

**Senate Employment, Workplace
Relations and Education
References Committee**

**INQUIRY INTO SMALL
BUSINESS EMPLOYMENT**

By



**Tasmanian Independent Wholesalers
Locked Bag 4
Launceston Tas 7250
Ph: (03) 6344 5753
Fax: (03) 6344 6391**

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INQUIRY INTO SMALL BUSINESS EMPLOYMENT

Who We Are

Tasmanian Independent Wholesalers (TIW), under its original name of Northern Wholesalers Co-operative Society Limited, was formed 53 years ago by a group of independent traders, to improve their buying power and improve service and prices for consumers.

The original company underwent a trading name change to TIW in 1993. The co-operative has a high-profile state-wide identity and operates numerous retail bannered independent grocery outlets including *Four Square Stores*, *Sam's Cut Price Stores*, *Value Plus*, *Rite-way*, *Fabulous Food Stores*, *Festival IGA*, *Family Fare*, *Quick-n-Thrifty* and *Family World*.

TIW is also a co-owner of Statewide Independent Wholesalers, a warehouse and distribution centre and service outlet.

534 retailers are represented by TIW. In aggregate, the co-operative through its members employs some 3,614 full-time, part-time and casual employees, which makes it **one of the largest private enterprise employers in Tasmania.**

TIW is proud of its role in acting as the representative body of these Tasmanian, independently owned grocery stores and supermarkets. Each business is Tasmanian owned and operated, in most cases by families who work long hours to ensure the viability and success in their operation.

Apart from direct employment, TIW's trading activities indirectly provide and support employment opportunities for thousands of other Tasmanians. Further, by keeping local money circulating locally, TIW have created significant revenue and investment spin-offs for the whole of Tasmania,

whereas income from mainland-controlled chain grocers is sent straight back to the mainland.

TIW stores are responsive to local needs and are renowned for offering personal service and professional care. They see themselves as a vital component of the small business sector in this State. TIW stores are committed to high-quality, good-value fresh food and groceries delivered to the consumer at the best possible price. We believe that the same standard of service and products offered to city-based consumers should be, wherever possible, available to rural and regional communities. We offer a reliable, comprehensive range of high-quality products tailored to the Tasmanian market, in a climate allowing retailers to make a viable profit margin and remain extremely competitive in the marketplace.

Unlike others, TIW is retailer-controlled rather than warehouse-controlled. This means there is a close and continuing rapport with the needs and concerns of consumers and retailers.

Small Business in Tasmania

TIW recognises that small businesses are the backbone of the economy and are the source of nearly 80% of all employment growth. According to recent Australian Bureau of Statistics figures (ABS) 57% of Tasmanian's retailing employees are employed in small business¹. That is 12,200 of the total 21,400 people working within the retail sector work for a small business. Additional to this figure are 3,500 own account workers and the overwhelming majority of the 2,500 employers. In total with the inclusion of employers and own account workers, Tasmania's small businesses employ approximately 66% of the retailing workforce.

Hence, many people and families in Tasmania, being uniquely situated, have - and continue - to depend on the entrepreneurial spirit of its small

¹ Australian Bureau of Statistics [Small Business in Australia 1997](#) Catalogue 1321.0 1997

businesses to maintain a healthy economy. Small Business in Tasmania has not only been the quiet achiever and backbone of the Tasmanian economy, but also has had a significant influence in every corner and part of the State. In particular, it is the cornerstone and breathes life into the rural and regional parts of Tasmania. It is small business which provides much of the income to sustain Tasmania's social and economic infrastructure in these fragile and often marginal communities.

For example, seventy one percent (71%) of Tasmania's Independent Wholesalers grocery sales generated by members are transacted outside the four major cities of Burnie, Devonport, Launceston and Hobart.

At a national level, small business provides more than 30% of Australia's gross domestic product. It accounts for 30% of total industry production and sales, and 19% of total industry profits.

Since 1983/4, small businesses in Tasmania have employed at least an extra 26,600 people. This represents almost a 50% increase in small business employment from 55,300² in 1983/84 to 81,900³ employees in 1996/97. During that same period the number of small businesses in Tasmania grew from 14,100 to 21,000⁴.

