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Regular research papers and articles providing sector specific insights and issues analysis – Retail sector.

October edition 2012 – Retail

Industry Intelligence Unit

Grant Thornton's Industry Intelligence Unit (IIU) blends the latest information and analysis of specific industries from publicly available sources (including the Australian Bureau of Statistics and the national press) with pragmatic, commercial and practical initiatives to improve stakeholder value.

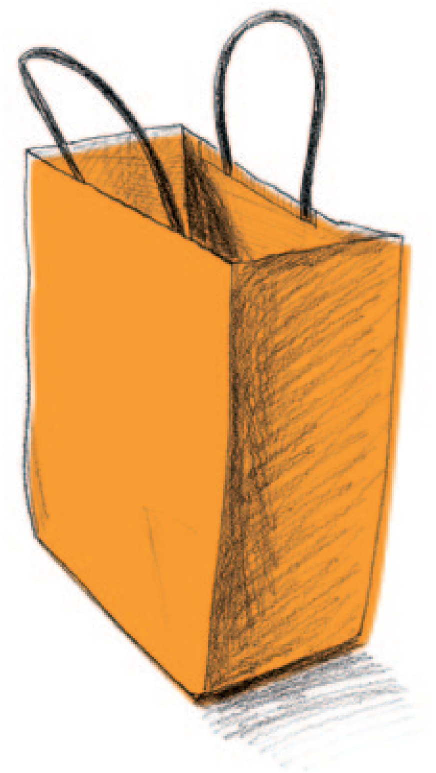
Welcome to our latest edition of the Retail IIU.

The August 2012 retail figures (adjusted retail growth of 0.2%) released by the ABS have confirmed feedback from many of our retail clients that spending has slowed in the first quarter of this financial year. Early indicators show business conditions have continued their slide into September, and are well below long-term trends. This appears to be caused by a continued lack of consumer confidence, presumably related to the impact of the high AUD, tighter fiscal (both state and federal) policy and weaker commodity prices on the back of global (and Chinese) economic uncertainties.

While there are some reasons for consumers and retailers to be upbeat, such as the "surprise" interest rate cut and an unexpected decline in the unemployment rate, consumers are still not spending their money on discretionary items!

Even the recent champions of retail growth, the food and food services sectors, were curtailed by underwhelming growth of just 0.4% for August 2012.

Interestingly, the performance of the most volatile sector, department stores, experienced a recent growth high of 6.9% in August, which has offset marginal or declining movements in other retail sectors to produce an overall seasonally adjusted rise of 0.2% in August following a fall of 0.8% in July. Transformational projects undertaken by the likes of K-Mart, Target and David



Jones may be reaping early rewards. But it is probably too early to say that department stores have really pulled their socks up and reconnected with customers. We suspect that increased revenue may be due to heavy discounting and other sales initiatives and these retailers will no doubt be monitoring any reduction in underlying profitability.

The bumpy introduction to the new financial year has retailers anxiously hoping for an uplift in demand and continued interest rate cuts to counter rising costs. These domestic figures are in line with international trends in Europe and China, where retailers are also struggling to convince wary customers to step up demand.

Since our last update, the following key retail related announcements have been made:

- Woolworths' sale of the Dick Smith Electronics chain. Woolworths are yet to fully explain their reasons for the sale of Dick Smith Electronics to Anchorage Capital Partners at a seemingly low price. Woolworths had accounted for Dick Smith Electronics with a $420m provision in its 2012 accounts and have reportedly sold it for what appears to be a bargain basement price of only $20m (however, there is some future financial return should Anchorage sell or float Dick Smith).
- For the first time, Australian shoppers will get their own version of America's online shopping phenomenon, Cyber Monday, when some of the nation's leading retailers slash prices at their online stores for 24 hours on 20 November 2012. Over 200 retailers are anticipated to join the drive to stimulate activity in the build-up to Christmas. The annual event has been going for ten years in the US and last year facilitated $1.25 billion in online sales.
- Mothercare's (a global retailer of baby/children's goods) Australian share price has fallen 70% in the past 12 months. Announcements made to the ASX advise that it is seeking significant capital injections. The Myer family have increased their stake in Mothercare recently and may take control.
- Payless Shoes, with a retail footprint of over 225 stores, and Ojay women's wear both fell into Administration in September 2012.
- The entry of the UK's Topshop into Sydney was met with long queues which paralleled the snaking lines of European brand Zara's introduction to Australia. Jumping on the bandwagon are more international giants bringing their renowned brands to Australian shores including Sweden's H&M, America's Abercombie & Fitch, Japan's Uniqlo and Canada's Point Zero.
- There are a couple of other new retail players worth mentioning, attracting long queues at their stores. In the food retail and services sector, the trend of frozen yoghurt and macaroons has seen stores appear overnight in all areas of high foot-traffic. French inventor of the macaroon, Laduree, international "froyo" franchise Yogurberry and local franchises Noggi and Moochi may soon replace the doughnut and cupcake trends, given the crowds that flock to each of their new stores in Sydney.
- It is hard to believe that the iconic Australian surfwear giant Billabong could be in trouble. However, after private equity firm TPG became the second such firm to walk away from a potential takeover bid in the space of a few weeks, there is continued speculation regarding the true performance of business operations. Particularly relevant for TPG is the ability of the business to increase earnings in the short to medium term. Even those retailers with very strong brands are having to look at every element of their business to cut costs and remain relevant to customers both in Australia and overseas. We will be watching this retailer very closely, as the new CEO will now be able to focus on restructuring, as takeover bids seem to have withdrawn.

