

RETAIL INDUSTRY INQUIRY PRODUCTIVITY COMMISSION

SUBMISSION BY

***SHOP, DISTRIBUTIVE & ALLIED EMPLOYEES'
ASSOCIATION***

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THE SDA

The SDA is Australia's largest single trade union with a membership of over 217,000 workers. The SDA covers workers in retail, fast food, wholesaling, hairdressing, modeling, warehousing and the drugs industry. The majority of SDA members are women and over half are aged 25 years or less. The workers in the industries covered by the SDA are generally regarded as low income workers.

ECONOMIC STRUCTURE AND PERFORMANCE OF THE RETAIL INDUSTRY

The Current Structure, Performance and Efficiency of the Retail Sector

Trends in Retail Trade and Drivers of Structural Change

In recent times the retail industry has experienced overall lower sales and, in some cases, reduced profitability returns. This is at odds with the longer term performance of the industry. As the Commission's own report illustrates "retail trade companies (were) second highest in returns on shareholder funds (after tax) over five years to 2009-10."

A range of factors are responsible for the recent drop away in retail sales. They include:

- The impact of the global financial crisis on Australia;
- The propensity towards increased savings;
- An increase (albeit modest) in sales derived on-line from overseas;
- The impact of other costs (such as the massive increases in the prices of utilities) upon household budgets;
- The tax burden on low and middle income families;
- Burgeoning housing costs; and
- The lack of consumer confidence.

None of these factors are structural in nature. None of them add evidence to suggest that there are fundamental structural problems facing the retail industry. None of them give any grounds for believing that over time the Australian retail industry could not return to its normal growth and profitability.

The fact that over the more recent period some retail industry sectors have retained or grown their sales volume, adds weight to this argument. The most marked falls in retail sales have been in the discretionary spend areas. In contrast, supermarkets overall have generally grown their sales levels. In times when money is tight and consumer confidence is low, it is to be expected that expenditure on necessities will continue, but more discretionary expenditures may be deferred.

The Commission has drawn attention to some recent price decreases by some retailers in some sectors. In our view any decrease in prices has been largely due to competition factors rather than a need by retailers to reduce prices to attract sales. This shows that competition within the industry at sector level is strong.

There is no evidence to suggest that over the longer term the industry will not be viable and profitable.

There are however a range of steps which could be taken by government which would assist both working families and the retail industry.

- **Tax cuts for low and middle income families** would increase the amount of disposable income available to the very people who would be most likely to spend their extra money in shops.
- **Steps which resulted in reduced housing costs for new home buyers** would leave such people, generally young families, with more disposable income which they would be likely to spend in the retail sector.

The retail industry is a major employer, especially of young people and women.

Labour productivity of the Australian retail workforce is above average for the overall Australian workforce. Any decline in sales or profitability within the retail sector is not due to poor labour productivity of retail workers.

As the Commission's paper points out at page 10, the average annual growth in labour productivity in retail over the ten years to 2009-10 exceeded that of a broad selection of industries.

A key characteristic of the retail industry is the continued high performance and productivity of the retail industry workforce.

Retail workers are making a significant contribution to the overall success of the retail industry.

As suggested above, any decline in sales or profitability of the retail industry in recent times cannot be attributed to below standard performance of the retail workforce.

However, a range of other industry factors do impact upon profitability. These include such factors as transport costs, land costs, rental and franchising costs.

It is true that some retail sectors are currently more profitable than others, but where particular sectors are less profitable, such as in the department store sector, the same trend is noticeable overseas.

It is of concern that, notwithstanding the high level of labour productivity in retail and the substantial impact of non labour costs upon overall profitability, that some employers have chosen to address falling sales by seeking to operate on lower staffing levels. In our view this leads to a lack of service in some stores, with the end result being that consumers shop elsewhere or simply spend their money elsewhere than with retailers.

On-line Trading

Over recent years there has clearly been an expansion in on line shopping. A major factor in this development is that some consumers choose to purchase from overseas sellers because they can acquire goods cheaper from overseas sellers than they can by purchasing from "bricks and mortar" retailers based in Australia.

We agree with the Commission that it is extremely hard to quantify this trend. As such it is difficult to judge what impact on-line shopping has had on the industry overall.

However, there is a trend and the current system encourages this trend by allowing goods to be purchased from overseas sources without a GST being applied, while all goods purchased within Australia do have a GST applied.

As a matter of equity, Australian "bricks and mortar" retailers should not have to compete against overseas sellers on an uneven playing field.

Overseas based on line retailers do not pay import duty for items under \$1,000 whereas Australian retailers both conventional and on line pay import duty of up to 20% for goods imported from overseas to Australia. This is inequitable and unfair

The government should impose a GST or equivalent duty on all overseas purchases. This would mean all goods purchased in Australia, whether from Australian or overseas suppliers, would be subject to the same tax regime.

We acknowledge that this would not necessarily remove all adverse factors for Australian retailers seeking to compete in the global market, but it would significantly even up the playing field.