Obstacles to Small Business Success and to Employment

As already mentioned, small businesses such as those that constitute the TIW membership face a myriad of barriers and obstacles in conducting their business and hence to their level of success and ability to employ Tasmanians. What follows therefore is a brief survey of some of the outstanding issues of concern, and suggestions as to how they might be eliminated or at least minimised.

² & ⁵Small Business employment including employees, own account workers and the overwhelming majority of employers.

⁴ Opcit., ABS 1997.

1. Excessive Government Imposts – Land Tax

The excessive costs of land tax for Tasmanian small business has been well-documented in recent times. Not only does this State for assessment purposes have the second lowest land tax-free threshold in Australia¹, but we also have the second highest land tax rate for properties (\$50,000 - \$200,000) and the highest land tax rate for properties (\$200,000 - \$1,000,000).⁵ *Thus it can be seen the Tasmanian government taxes heaviest on the bottom end of the scale (properties under \$1 million), which captures in it's net, to bear this burden, nearly every single small retailer in the State.* Undoubtedly, such a high tax rate is an additional dis-incentive to doing business in Tasmania and ultimately, to employing Tasmanians.

Recommendation:

That pressure be brought onto the Tasmanian Government to review the land tax regime and at minimum to bring it into line with other States.

2. Award Arrangements

The Members of TIW, as individual small businesses, face significant disadvantages in the area of industrial relations when compared to their major competitors, Woolworths and Coles.

The owners of each of our members usually work 6 to 7 days a week on the shop floor and have extreme difficulty finding time to deal with financial and bureaucratic paperwork. Further, few would have the financial resources to be able to devote their own time, or to engage a professional, to implement a process leading to the entering of an Enterprise Bargaining Agreement.

When combined with recent changes in the Tasmanian industrial relations legislation, that introduces a very strong 'no disadvantage' test, (thereby removing the incentive for employers to negotiate an EBA), it is unlikely that

¹ Closely followed by the Australian Capital Territory

any small business will see any advantage for themselves in the Tasmanian EBA process.

As such, TIW members are left only with the option of engaging their employees under the Retail Trades Award (RTA).

Both Woolworths and Coles have entered EBA's with their staff and these were completed well before the new Tasmanian 'no disadvantage' test came into play.

A brief comparison of the RTA with Woolworths EBA highlights that TIW's members are at a notable disadvantage – and in ways that act as a disincentive to engaging additional employees.

For example, the key difference is that Woolworths has far greater flexibility over staff hours than do employers working with the RTA. Under their EBA, Woolworths is able to roster part time and casual staff on to cover peak periods and off when business is slow in a manner that simply cannot be matched under the RTA.

TIW members when identifying a need for additional staff at peak times are faced with a huge disincentive and will often choose not to employ a new staff member, rather than enter a situation where they are forced to continue to employ staff for longer periods than they can justify and at times that may not require them.

Recommendations:

The 'no disadvantage' test be removed from the Tasmanian legislation, or at least modified to ensure that some advantage can be achieved for small business employers out of the EBA process.

⁵ Interstate Comparison of Taxes 1996-97, NSW Treasury Paper

A process be created so that employer representative groups, such as TIW, are able to bring their combined negotiating power, time and resources to a collective bargaining table to achieve better industrial relations outcomes for small businesses.

3. High Power Prices

Small businesses such as those among the membership of TIW, have long had to bear excessive power prices well above those paid by comparable interstate businesses. Recent changes to power price regulations have brought little respite for many of our members. **TIW members continue to pay Hydro charges up to 26% higher than their interstate counterparts.** Without doubt, the continuing excessive power costs borne by small grocery retailers, are an additional cost of doing business in Tasmania.

A recent member survey shows that the current average cost of power per TIW member is \$10,000 p.a., with some members paying as much as \$40,000 p.a. Our members contribute in total around \$5 million p.a. in revenue to the HEC, a sum exceeding the amounts paid by several of Tasmania's largest bulk power users.

TIW has discount arrangements in place for its telecommunications, petrol, Medical Benefits Fund, EFTPOS and insurances. It submits that a mechanism should be in place for similar arrangements with the HEC.

Recommendation

Pressure be brought to bear on the Tasmanian Government to require its electricity retailing company to support load consolidation⁶ discounts for organisations such as ours.