Offshore, China is purportedly suppressing the disquieting news of its unprecedented levels of inventory across all sectors from growing stockpiles of cars to clothing. Whilst the AUD is so high, local importers may be able to snap up discounted goods but should be wary that China's situation may be mirrored here, such that their inventory turnover may become sluggish too.

This leads into one of our featured articles in this Retail IIU edition. Talking to our retail clients, many are considering branching out into China – why wouldn't you? A growing middle class, hungry for material goods provides some real opportunities for Australian retailers. We agree - however many have tried and failed and our UK Head of Retail, Barry Knight, and our National Head of Retail, Simon Trivett, provide their insights as to areas to focus on when entering the Chinese market.

This edition of our Retail IIU provides the following thought leadership:

- Retail industry snapshot from the Australian Bureau of Statistics with comments from Simon Trivett (National Head of Retail) and Gayle Dickerson (Partner, Financial Advisory).
- Entering China – in a saturated Australian market, many retailers are looking to new opportunities in China. Barry Knight (UK Head of Retail), Simon Trivett (National Head of Retail) and Gayle Dickerson (Partner, Financial Advisory) provide some food for thought for any retailer considering entering this market.
- Cory Lipoff and Kevin Olson of Hilco provide their views on inventory obsolescence in retail.
- Carbon Tax and Retailers: the impact is already being felt…how you can mitigate the impact. Brian O'Meara (Associate Director, Financial Advisory) and Craig Boyhan (Partner, Risk Advisory) provide their insights. Tony Windle (Partner, Indirect Tax) also highlights a tax opportunity in our news flash about refund opportunities for fuel used in transport vehicles.

Retail industry snapshot

In the first two months of the 2013 financial year, seasonally adjusted retail turnover rose 0.2% in August after a fall of 0.8% in July. This follows the ending of the 2012 financial year with consistent increases of 0.8% and 1.0% in May and June, respectively, resulting from the highest retail sales figures in two and a half years.

The initial figures for the year are therefore meeting the expectations of forecasters who have predicted static growth in the retail industry for the 2013 financial year.

Macro-economic factors which continue to concern retailers are:

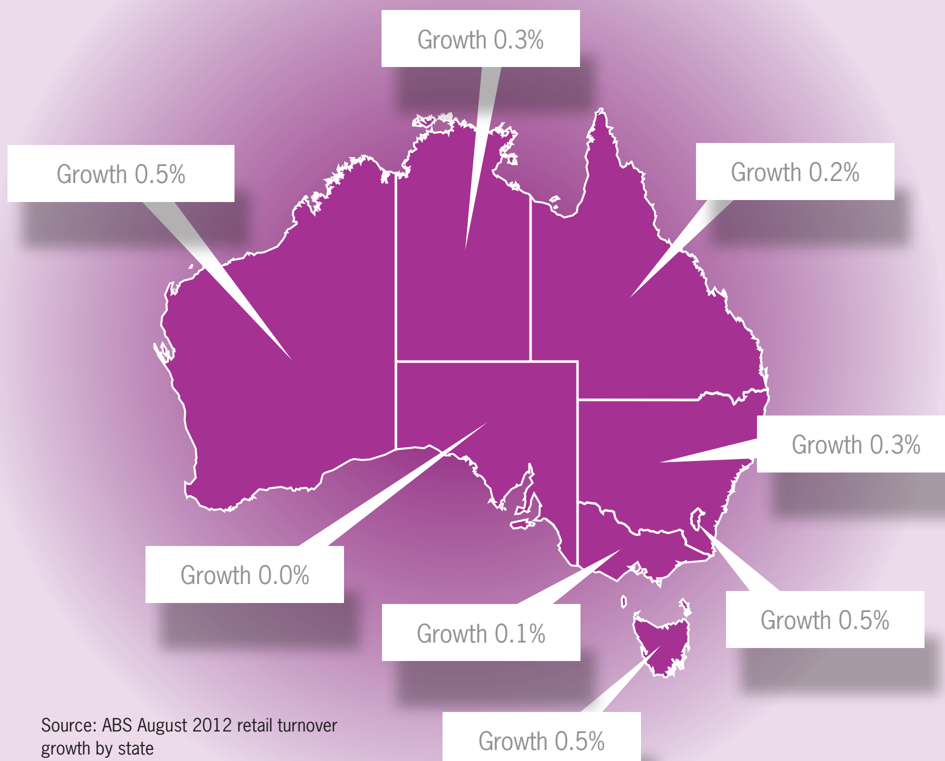
- The introduction of the carbon tax and its marked impact on the expenses of consumers, compounding their lack of confidence to spend
- The unsustained boost of the Household Assistance Package which started in May 2012 where the positive effect of tax cuts appears to be minimal
- A consistently high AUD causing export barriers
- A significant slowing of growth in the China market
- Continued uncertainty in the European economy; and
- Speculation of further rate cuts by the Reserve Bank of Australia

