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Committee Secretary
Standing Committee on Economics
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Via email: economics.reps@aph.gov.au

SUBMISSION TO THE HOUSE STANDING COMMITTEE ON ECONOMICS INQUIRY INTO PROMOTING ECONOMIC DYNAMISM, COMPETITION AND BUSINESS FORMATION

The Australian Retailers Association (ARA) welcomes the opportunity to contribute to the Standing Committee on Economics' inquiry into the promotion of economic dynamism, competition and business formation.

As an association representing small, large and major retailers, the ARA supports economic policies that promote healthy competition and foster an environment where retailers of all sizes can succeed.

The ARA is the oldest, largest and most diverse national retail body, representing a \$400 billion sector that employs 1.3 million Australians – making retail the largest private sector employer in the country. As Australia's peak retail body, representing more than 120,000 retail shop fronts and online stores, the ARA informs, advocates, educates, protects and unifies our independent, national and international retail community.

We represent the full spectrum of Australian retail, from our largest national and international retailers to our small and medium sized members, who make up 95% of our membership. Our members operate across all categories - from food to fashion, hairdressing to hardware, and everything in between.

The ARA offers three main observations in relation to the terms of reference for this inquiry:

- The terms of reference imply that the growth of large businesses (including large retailers) is at the expense of competition, business formation and economic dynamism. These concepts are not mutually exclusive, and we would urge the committee to also consider the benefits that Australia's major retailers bring to consumers, small suppliers and the economy.
- While business formation is not a significant problem for the retail sector, there are still some aspects of federal and state regulation that inhibit the establishment and growth of new businesses. We recommend that the committee consider these barriers to entry, as outlined in this submission.
- Retailers, of all sizes, are also consumers of essential services where there is significant market concentration including energy, telecommunications, banking and advertising technology platforms. This can lead to increased fixed costs of doing business, which in turn contributes to higher prices and limits what retailers can spend on business development and innovation.

Benefits of a strong, diverse retail sector

As a representative industry body with many small business members, it is the ARA's experience that the retail sector is more resilient for the rich diversity in Australia's shopping centres and retail precincts, with larger and smaller retailers enjoying the benefits of a diverse mix of offerings.

Australian retailers are some of the country's largest employers and the sector is dominated by small and medium sized businesses that serve local communities and support local families. Retailers are also amongst the country's largest buyers of local produce and products.

These benefits to the community are reflected in research conducted by Roy Morgan that continually show that consumers have a high level of trust in Australia's major retail brands including Woolworths, Coles, Bunnings, and Kmart.¹

The presence of these larger, well-known retail brands is also beneficial to smaller retailers because they attract foot traffic to shopping precincts for the benefit of all retailers, large and small.

And our larger members value the presence of smaller retailers as part of an ecosystem that feeds business opportunity in both directions. In many of our initiatives - for example sustainable business practice - larger members invest resources with the ARA that have the potential of flowing down to small and medium size businesses that would typically have less resource and capital to invest in innovation.

Structural changes have increased competition

Australia has been seen as an increasingly attractive market for global retailers and eCommerce startups over the past few decades. This has resulted in global retail brands such as Aldi, Costco, Amazon, H&M, TK Maxx, IKEA and eBay establishing significant operations in the Australian market, while the likes of local start-ups Kogan, Temple and Webster, and Booktopia have established strong online retail businesses over the same period.

These structural changes have boosted competition in the Australian retail market for the benefit of consumers, through lower prices and a more diverse retail offering. Analysis conducted and published by the Reserve Bank of Australia (RBA) in 2019 confirmed that these changes also contributed to the erosion of gross margins in the food and non-food sectors between 2007 and 2019.²

Economic barriers to business formation

The ARA does not view business formation as a significant problem for the retail sector, with the number of retail trade businesses increasing by 6.3% in 2020-21 and 7.1% in 2021-22, compared to 1.4% in 2018-19. We also note that Australia was ranked 5th in the world for number of days to start a business and 7th for competition policy in the Institute for Management Development's World Competitiveness Yearbook 2022.³

Nonetheless, there are opportunities to reduce barriers to business formation, outlined below.

- **Cost of doing business.** The current economic climate may pose more barriers to new business formation, with inflation resulting in higher interest rates on business loans, higher rent, higher wages, and higher wholesale prices. If inflation is not managed, the impacts could include a slowdown in business formation, an acceleration in business closures, and further market concentration.
- **Labour market constraints.** The current labour shortage is well-documented. These workforce pressures are impacting all retailers, large and small, and pose a risk to the ongoing resilience of the retail sector.
- **Workplace relations system.** New businesses are more likely to be reliant on awards while established businesses have the choice between awards or enterprise agreements that provide greater flexibility. Awards should be simplified and provide new businesses with the same level of flexibility enjoyed by established businesses on enterprise agreements.
- **Access to reliable, high-speed internet, particularly in regional areas.** Having an online presence has become essential for retailers to stay competitive. Reliable, high-speed internet is critical in meeting these changing consumer expectations and for accepting digital payments, the preferred payment method of most Australians.
- **Access to finance.** Prospective retailers can face difficulties accessing business loans as lenders apply strict criteria and requirements for personal collateral such as the family home. RBA research shows

¹ Roy Morgan Research, Feb 2023

² <https://www.rba.gov.au/publications/bulletin/2019/jun/competition-and-profit-margins-in-the-retail-trade-sector.html>

³ Why Australia - Benchmark Report - Fundamentals - Austrade; World Competitiveness – IMD business school for management and leadership courses

that smaller businesses consistently report facing more difficulty accessing finance than larger businesses. Additionally, they are more reliant on bank loans and less able to secure alternative options such as raising equity.

The following barriers also exist at the state level:

- Payroll tax. The existence of this tax disincentivises employment and creates unnecessary complexity for those retailers operating across state borders. This is exacerbated by state-based mental health levies in Victoria and Queensland that are applied in addition to payroll tax.
- Commercial leasing. When a business becomes unviable, the ARA believes that tenants should be able to break their lease to allow a new entrant to take their place. However, standard commercial leases do not generally allow this.

Market concentration in telecommunications, energy, banking, technology and the supply of consumer goods impact prices and retailers

Retailers are also consumers of goods and services where high market concentration has been identified, such as in energy, telecommunications, banking and advertising technology platforms. This concentration increases prices for retailers of all sizes, but disproportionately impacts smaller businesses who are less likely to be able to negotiate terms that are as favourable as larger businesses.

Telecommunications and energy are some of the most concentrated industries in Australia. Media commentary over the past five years suggests that Australian households and businesses pay more for these services than in comparable markets overseas.

These higher prices increase the cost of doing business, fuel inflation and can limit the ability of a new or established business to invest in business development and innovation.

There is also market concentration further up the supply chain, particularly in consumer goods manufacturing. Our members often interact with a small number of suppliers, including large multinational consumer goods companies that are significantly larger than even of our largest members and use their scale to an unfair commercial advantage in pricing and supply negotiations.

The ARA appreciates the opportunity to provide feedback on this review and looks forward to further engagement as the government develops its official response.

For any questions about this submission please contact policy@retail.org.au.