⁶ Generally speaking, load consolidation is the term used when a customer adds together the loads from one or more sites to negotiate a supply contract for total consumption. (Refer page 44: *Retail Competition in Electricity Supply*, NSW Electricity Reform Task Force, Policy Paper, June 1996). Consolidation, especially where multiple connections are concerned, is a particularly pressing issue for "distributed" customers such as some members of TIW, who as commercial users of electricity operate across numerous sites, each of which does not use a large amount of power but which, in total, amounts

Load consolidation as a concept, in its various manifestations, is an agreed central philosophy in current retail competition policies for power use in South-Eastern Australia. **Policy makers in New South Wales, Victoria, and other States now share a common view that load consolidation, along with other factors, will lead to a fairer, competitive and more efficient system, and the time is now overdue for Tasmania to follow a similar path.**

4. Lack of Protection Offered to Small Businesses by the *Trade Practices Act 1974 (Cth)*

TIW submits that the *Trade Practices Act 1974 (Cth)* is an ineffective mechanism for protecting small business against some of the tactics used by the larger supermarket chains. For example anti-competitive practices such as predatory pricing cost small businesses market share in the retailing sector and decrease their ability to take on, or even retain, employees.

While large firms which benefit from economies of scope⁷ and/or economies of scale⁸ can drop the price of their product(s) and sustain short term losses (and this loss is often offset by the profit of other lines of product(s) or another outlet), this type of behaviour can be seen as predatory pricing. Small businesses cannot sustain such losses and either reduce their price to match the larger competitor, and suffer lost profit and capital to compete, or choose not to compete and lose market share. Where predatory pricing occurs in chosen target areas this practice may contravene section 47(2)(f)(ii). However, the costs and time delays in bringing offending parties to task, and past track records in terms of prosecution are extremely disappointing.

to a very large purchase. Interstate, the term “load consolidation” also is used with regard to “account consolidation” and “co-purchasing”.

⁷ Economies of scope: those larger firms which can produce at a lower average cost than smaller firms. This is achieved because as output increases the average total cost per unit decreases. Average total cost divided by output.

⁸ Economies of scale: As a firm produces more, the unit cost decreases. Firms achieve reductions in cost as the scale of output increases, increasing the returns to scale. That is, if a firm doubles its production, the costs per unit will not double also. Hence, the per unit costs will decrease.

Moreover, the sheer buying power of large retailers, and especially the large market chains, allows them to exert undue pressure on manufacturers, wholesalers and suppliers. Heavy-handed tactics are often used in this sector to negotiate favourable terms at the expense of their suppliers. Such exclusive dealings contravene the TPA, sections 47(2)(b) and (e), but again are not effectively brought to light or taken to court to because of the costs and time delays likely to be encountered.

TIW is aware that neither small business nor small business associations can afford the high legal costs involved in taking legal action against large retailers or multi-national companies. The issue of forced di-vestiture to ensure our trading environment does not become fully anti-competitive is of course another major issue which requires legislative support at the National level.

Recommendation:

TIW and our constituents support further amendments to the *Trade Practices Act 1974 (Cth)* which, for example, empowers the Australian Competition and Consumer Commission (ACCC) and/or the courts to compensate those adversely affected by such actions, and in particular small business, as well as penalising offenders.

Furthermore, any companies which are found in breach of the relevant laws or misusing market power (under Section 46 of the *Trade Practices Act 1974*), should be compelled to advertise and apologise for their illegal activity. The names of the relevant company directors should also be published.

Part IV and Part IVA of the *Trade Practices Act 1974*, covering restrictive trade practices and unconscionable conduct, should be far more vigorously enforced. In our view, company directors, as well as businesses and managers, should be held personally and financially accountable for their actions. We also consider exclusion provisions contained in Section 51AB(6) of the *Trade Practices Act 1974* to be too broad in scope.

5. Growing Market Share of the Major Retailers

The continuing gains in grocery market share by the major chains should be a concern for both government and the public and has a net result of loss of employment in the sector.

The increase in market share by the major chains has been phenomenal and their stranglehold on the grocery market is unprecedented in the western world.

