



A Blueprint for Retail Recovery

*Prepared by the National Retail Association
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1. Introduction

Australian retail is currently confronting an unprecedented set of challenges. The full impact from the recent outbreak of the Coronavirus is yet to be fully felt and it follows a summer of devastating drought and bushfires, as well as a flat economy more generally. These difficult times warrant a comprehensive response from governments at all levels to overturn the current tide and get retail back off the canvas.

The National Retail Association is the voice of modern Australian retail. The association works with all-sized businesses, from the biggest retailers to the smallest, to create better opportunities for all who work in the retail sector. As the most representative organization in the industry, we pride ourselves on being at the forefront of modern Australian retail, keeping pace with the rapidly changing face of the sector across a wide range of issues. No organization nationwide is better placed to inform government on the threats, challenges and opportunities facing the retail sector than the NRA.

2. The state of modern retail

Retail is the second-largest employer of any industry throughout Australia¹. The sector spans everything from mum-and-dad small businesses to large, nationwide retailers. Its importance to the Australian economy cannot be overstated.

Retail experienced a challenging time in the 2019 calendar year with annual growth and operating conditions at their weakest since the early 1990's recession. Low consumer confidence, sluggish wage growth and underwhelming sales figures throughout the year saw the sector experience one of its more difficult years in recent memory. Retail inflation is increasing at its fastest rate in a decade due to the drought and falling Australian dollar. It is vital that retail enjoys a far more prosperous year in 2020 to turbocharge the Australian economy and ensure that the nation's long period of unbroken economic growth continues.

Retail sales in Australia dropped by 0.5 per cent month-on-month in December 2019 – the largest decline in retail trade since August 2017.²

Unfortunately, in the past 12 months, numerous established retail brands from across the sector have been unable to navigate the challenging economic environment. A list of retailers who have either closed down or significantly scaled back operations since the beginning of 2019 are as follows:

1. Curious Planet
2. Napoleon Perdis
3. Criniti's Restaurant
4. Bardot
5. McWilliams Wines
6. EB Games
7. Sunstate Foods (Red Rooster franchisee)
8. Build-A-Bear
9. Focus Group

¹ <https://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/6291.0.55.003Main+Features1Aug%202019?OpenDocument>

² <https://www.abs.gov.au/ausstats/abs@.nsf/mf/8501.0>

10. Debenhams
11. Ziera
12. Stylerunner
13. Ed Harry
14. Harris Scarfe
15. Karen Millen
16. Muscle Coach
17. Dimmeys
18. Kaufland
19. Bose
20. Jeanswest
21. Colette jewellery

The above closures were also in addition to iconic brands such as Roger David, Toys 'R' Us and Esprit closing their doors in 2018. In further concerning news, many industry experts do not believe we have seen the end of the current spate of retail closures. For instance, Professor Gary Mortimer of the QUT Business School has even foreshadowed the potential for a 'retail apocalypse'. Although the NRA shies away from using such dire warnings, we do certainly believe now is no time for complacency and proactive measures need to be pursued.

3. A blueprint for retail recovery

There is no silver bullet when it comes to overturning the difficult period retail has experienced. If there were an obvious, quick and easy solution, it would have been implemented already. However, there are measures available to governments at all levels that can and should be implemented to turn the tide. The proposed measures can be summarized as follows:

1. 12-month payroll tax 'holiday';
2. Annual Wage Review exemption for bushfire & Coronavirus affected communities;
3. Funding for financial education assistance;
4. Instant asset write-off; and
5. Safe Retail Precincts program to be extended to regional areas.

The below sections provide more detailed information regarding the above proposals and how they each could provide immediate relief to the retail sector.

3.1 12-month payroll tax 'holiday'

Payroll tax is a regressive tax that sees employers charged a price for hiring people, literally. Moreover, it is a tax that generally ends up being paid by employees via lower wages, by consumer through higher prices, or a combination of both. Indeed, phasing out the tax, with lost revenue compensated by an increase in broad-based taxes, was one of the recommendations in the 2010 Henry Tax Review.

The NRA understands that an immediate abolition of this tax would cause a significant economic hole in state budgets and is therefore politically unlikely. Which is why we advocate for a 12-month payroll tax 'holiday' to provide swift and immediate relief to retail businesses that won't result in a permanent depletion in tax revenue for state governments.