The detail

Extremely modest turnover increase in August was attributed to the subsectors as follows:

- Department stores: Up 6.9%
- Food retailing: Up 0.4%
- Household good retailing: Down 1.5%
- Other retailing: Up 0.4%
- Cafes, restaurants and takeaway food services: Down 0.9%
- Clothing, footwear and personal accessory retailing: Down 0.7%

The previous quarter's figures were sustained by the launch of the Household Assistance Package but, as mentioned above, the package's stimulating effects appear to be short-lived until the next injection in March 2013. We will have to wait to see whether the recent cut in interest rates is enough to improve September's retail sales.



Source: ABS August 2012 retail turnover growth by state

Entering China: Opportunities for retailers

For retailers looking to expand abroad, conquering China might be seen as the "holy grail". The numbers are certainly enticing – it is currently the world's most populous country with over 1.3 billion residents, it is 62 times the size of Australia, it contains more than 160 cities with a population of over one million people, and its largest city, Shanghai, is home to more than 22 million people (yes, almost the entire population of Australia in one city!).

There are approximately 50 million Chinese people classified as "mainstream" with a disposable income of between USD16,000 and USD34,000 and around 15 million "affluent" people with a disposable income in excess of USD34,000. We need to bear in mind that whilst these amounts may appear modest by Australian standards, they provide considerable spending power in China. This spending power is increasing at a phenomenal rate as Chinese society as a whole becomes wealthier. The number of mainstream consumers is expected to increase by nine times over the next decade. As many Australian companies with manufacturing ties in China will attest, wage inflation is currently running at up to 15% per annum.

The one child per couple policy has meant each child potentially has six earning adults (parents and grandparents). The new generation will have huge spending power.

Market place

What are the numbers like for retailers? Most statistics available to us are from supermarkets. The biggest foreign supermarket chain in China is Walmart which had 380 stores in 2011. In 2011, the Chinese spent USD976 billion in supermarkets, (compared to USD919 billion in the US and USD79 billion in Australia), and in China this is expected to rise to USD1.5 trillion by 2015.

By 2013, China is predicted to be the largest online marketplace in the world – currently half of all city dwellers check out at least one retail website every single day! In 2011, online spending was already circa USD900 billion, but Chinese consumers spend much more time than Australians researching products and as a result returns can be much lower.

The market is also still very fragmented with the top 100 retailers accounting for only 11% of sales. In Australia, by comparison, Woolworths and Wesfarmers make up 40% and 31% of market share respectively.

The biggest winners in China are, and for the foreseeable future will continue to be, luxury goods retailers. Although sales growth is slowing, it is still in double digits and by 2015 China is expected to be the largest luxury goods market in the world, even exceeding Japan.

Opportunities

So what is the opportunity for Australian retailers thinking of expanding into China? By 2015, it is predicted that China will be the biggest consumer market in the world, overtaking the US by some margin, with estimates of annual sales as high as USD3 trillion. Can you afford not to be a part of this?

There are a large number of Western retailers already in the marketplace, but beyond the larger and better known cities retail remains very fragmented and is made up of many small, independent retailers and a proliferation of "wet markets" (i.e. markets selling fresh fruit, vegetables, meat and fish).

Although retailers in China are

Reason says:
take your business to new markets.

Instinct says:
new markets could take your business.

Business decisions are rarely black and white. Dynamic organisations know they need to apply both reason and instict to decision making. At Grant Thornton, this is what we do for our clients every day.

learning fast, they are still some way from operating at what we would classify as retail "best practice" in terms of operations, store format and product. Local retailers can still be acquired on relatively low EBITDA multiples.

With the country's increasing urbanisation, retail in China is getting easier. Demand for Western product is still high and we have identified five unique selling points that Australian retailers can really capitalise on:

- Brand
- Quality
- Safety (for food and health products)
- Shopping environment; and
- Niche products

Challenges

Breaking into China is not without its challenges and retailers will need to conduct extensive research to identify the right opportunities in the right places and have local input into how to merchandise to appeal to the local consumer.

All foreign investment requires prior registration with various levels of authorities which at times may become bureaucratic and time consuming. It is worth bearing in mind that planning regulations and health and safety requirements vary from region to region, as do tax regimes – there are potentially 19 different Chinese taxes to take into consideration.