Likewise, the commensurate drop in market share held by the independent retailers is equally concerning, in that not only does the potential for abuse of market power increase, **but also the number of jobs in food retailing in general decreases**. Research recently to hand tends to confirm that for every one job created by the major retailers 1.7 jobs are lost from the local independent retailers.

These are reasons for major concern for a State such as Tasmania, with it's significant small business profile. Not only in terms of a decrease in jobs available⁹, but also lack of competition leading to misuse of market power.

In summary, and to explain why:

- *employment* - according to recent advice from COSBOA every one new job in a major chain is 1.7 less jobs in the small retailer - hence a net loss of 0.7 full time jobs for every new job in a major chain.
- *small business* - reducing market share of independent grocers means less jobs in small business, and less small businesses - the silent engine of our economy.
- *families* - most small business grocers are family owned and operated and are being severely hurt as a result of the major chains increasing their market share.

⁹ As noted, every job created by a major retailer 1.7 jobs are lost by the independents.

- *rural and regional communities* - the dogged incursion of the big chains increased market share erodes the very infrastructure and foundation of these areas.

This issue of undue concentration of market share in the hands of but three major supermarket chains, is a matter for Federal Government intervention.

Recommendation:

TIW urges the development of anti-trust legislation similar to the USA where the three largest grocery retailers account for less than 25% of the market. In the United Kingdom, the three largest grocery retailers account for approximately 33% of the market.

6. Extended Trading Hours

TIW knows all too well that small retailers and small businesses, particularly in rural and regional areas, encounter hardship when shopping hours are extended. The large supermarket chains are increasing their market share in the food and grocery industry at the expense of the smaller businesses, **and at the expense of local employment.** *Extended trading hours dilute business activity during core hours and reduce turn over, market share and profitability for small businesses and consequently jobs are lost in this sector.*

7. Bureaucratic Red Tape

The paperwork and cost burden imposed by the plethora of legislation and red-tape including the complexity of the taxation system is regressive, unfair and falls disproportionately on small business. We need Government off the back of small business. In a recent Government report, it was revealed the cost of complying with Government regulation and red-tape for an average Australian small business is \$7,000 per year. In Tasmania the cost of regulation and red tape for business generally has been estimated at \$165 million per annum.

This is not surprising when you consider that in a recent case study it was revealed that up to 26 separate licences, permits and approvals were applicable to establish and operate a petrol station and general store. In fact, if such an applicant wanted to operate a post office, sell fresh fish or fire arms, a further 11 optional extra forms would be required.

TIW is deeply concerned about the effect that red tape and excessive paperwork has on our high level of micro-businesses in Tasmania, especially those in the food industry and the consequent ability of small business to start up, operate and employ staff.

Call for a Strategic Master Plan

Too often, decisions have been made without proper regard for their impact on businesses such as those among the TIW membership. This has led to uncertainty, pessimism and greater hardship. Businesses have gone under and jobs have been lost. We are asking that due regard be paid to the contribution of grass roots small businesses when changes are made by governments to ensure they are not adversely affected. Fair reference to our concerns, within a carefully structured and managed Master Plan, would assist the decision-making processes, provide certainty and consistency, and provide a vision and goals for the sector. It would assist governments as much as it would assist each of Tasmania's more than 20,000 small businesses, and it would minimise the negative impact of political point-scoring.

Recommendation

Essentially, we are asking that the consultation process be improved and formalised to protect the interests of small businesses and the vast contribution they make to the nation.

Conclusion

In summary, TIW retailers, located as they are across the length and breadth of Tasmania, provide significant and long-term benefits to the Tasmanian economy and to the community in general. As small businesses, they contribute to the public purse through the full range of State and Federal government taxes and charges. Furthermore, these local small businesses provide sustainable employment for our young people, particularly in rural, regional and outlying areas. As the Australian Bureau of Statistics' figures reveal, it is these small businesses who are the life blood of our economy and, with timely support and understanding from Government, will continue to be so in the future.

It is for this reason, therefore, that we believe a strategic Small Business Master Plan would ensure that all of the appropriate economic and social mechanisms are in place to ensure the best possible economic and social environment for this vital sector, allowing it to thrive. Further, it would provide an ongoing mechanism against which government action could be measured to see what effect it would have on employment.