3.2 Annual Wage Review exemption for bushfire & Coronavirus affected communities

The NRA is currently in the process of finalizing its submission to the Expert Panel of the Fair Work Commission regarding the Annual Wage Review for 2019-20. Moreover, the NRA understands the need for a modest rise in the National Minimum Wage Order (NMWO) to ensure that low-paid workers maintain a degree of spending power to encourage economic activity.

However, recent unforeseen events such as the unprecedented bushfires that have ravaged myriad communities in regional Australia, along with the worldwide Coronavirus health pandemic, we believe warrants special attention from lawmakers. The NRA is therefore calling on the Federal Government to provide an exemption for the minimum wage increase with regards to the following:

- Businesses located in bushfire affected postcodes; and
- Businesses materially affected by the Coronavirus.

Bushfire-affected communities

In the case of the bushfire recovery effort, the state and federal governments have already made numerous concessions including:

- Concessional loans of up to \$50,000 for eligible small businesses;
- Tax support; and
- Disaster recovery payments.

Even businesses that have not suffered physical damage to their stores have still been impacted by the significant drop in economic activity resulting from these tragic bushfires. It is simply not feasible that retailers operating in areas suffering from an extreme economic downturn be asked to abide by the same wage increases as businesses in non-affected parts of the country.

Retailers impacted by Coronavirus

The retail sector has not been immune from the flow-on effects of the Coronavirus health pandemic. Chinese businesses across Australia have seen a significant drop in turnover since the health issue burst on the scene in January. For instance, Chatime who serve Chinese bubble-tea has reported a staggering 66 per cent drop in sales in recent weeks. The issue is exacerbated by the fact that it has coincided with the traditionally busy time of Chinese New Year, meaning many retailers are missing out on their biggest harvest for the year.

The NRA appreciates that an exemption of this nature is more complex to administer than the proposed bushfire exemption as the economic impacts of Coronavirus are not necessarily confined to specific geographical locations. However, retailers who rely heavily on importing and/or exporting goods to and from China and who have suffered material financial loss as a direct result of Coronavirus, should be exempted from any wage increase by the FWC.

3.3 Funding for financial education assistance

A large proportion of small businesses close within their first 12 months of operation. Last year 54,992 small businesses closed. This is an increase of 12.7 % compared to the previous year and the largest group of businesses closing are retailers. In fact retailers businesses are closing 50% more often than other businesses. While these closures can be attributed to a variety of factors, one of the leading

reasons is that many people open a small business without the necessary knowledge of how to actually run a business. Besides from requiring expertise in the field their business operates in – such as fresh food or apparel – a store owner also needs to be well versed in the following:

- Basic financial literacy such as how to read a balance sheet and prepare financials statements;
- Leasing and tenancy arrangements;
- Understanding their responsibilities under the Modern Awards Act;
- Basic understanding of how to engage with e-commerce and the digital world; and
- Having up to date systems that safeguard their business from non-compliance.

Although the NRA offers expert advice in all the areas mentioned above (and many more), our reach is confined to members of our organization. However, with the right investment we have the ability to reach far more. Currently there is no one engaging with individual's who are starting a small retail business whether online or a bricks and mortar store. Right now, there is an over population of certain categories of retailer within the market, this is predominantly due to ill advised individuals entering the market without the appropriate training or understanding of the market. The National Retail Association urges government to invest in improving the chances of small business and help to set them up for success.

Additionally, due to these tough economic times, we find ourselves dealing with members who are struggling financially, whether their business simply hasn't worked out, or if their business has been impacted. As a result NRA are in the process of requesting funding for a business financial counsellor to assist the industry.

3.4 Instant asset write-off

The instant asset write-off for small business was first introduced in the 2015-16 Federal Budget. In last year's Budget, the scheme was extended to cover inventory valued up to \$30,000 with the eligibility widened to include businesses with a turnover of up to \$50 million. Retailers ranging from local cafes, family-owned restaurants and many other small and medium-sized enterprises (SMEs) have benefitted greatly from the instant asset write-off.