The logistics infrastructure in the country is still developing. Given the size of the online market in particular, distribution is currently an issue. Our clients tell us that expansion outside the major cities carries a high risk of supply chain problems. However, it is important to bear in mind that the majority of China's population resides outside of Beijing or Shanghai. For instance, Shenzhen, a provincial city next to Hong Kong is home to 10.4 million people (almost half the population of Australia) and is the second busiest port in China.

Most foreign retailers in China have recognised the need to partner with an established Chinese advisor that

understands the intricacies of doing business in China; whether it be dealing with regional economics, regulations/bureaucracy or simply the language. Many retailers have used franchise partners and joint ventures. This may appear to be a low risk option, but if it goes wrong it can be difficult to terminate relationships. For instance, Burberry UK recently bought back its franchise operations to regain control.

The pace of urbanisation and the development of new retail spaces in China could be a double-edged sword. Primary spaces can easily become secondary or tertiary spaces in a short period of time.

Consumers in China shop very differently from western customers and shopping habits can vary in different regions. To be successful, companies have to tailor their offering to the Chinese market. As an example, one of the largest home improvement and garden centre retailers in the UK closed 22 stores in China in 2009 as its "big shed" concept did not work in some regions and, although there has been an increase in housing in China in the past decade, the concept of "do-it-yourself" home repairs or improvements has not caught on at all. This is attributed not only to cultural differences between Western and Chinese consumers, but also the fact that relatively low wage rates in China mean sourcing a repairer for even the simplest of tasks is still cost effective. As wages continue to increase, this may be a space worth watching.

Other obstacles can simply arise out of different attitudes towards business practices. There may be an expectation of gratuities or favouritism in China in return for necessary approvals or outcomes that could potentially leave some Australian businesses feeling uncomfortable.

Retailers should also consider as soon as possible the best methodology to protect their own intellectual property, whether this relates to patents and/or trademarks, as the Chinese approach and legal system in this area of regulation is different to the Australian approach and this can be challenging.

Attitudes can change rapidly towards the importation of certain products, especially food items. A number of products were recently discovered to have been tainted. This has resulted in extra-vigilant monitoring of food imports by Chinese Government regulators. Exporters to China should ensure that all relevant approvals have been obtained before any shipments are dispatched.

The opportunities for retailers in China are great but there are hurdles to establishing a presence. However, with careful planning, an appreciation of the steep learning curve needed and recognition of and sensitivity to the cultural differences, great gains are there to be made. As the Chinese population becomes wealthier and spreads, retailers must at least consider their options in the Chinese marketplace.

Retail obsolescence

Kevin Olsen and Cory Lipoff of Hilco Merchant Australia provide insights into the ever important area of retail obsolescence. Hilco provides retailers with a portfolio of solutions to monetize underperforming inventory and store fixtures, facilitate enterprise right-sizing through strategic outsourced store closings and store openings, and increase profitability through sophisticated enterprise cost reduction strategies, loss prevention programs and real estate repositioning and restructuring services.

It is a truism that the retail landscape is constantly changing. We have seen the high streets give way to power centres and regional shopping malls. We have seen catalogue showrooms disappear in favour of category killers that, in turn, are being rendered obsolete by e-tailing sites on the internet. And we have seen department stores, once the powerful anchor of both high streets and the regional shopping malls, become marginalised by the consumer's ability to source brands from a multitude of other channels.

It is also a truism that those retailers who are successful over the long haul are those willing to make tough decisions that lead to positive change. A willingness to reinvent themselves. A commitment to execute on bold and often high-risk strategies designed to overcome retail obsolescence. In doing so, change-orientated retailers enjoy growth, improved margins, customer loyalty and a lucrative new position in the marketplace. In short, they remain relevant. One need only look at two retail sectors to gain a crystal clear understanding of retail obsolescence:

1. general merchandise; and
2. books and music.

For many decades, the Woolworth Company, (which is entirely different from Australia's Woolworths Limited), was one of the largest and most powerful retail chains in America. It pioneered in the general merchandise category and was an early adopter of discount retailing, offering prices significantly lower than the other retailers of the day. But, since the 1960s, Kmart, Wal-Mart and Target to name a few major players, have emerged as a new breed of general merchandise discounters, and severely cut into Woolworth's market share.

Rather than trying to compete, in 1997 Woolworth's reinvented itself into an athletic shoe business. Foot Locker was the reincarnation of Woolworth's and today it not only owns a high percentage of the athletic shoe sector, it is experiencing worldwide store growth and also has a major internet presence. A far cry from the original Woolworth's chain, Foot Locker stands as testimony to the tough, bold decision made by Woolworth's management to accept that retail obsolescence had hit them and to become something different in order to remain relevant.