Such an action could well increase administrative costs for government but that is not a reason to do nothing. The government does have a responsibility to ensure that Australian retailers are not forced to compete on an unfair or uneven basis with overseas sellers.

In this instance, it is not whether imposition of such a tax would add to overall government revenue. It is about equity and fairness. A fundamental principle applicable to any fair and just taxation system is equity.

Retail Trading Hours

As the table in the Commission's paper illustrates, there are few restrictions on trading hours in Australia. In Victoria, New South Wales, ACT and Northern Territory, shops can open at any time, save for a small number of significant public holidays.

In one state (WA), where there are some limited restrictions, the public voted in a recent referendum to maintain the status quo.

We do not believe there is any strong push from the public for further relaxation of the current provisions. Therefore to argue that the current provisions "impinge on consumer choice" is simply not correct.

Given the nation wide picture in regard to trading hours it is simply misleading and nothing but an excuse for employers to argue that the few remaining restrictions on trading hours are in any way responsible for sluggish sales.

It is significant to note that in some areas where trading hours' restrictions were removed and retailers responded by extending their opening hours, they are now actually cutting back on their hours of trade.

There is no evidence to suggest that when trading hours were liberalised in certain states, there was a noticeable overall increase in the consumer dollar that was spent in retail.

Where trading hours have been liberalised, many employers, especially in the discretionary spend areas, do not utilise all of the opening hours available to them.

There is no evidence to show that there is any nexus between length of trading hours and impact of on line shopping.

Further, what also must be taken into account is the need for balance between the needs of major retailers and the needs of employees and small business operators. The latter groups do need time away from work for family and leisure purposes.

For employees this means the opportunity for "voluntary work" on public holidays and Sundays', and for retailers, the right not to be forced by major shopping centre managements to open on public holidays as a condition of the maintenance of their lease.

There is no evidence to suggest that further liberalisation of trading hours will increase overall retail industry profitability.

LABOUR MARKET ISSUES

Skills

There is a growing recognition that there is a nexus between appropriately trained staff, performance and productivity.

Some employers have embraced this approach and commit significant resources to staff development. Other employers have been much slower to understand this nexus. It is not surprising that those who have embraced training and skill development are among the nation's most successful retailers.

As this nexus becomes better understood, there will be a growing demand for trained retail workers.

A recent report titled "Apprenticeships for the 21st Century" potentially places a significant hurdle in the way of a better trained retail workforce. That report suggests that all government incentive payments should cease for retail training. Whilst it is arguable that some employers have abused the current system and that the current system is in need of reform, such a drastic action, if implemented, would almost certainly have the impact of bringing about a severe cut to the amount of accredited training delivered in and to the industry.

There will need to be an on going recognition of the need for skill development among retail workers.

INDUSTRIAL RELATIONS

Retail workers are generally employed on enterprise agreements negotiated between their employer and their union, or otherwise under the Modern Award set by Fair Work Australia.

FWA sets award rates after exhaustive investigation and analysis.

Enterprise agreements arise from involved negotiations between the union and the employer. They invariably reflect outcomes considered satisfactory by workers and their companies. Generally, wage increases are accompanied by productivity improvements satisfactory to the company involved.

There have been very few enterprise negotiations in retail which have produced wage increases beyond the range of 3-4% per annum.

In terms of the Modern Award, it should be understood that this was developed and emerged in the context of 24/7 trading and has enhanced flexibility in comparison to some previous state awards. Further, the modern Award has led to the standardisation of employment conditions across the country for those employees not covered by enterprise agreements

Given the above, it cannot be reasonably argued that there are significant adverse implications for retailers from the current wage fixing arrangements in place for the industry.

A fundamental feature of the Australian industrial relations system is that it seeks to provide a fair balance between the interest of workers and the interests of employers.

Continued high levels of productivity from the retail workforce illustrate that overall the balance is being met.

This system contrasts with that of some overseas systems where the interest of workers takes a secondary position to the interests of companies.

It would not be in the interests of the Australian community overall to have the current industrial relations system fundamentally changed from one which gives all players a fair go.

It is true that wages in some overseas countries are lower. We should not be engaged in a race to the bottom. The needs of employers need to be balanced with the needs of workers to ensure they have an income whereby they and their family can live decently with dignity.

It is inconceivable that it could be legitimately argued that the wage of a retail worker is excessive. The current Modern award rate is \$626 per week and enterprise agreement rates range from that figure to about \$750 per week. Retail workers are low paid under any set of measurement criteria.

Incentive and commission payments are widespread across the industry in certain sectors. These payments can and are made on top of relatively low base wage rates. Their purpose appears to be to reward high performance, although the arbitrary application of such payments by some companies does cloud this picture.

Industrial relations factors have not, and do not, materially inhibit effective levels of labour productivity.

Indeed the high productivity level of retail workers provides ample proof that the current industrial arrangements work effectively for the benefit of employers and workers.