However, the ongoing operation of the scheme has thus far been on a year-by-year proposition. The NRA sees no reason as to why the write-off should not be elevated to a permanent basis.

Crucially, by making the instant asset write-off a permanent feature of the Australian taxation system, the government would be providing much needed certainty to the small business community, particularly during a time when many are finding it challenging to invest and grow. The decision to expand operations is not something that any SME is able to make overnight. It usually requires thoughtful and considered planning on what equipment to purchase over several years as business owners ascertain their capacity to make additional investment.

Elevating the instant asset write-off to permanent status would be very beneficial to the small business community and we urge the Federal Government to adopt this proposal.

3.5 Safe Retail Precincts – Regional Australia

At the heart of the Australian economy are its small businesses. Retail business is the second largest employer of labour in Australia with national sales of \$286 billion.

Retail precincts are attractive, lively environments in which people gather in mass numbers and we all have a role to play in helping to ensure the safety of our team, our customers and our precincts are maintained as safe vibrant spaces.

The NRA has undertaken an initiative known as Safe Retail Precincts which seeks to bring together retailers, shopping centres, law enforcement, emergency services and government to create safer, more vibrant retail precincts. Between July and December 2019, the NRA visited over 200 shopping centres and 37,000 retail personnel in metropolitan areas of NSW, QLD, VIC and WA as part of the delivery of this program, in partnership with the Australian Government.

The implementation of the NRA's Safe Retail Precincts program in regional areas of Australia will assist with making owning and running a business more attractive, safer and affordable.

Participants in the NRA's Safe Retail Precincts will be contributing to a pool of information on a wide range of threats. This information will help retailers identify the potential threats, limit the risks and keep essential services open for the broader community, as well as providing the emergency services with greater and more reliable information that will assist them in keeping retail open for business.

A global rise in the frequency and severity of extreme weather events has seen the average cost to the Australian economy reach \$18.2 billion dollars per year, according to the Australian business roundtable for disaster resilience and safer communities. Environmental scientists are predicting that these events will become more common.

Weather events can seriously impact the ability of retailers to service their customers and safely operate their businesses. Transport links can be severed, preventing stock, staff and customers from accessing the business. Power and communications can also be affected, impacting not only communication but the ability of businesses to process transactions as well as operate equipment.

One of the most critical, but least understood, impacts of disaster events is that it inflates the cost of goods and services, which impacts the living expenses of Australians. However, many retailers struggle through the recovery phase and fail to take advantage of the benefits on offer from the government bodies, because of the amount of paperwork and administration involved. As a result, many of these businesses will suffer long term both financially and the adding to the already significant stress on small business.

In most states, the Retail Crime Committee is a long-term partnership between the retail industry, police, government and other stakeholders who collectively aim to combatting serious retail crime. These committees are governed by the National Retail Association.

Crime is a serious matter for the retail industry. It significantly impacts businesses by disrupting operations, harming staff, affecting customers and eroding profitability. Crime statistics show that while major crime categories have been stable over the past few years, retail theft continues to increase.

The National Retail Association recognises that it must play a leadership role in the continuing focus on the threats facing retail. We recognise that in order to be successful, we require the support of government and our partners in delivering these strategies that are beyond our own capacity.

4. About the NRA

The National Retail Association is Australia's largest and most representative retail industry organisation, servicing more than 28,000 retail and fast food outlets nationwide. At our core, we help retail and service sector businesses navigate and comply with an ever-changing, highly competitive environment.

Our members range from small, family owned and operated businesses to leading national brands; and span nearly every retail category including fashion, groceries, department stores, household goods, hardware, fast food, cafes and services. Unlike other associations, the NRA is the only retail industry association to deliver practical legal advice through its wholly owned and incorporated legal practice, NRA Legal. We are also a national RTO (Registered Training Organisation), meaning we can deliver a wide range of accredited and non-accredited courses upon request. These range from certificate and diploma qualifications and pre-employment programs right through to customer service training, retail traineeships and mystery shopping services.

The NRA's reputation as the preeminent provider of professional services to the sector is demonstrated by the significant number of associations, buying groups and franchise networks who have chosen to partner with the NRA. Partnership with the NRA means affiliation with the peak national retail body and positioning your company as a preferred provider to a valuable segment of Australia's retail industry.



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