In much the same way, the trials and tribulations of the department store sector are now well documented. Put simply, there are plenty of new places and channels – Target, Wal-Mart, Costco and internet e-tailers - for the consumer to source the goods that once made these stores destinations. Department stores remain difficult to shop in and do not typically offer good value despite their efforts to discount more deeply, which usually only results in margin erosion.

Some department store chains are attempting to combat these issues by, among other things, establishing private label programs. Such goods cannot be price checked on the internet, can only be

purchased in their stores, and have good margins. While this is a commendable strategy, will it be enough to turn the tide?

One department store chain decided that it would not. JCPenny and its CEO, Ron Johnson, decided instead to transform the business. So, rather than remaining a classic department store, JCP is transforming itself into a marketplace of individual shops within the store, many of which feature products that can only be sourced there. Moreover, JCP severely limited coupons and discounting opting instead for true, fair pricing. This is a story without a conclusion. Wall Street has hammered the stock and criticism is rampant, but JCP management should be lauded for addressing the underlying problem that the department store chain had been hit by retail obsolescence.

Technology and the explosion in e-commerce have exposed several issues for certain categories of brick and mortar retailers, chief among them are music/video and book sellers. The ability to digitize and electronically deliver reading materials and videos/music at substantially lower prices, broke the back of most "analog" retailers. In the span of just a few years, these iconic retail names disappeared from the landscape: Circuit City, Borders, Waldenbooks, Crown Books, Tower Records, Virgin Mega Stores, Movie Gallery and Musicland.

Barnes & Noble is a different story. CEO William Lynch's effort to reinvent the retail chain in the digital age, placed its bet on the nook and an expanded e-tailing strategy. Barnes & Noble is now the place where readers can discover books in both analogue and digital form.

Ever since the global financial crisis, consumers have become even more value conscious, which has increased the likelihood that they will make their purchases from cheaper e-tail sites and simply use brick-and-mortar retailers as their personal "showroom". So what is the retailer to do? Change! The only way a retailer can survive and prosper in this day and age is to be efficient, have a brand that stands for something unique and meaningful to a distinct category of consumers, offer good value or unique products, and make it easy to shop. If a retailer does not do these things, it will be rendered obsolete.

Being efficient doesn't mean abandoning bricks and mortar in favour of e-tailing. But, it does require a retailer to make certain that all stores in its store base contribute to profitability. A store that loses money harms the retailer more than the actual monetary loss. Unproductive inventory consumes vital capital that could be deployed elsewhere with a greater returns, such as innovative concepts or locations to stay relevant.

It is penny-wise and pound-foolish to operate stores or concepts that are unproductive. Most successful retailers conduct reviews of their store base annually with a four-wall analysis of store profitability. After allocating overheads, any stores that are not profitable are closed. Likewise, if a retailer has several concepts and some are not profitable, they are closed down. Even a strategy to exit leases by negotiating a termination agreement with landlords is often money well spent.

Retail obsolescence is not new, but with the advent of e-tailing, it is occurring faster than ever. Only retailers who are proactive will survive. As time goes by, retailers must continue to make hard decisions. Exiting stores, changing concepts, finding goods that provide value for the consumer and margin for the retailer are all crucial for survival.

Pricing carbon – Looking for the opportunuties?

The Clean Energy Future Plan announcement, including the introduction of a price on carbon, is perhaps one of most far reaching micro-economic reforms since the introduction of the GST and the floating of the Australian dollar. The pricing of carbon will have major direct and indirect impacts on both businesses and households.

Like any major change, the key is to understand how the changes affect your business, take strategic action to minimise any adverse impacts and take advantage of any opportunities presented by that change. Despite the bad press, there are potential opportunities for your business in this package, but you have to know where to look.

In the same way John Hewson had difficulty explaining how much the price of a birthday cake would increase in a post-GST world, quantifying when and by how much a price on carbon will impact business and the economy is difficult. However, there are some practical steps you can take to help you to navigate through this fundamental change and reduce the uncertainty for your business.

How will the retail sector be impacted by the price on carbon?

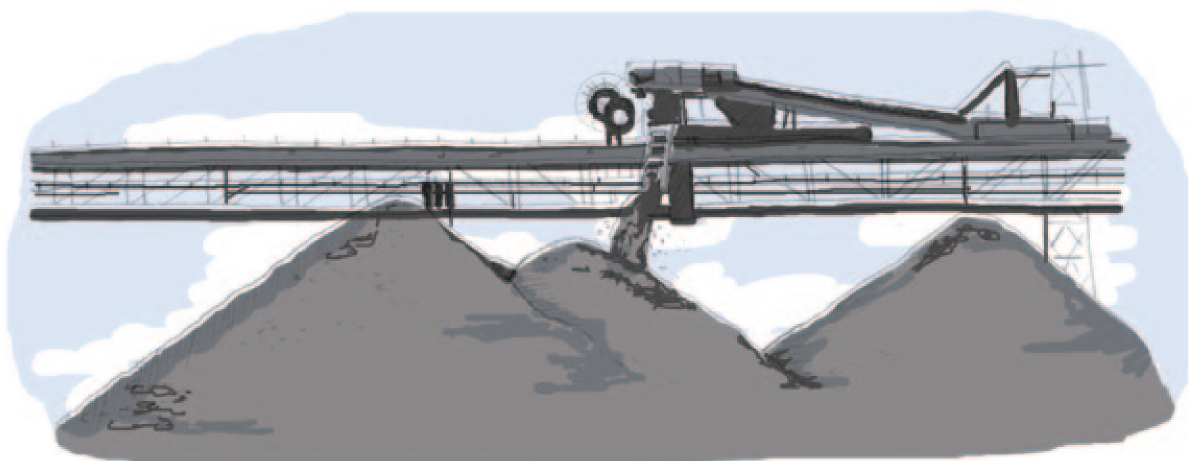
While small to medium businesses will generally not be required to pay a price for carbon, there is expected to be an indirect impact on this sector of the economy, as costs are passed down through the supply chain.

