election. The Final Report was released on 31 March 2015.

Notwithstanding the recommendations in the Final Report, MGA/LRA submits that the existing competition laws stifle growth, innovation, and fail to provide fair competition in the market place for independent supermarkets and liquor stores around Australia.

The submission of MGA/LRA to the initial Harper Review Draft Report outlined a number of proposals and suggested reforms to ensure healthy, robust competition in the supermarket and liquor industry sector, and to promote the longevity of consumer welfare. MGA/LRA relies on the issues identified in that response to supplement this submission to the Standing Committee.

Tobacco Regulations

The recent introduction of varying laws across the Australian States and Territories has largely resulted in the requirement that smoking products are kept from public view entirely and/or that they can only be purchased from one point of sale. This has already placed a significant financial burden on small businesses. The imposition of plain packaging has only further imposed a cost burden on retailers who were required in many cases to reconfigure the front end and point of sale sections of their stores and retrain staff at a considerable expense.

In addition the renewed training of staff has proved particularly costly. There are up to 200 brands of cigarette products which have to be searched for by staff on a regular basis, and these staff members now have fewer indicators enabling them to distinguish between products. In addition to the variety of brands available, each brand also has a number of differences between them such as content and size which will also need to be identified. The training of staff not only comes at a significant wages cost to MGA/LRA members, but also creates a noteworthy rostering disadvantage, removing staff from other areas of the store where they are often required.

Plain packaging has also resulted in a higher number of incorrect products being provided to customers. This has increased levels of shrinkage where customers have received a higher valued product for the incorrect monetary sum and resulted in an increase in returned products, where customers have returned an incorrectly provided product, often making it unable to be resold. It is difficult to quantify these losses in financial terms but they have become increasingly prevalent with the introduction of plain packaging regulations.

Payroll Tax

Payroll tax essentially serves as a tax on employment. The following table indicates the differing rates and thresholds across each State and Territory in Australia as from 1 July 2014:

<p><u>Queensland</u> Threshold: \$1,100,000 (annually) \$91,666 (monthly) Rate: 4.75%</p>	<p><u>Western Australia</u> Threshold: \$800,000 (annually) \$66,667 (monthly) Rate: 5.5%</p>
<p><u>Victoria</u> Threshold: \$550,000 (annually) \$45,833 (monthly) Rate: 4.85%</p>	<p><u>Northern Territory</u> Threshold: \$1,500,000 (annually) \$125,000 (monthly) Rate: 5.50%</p>
<p><u>South Australia</u> Threshold: \$600,000 (annually) \$50,000 (monthly) Rate: 4.95%</p>	<p><u>Tasmania</u> Threshold: \$1,250,000 (annually) \$95,890 (28 day month) \$102,740 (30 day month) \$106,164 (31 day month) Rate: 6.1%</p>
<p><u>New South Wales</u> Threshold: \$750,000 (annually) \$57,534 (28 day month) \$61,644 (30 day month) \$63,699 (31 day month) Rate: 5.45%</p>	<p><u>ACT</u> Threshold: \$1,850,000 (annually) \$154,166.66 (monthly) Rate: 6.85%</p>

A prevailing consideration for any retailer contemplating an expansion of their enterprise is whether the increase in employment growth will, depending on their size, either compound their existing payroll tax liability, or cause their business to surpass the exemption threshold.

In its April 2012 Report¹⁴ on the impacts and benefits of COAG reforms, the Productivity Commission documented the jurisdictional differences in payroll tax rates and revenue trends. The Report stressed the benefits of harmonisation and in doing so, reiterated the existing regulatory and red tape burdens for businesses operating in multiple jurisdictions. For these businesses, there are various compliance costs and red tape regulatory burdens which have negative consequences on business viability.

¹⁴ Productivity Commission 2012, *Impacts of COAG Reforms: Business Regulation and VET*, Research Report, Volume 2 – Business Regulation, Canberra, Chapter 7

Payroll tax reporting is required by the seventh day of each month which provides an unnecessarily short and strict time frame for small businesses. The onerous time frame is compounded for those small businesses that lack access to online technology or the competence to properly use it.

Furthermore, when accounts have to be reconciled at the end of the year, small businesses are compelled to seek outside assistance which results in additional cost burdens that cannot be recovered.

Work Health and Safety Laws

The harmonised workplace health and safety legislation (Work Health and Safety Act) in all States and Territories, except Western Australia and Victoria, has imposed new laws and regulations which have resulted in increased compliance burdens on employers.

This is not presupposing or implying that employers are shying away from their duty to provide a safe workplace. However, there is an overly strong emphasis on the maintenance of paperwork by the prosecuting authorities, and additional red tape obligations imposed by the harmonised laws which carry an expansive definition of the person conducting a business or undertaking ('PCBU') for the purposes of dictating the duties and obligations of the PCBU.

Penalties and fines remain far too inequitable for small businesses, and the red tape obligations are highly prohibitive.

Penalty Rates

The Fair Work Commission's Research Report 1/2015 which provides a data profile of Australian businesses using the Australian Workplace Relations Study and the Award Reliance Survey indicates that small businesses in retail trade had the second highest proportion of award-reliant employees than any other industry. Specifically, for small businesses with up to half of their employees award-reliant, the retail trade had the highest proportion of such businesses (17.3 per cent); and for small businesses with more than half of their employees award-reliant, the retail trade had the second highest proportion of such businesses (20.6 per cent). This trend of award-reliance in the retail sector was also largely reflected with large businesses.

A substantial majority of independent supermarkets and MGA/LRA members are reliant on the GRIA to dictate minimum rates of pay. The GRIA requires the payment of double time for all work performed on Sundays. Retailers attempting to match the base rates offered by Coles and Woolworths in an effort to source and retain labour, must also cope with the proscriptive penalty rates in the GRIA, which in most instances (e.g. on Sundays), are higher than those evident in the enterprise agreements of Coles and Woolworths.

Seven day trading is now the norm in Australia, however, the restrictive penalty rates, especially on Sundays, severely impact on the viability of small businesses in particular, and act as a disincentive to create additional weekend employment.

The financial implications for small businesses are further compounded with for example, the introduction of additional public holidays (e.g. Grand Final Eve in Victoria) without proper consultation with small businesses as to the impact.

Lack of Training and Professional Development Incentives

There is a lack of state and federal training incentives for new and existing workers which, by implication, prevents Australians from gaining employment in small businesses and restricts professional growth.

Small businesses serve as the backbone of the national economy, and therefore MGA/LRA submits for the implementation of small business funding incentives that encourage both the employment of new workers and investment into one's business.

Furthermore, MGA/LRA proposes for the Committee to consider funding opportunities for industry associations to develop industry-specific professional development programs for staff and management. Programs of this nature promote greater workplace productivity and output, and contribute to sustained workforce participation levels.

CONCLUSION

To facilitate job creation and employment by private sector small businesses, MGA/LRA has identified a number of matters in this submission that inhibit this objective at both a State and Commonwealth level.

Alleviating these concerns and consequently ensuring the continued existence of independent retailers will promote robust competition, sustained employment levels particularly for Australia's youth, and the enhancement of consumer welfare.

MGA/LRA sincerely thanks the Standing Committee on Education and Employment for the opportunity to make a submission in relation to the inquiry into inhibitors to employment for small businesses and disincentives to working for individuals.

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