Grant Thornton's industry experts have reviewed the Clean Energy Future Plan from a retailer's perspective and provide the following comments and observations we believe are relevant to the sector:

Energy costs – Retailers are high energy users, especially when refrigeration costs are taken into account. We are told by Treasury to expect electricity costs to increase by an average of 10% and gas prices to increase by around 9% in 2012-13 due to the carbon price. Naturally, this means that the traditional bricks and mortar retailers will bear a significant increase in their overheads.

An increase of 10% in a major cost of running your business can have a substantial impact on your profitability and cash flow. Businesses with high electricity and/or gas consumption will need to understand the impact this increase will have on their operations and consider passing this cost through to the end consumer.

Retailers also need to be aware of the range of assistance measures the Government has announced as part of the Clean Energy Future Plan to help



businesses save energy and transition to a more energy efficient operation.

For example, for small businesses (defined as having aggregated turnover of less than $2 million a year), the government has introduced an increase in the small business instant asset write-off threshold from $5,000 to $6,500 for depreciable assets from the 2012-13 year.

The government has also provided $40 million through Energy Efficiency Information Grants to help industry associations provide information on reducing energy costs and a further $5 million to improve delivery of clean technology advice.

The other important initiative that retailers need to be aware of is the tailored finance solutions available through Low Carbon Australia to support the energy efficient retrofit of non-residential buildings, which would include retail stores. Now is a good time to consider energy efficient retrofit projects for lighting, air-conditioning, refrigeration and the like in the retail sector, as Low Carbon Australia will work with the applicant to match repayments to the dollar value of energy savings achieved. This provides real opportunities for cash neutral energy efficiency outcomes in the retail sector.

Refrigeration costs – Retail businesses with significant refrigeration requirements are likely to notice an increase in the cost of refrigeration servicing as a result of the carbon price. The reason for the significant impact is that many refrigerant gases have a global warming potential many times higher than carbon dioxide. The carbon price on hydrofluorocarbons and sulphur hexaflouride gases is being applied through import and manufacture levies under the Ozone Protection and Synthetic Gas Management legislation.

Affected retail businesses should take the opportunity to review their likely refrigeration servicing costs and related energy costs under the new arrangements, and consider the cost/benefit of retrofitting their refrigeration systems to reduce both the synthetic gas impacts and electricity price impacts.

Once again, initiatives such as the tailored finance available through Low Carbon Australia should be seriously considered by retailers with a high exposure in this area.

Off-road transport costs – While fuels for on-road transport are currently excluded from the carbon price arrangements, and transport fuels for some sectors such as forestry, fisheries and agriculture are excluded from the carbon price altogether, retailers whose goods are transported via off-road transport modes, such as air, rail or marine, should consider whether they will be affected by potential pass-through carbon price impacts.

Subject to exclusions for transport fuels used in the forestry, fisheries and agriculture industries, fuels used in the marine and rail transport sectors will face reductions in fuel tax credits, while aviation fuel is subject to an increase in fuel excise.

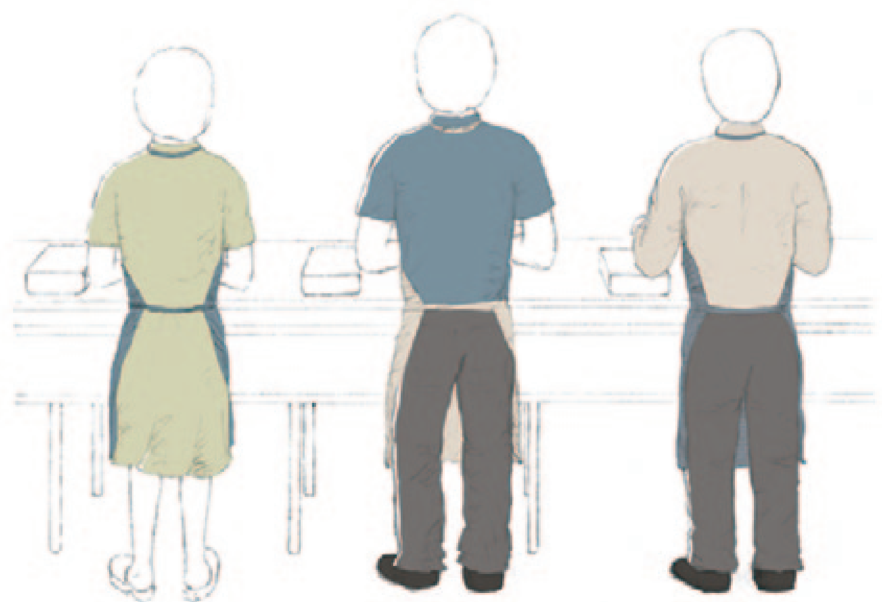
Retailers should consider the transport modes used in the transport of their goods and determine whether the carbon price will impact any of these costs. If an issue is identified, retailers should investigate further to ascertain the potential impact of these supply chain costs for budgeting purposes and to assist in commercial negotiations.

Retailers with significant warehousing operations may also be affected by reductions in fuel tax credits to the extent that fuels are used in off-road warehouse equipment, such as forklifts. This is another area for further analysis by retailers.

With the carbon price's impact on certain transport fuels now becoming a reality, it is important that other fuel tax concessions that may be available are understood and accessed by relevant supply chain players.

Grant Thornton's indirect tax advisers can assist in navigating this complex area, particularly in light of recent court decisions which may present opportunities for both refunds and future savings of fuel taxes.

Manufacturing impact – The manufacturing sector is recognised as a key contributor to Australia's carbon emissions, given that so many of the activities undertaken by this sector involve industrial processes which use energy. Manufacturing will inevitably be affected by the carbon price. However, the extent of that impact is not always



clear-cut and will depend on:

- the availability of manufacturing assistance under the Clean Energy Future package
- the level of import competition
- relative emissions intensity of the good
- the availability of lower emissions substitute
- the degree of pricing power of suppliers; and
- the cost of potential mitigation options

Retailers who are supplied by Australian manufacturers need to be conscious of the potential impact that the price on carbon might have on the price they pay for these goods.

Retailers should review their supply contracts to see whether manufacturers have the right to pass through cost increases relating to the carbon price and should investigate further if the proposed cost pass throughs appear to be excessive.

Retailers should also check to ensure that manufacturers are availing themselves of any industry assistance that may be available to them under the Clean Energy Future package to ensure that the pass through impacts are minimised.

Supply chain price impact – Retailers find themselves at the very end of the manufacturing and supply chain. Any cost increases passed on by upstream providers such as manufacturers and transport providers, will ultimately be borne by them and/or the retail consumer. Government modelling has proffered, and it is generally accepted elsewhere, that once carbon pricing is introduced, rises in the price of food are likely to be only nominal. Modelling by the Grattan Institute shows the estimated price rises of basic grocery products post carbon tax to be between two cents for a loaf of bread and six cents for a box of breakfast cereal.

While some households have been provided with compensation to account for increased prices, retailers need to understand the potential impact on their costs across the entire supply chain and be ready to review and, if necessary, challenge any proposed cost increases as they arise.

For example, at the moment, fuel for heavy on-road vehicles is not included in the carbon pricing arrangements, which means that these costs should not increase due to the carbon price.

However, if a retailer's goods are transported by air, sea or rail, fuel costs for these kinds of transport may be impacted by the carbon price.

Retailers must be informed and remain vigilant in relation to supply chain costs.

Consumer sentiment – It appears that the introduction of the carbon price has not affected consumer sentiment as adversely as was first feared. However, despite unchanged interest rates, income growth and low unemployment, Australians are saving a greater proportion of their income than they have in more than 20 years, with retail activity remaining subdued. Official figures show retail sales fell in May 2011, with the annual growth rate dropping to 1.4%, below the rate of inflation.

Key points in summary

1. Take time to think through and quantify how your business might be affected by the Carbon Price:
   - consider direct impacts such as electricity and gas prices; and
   - consider indirect impacts such as stock prices and transport costs
2. Be ready to challenge any proposed cost pass-throughs that are being attributed to the Carbon Price and inquire whether your suppliers are availing themselves of government assistance – especially manufacturers.
3. If you are a small business, can you take advantage of the higher instant asset write off threshold?
4. Do you have high refrigeration costs? If so, investigate the likely impact on servicing costs.
5. Once you understand these impacts, consider energy efficiency retrofit options such as lighting, air-conditioning and refrigeration systems, and investigate obtaining government support through Low Carbon Australia and other initiatives.
6. Grant Thornton has a team of experts who can help you understand the impact of the Carbon Price on your business and help you and/or your suppliers to access any available government assistance.

Part of the Clean Energy Future Plan provides for a range of household assistance measures funded by 50% of the funds raised from the sale of carbon permits. This assistance will be returned to low and middle income households to help to offset the expected price increases for certain goods and services, in particular electricity. The question is, will this assistance package provide a bounce in retail sales as other assistance packages, such as the Government's Household Stimulus Package and the back to School Bonus in 2009?

News flash – Tax refund opportunity!

Are you running a transport fleet? Fuel Tax Credit refund arrangements: transport vehicles

Background

Late last month an important decision was handed down by the Administrative Appeals Tribunal (AAT) Taxation Appeals Division which has the potential to create Fuel Tax Credit (FTC) refund opportunities for fuel used in transport vehicles.

The ATO has issued a statement that they will not appeal the decision. The ATO has also said they will work with taxpayers who have historically under-claimed the FTC.

The issue

The AAT ruled that the FTC for fuel used in trucks for refrigerated transport was not reduced by the road user charge.

The scenario is not just limited to refrigerated transport, but other users of fuel where that fuel is used for purposes other than propelling the vehicle (e.g. cement mixers, air-conditioning units, etc.)

This has the effect of increasing entitlement from the "on-road rate" (currently 12.643 cpl) to the "off-road rate" (currently 38.143 cpl less the carbon pricing reduction).

In real terms, this translates to a potential refund of up to approximately $23,000 for every 100,000 litres of fuel used in the last four years. The decision may have retrospective application back four years and, in some cases, back as far as 2003.

What do you do now?

The AAT essentially gave instructions for users of such fuel to review their arrangements for potential under-claims of FTC. Practically, this means that users need to:

1. Preserve the maximum potential refund by lodging "stop the clock" notifications with ATO.
2. Quantify the retrospective and prospective positions by analysing the fuel consumption for "power take off" versus propelling the vehicle.
3. Once reviewed, prepare a matrix/schedule highlighting the individual characteristics and apportionment of fuel use across the tax periods for your refund claim.
4. Approach the ATO and request refunds where appropriate.

For further information contact your usual Grant Thornton advisor, or

Tony Windle
National Head of Indirect Tax
T +61 7 3222 0381
E tony.windle@au.gt.com

Our National Retail Team

Grant Thornton is a national full service accounting and business advisory practice that specialises in working with retailers of all makes and types, big and small. We closely work with our retail clients, so we understand this complex and diverse market well. If you would like to discuss any aspect of the above, please do not hesitate to contact one of our industry experts detailed right.

Simon Trivett
National Head of Retail
T +61 3 8663 6001
E simon.trivett@au.gt.com

Gayle Dickerson
Partner – Recovery & Reorganisation
T +61 2 8297 2706
E gayle.dickerson@au.gt.com

Chris Watson
Associate Director –
Forensic & Investigation Services
T +61 7 3222 0267
E chris.watson@au.gt.com

Adam Pitts
Partner – Audit & Assurance
T +61 3 8663 6186
E adam.pitts@au.gt.com

Louise Worsley
Partner – Audit & Assurance
T +61 2 9286 5604
E louise.worsley@au.gt.com

Eric Passaris
Partner – Audit & Assurance
T +61 3 8320 2423
E eric.passaris@au.gt.com

Clive Bird
Partner – Tax
T +61 3 8663 6283
E clive.bird@au.gt.com

Industry Intelligence Unit

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We are a member of Grant Thornton International which comprises firms operating in more than 100 countries worldwide. Through this membership, we access global resources and methodologies that enable us to deliver consistently high quality outcomes for owners and key executives in our clients.

What is the Industry Intelligence Unit?

The IIU is unique in its objective of providing stakeholders with information, understanding and analysis of the issues faced within specific industries and sub-industries. The IIU also seeks to provide pragmatic, commercial, practical measures and initiatives to improve stakeholder value.

Industry focus

The IIU utilises the industry experience and expertise of Grant Thornton partners and staff across Australia. The IIU is predominantly focused on the following industries and their related sub industries:

- Health & Aged Care
- Automotive Dealerships
- Energy & Resources
- Financial Services
- Food & Beverage
- Hospitality & Tourism
- Life Sciences
- Manufacturing
- Not for Profit
- Professional Services
- Public Sector
- Real Estate & Construction
- Retail
- Technology & Media
- Major Projects & Infrastructure

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If you want to know more, please contact us...

Adelaide
Dale Ryan
T 08 8372 6666
F 08 8372 6677
E info.sa@au.gt.com

Brisbane
Chris Watson
T 07 3222 0200
F 07 3222 0444
E info.qld@au.gt.com

Melbourne
Simon Trivett
T 03 8663 6000
F 03 8663 6333
E info.vic@au.gt.com

Perth
Matthew Donnelly
T 08 9480 2000
F 08 9322 7787
E info.wa@au.gt.com

Sydney
Gayle Dickerson
T 02 8297 2400
F 02 9299 4533
E info.nsw@au.gt.com

www.grantthornton.com.au

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