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Submission to the House of Representatives Standing Committee on Aboriginal and Torres Strait Islander Affairs Inquiry into Remote Stores

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The Queensland Government owns retail stores in six remote communities throughout Queensland.

These communities are Doomadgee, Kowanyama, Lockhart River, Palm Island, Pormpuraaw and Woorabinda.

During my employment with the Retail Stores Operations (RSO) I have held the positions of Accountant (from May 1999 to September 2003) then General Manager (until May 2008) and then Woorabinda Store Manager.

I therefore feel qualified to provide my views on the terms of reference items.

However, these are my private views and I do not comment on behalf of the RSO.

Terms of Reference

- *food supply, quality, cost and competition issues;*

In relation to the issues of "food supply and quality", during my ten years with RSO I am not aware of one product that would not be sourced and stocked in those stores if there was a demand for it. However, RSO stores are not large supermarkets of the like of Coles and Woolworths, so the difficulty of purchasing carton quantities of products with limited shelf life and limited demand must be taken into account when deciding to restock a product. Eg. A carton of one product may be 12 items. If sales of that product are only 1 or 2 per month, the use by date or best before date will probably pass before we sell out of that product. Discounting lines that are close to the use by date doesn't tend to be as successful in our communities as it would be in mainstream stores. Hence, we need to decide either not to restock those products; or source them at inflated prices (usually 20% higher) due to "broken" carton buys; or suffer stock write-offs if we continue to carry these slow moving lines.

Part of the RSO nutritional policy has been to provide bread and fresh milk at equivalent prices to the Coles Brisbane City supermarket at all times during the year, diet soft drinks are priced at 20% less than "normal" soft drinks and quality fresh fruit and vegetables have a very low mark up making them no dearer than prices in the regional cities,

However, I believe it is a failure of health professionals to effectively educate community members of the need for eating healthy that is the main reason for ongoing diet related problems in these communities. There are plenty of nutritionists sitting in offices in Brisbane and regional towns giving advice on how to stock stores,

but I am not aware of any who actually live and work in the communities. When so called healthy stock is carried by the stores, and quite often promoted by the store managers, all too often these recommended lines gather dust until they pass the use by date.

A common breakfast consists of a can of coke, a packet of cigarettes and a meat pie when the stores or local take away shops open. These products are already “price penalised” to offset the subsidy on the more healthy lines, but this has limited impact on decision making by most local community members.

On the issue of stocking “fresh vegetables” I believe there is evidence to suggest “frozen vegetables” are in fact as good as “fresh” especially when the fresh fruit and vegetables may be on the shelves up to 2 weeks after being despatched from the supplier. Although the RSO stores all have good quality fruit and vegetable display cabinets and chiller storage, the quality of some products – especially leafy vegetables - definitely reduces within a week of receipt into the stores.

There seems to be a perception that remote stores take advantage of their “one town, one store monopoly” situation in most communities and unfairly inflate prices to increase profitability. There is no doubt that prices in the RSO stores are higher than Regional cities such as Cairns, Mt. Isa, Townsville and Rockhampton, but this is due to virtually all costs of operation being significantly dearer than stores of a similar size in those regional cities. The group operates independently from other units within the Department, and all costs and revenue from operations are made from/to the RSO Bank Account. RSO stores are fortunate that any profits generated by the group remains with the RSO bank account unlike privately operated stores where profits are usually distributed back to shareholders. Any excess funds can be used to upgrade the stores with improved store layouts, upgraded plant and equipment (especially refrigeration), and even major refurbishments.

Let me analyse a typical list of expenditure to be found in any stores profit and loss statement so you can understand why prices are obviously higher than mainstream stores:-

Cost of Goods Sold > this is the price paid to the suppliers. RSO is fortunate that it is an associate member of the Foodworks chain of Independent grocers, and as such is linked to their negotiated buying contract from the Metcash warehouse, the largest independent wholesale supplier in Australia. RSO is not exclusively linked to buying from Metcash, and occasionally regional suppliers may be able to better the price on offer from Metcash, but this is not the norm. I believe the net invoice price RSO pays for stock is probably similar to any small to medium sized IGA, SPAR or Foodworks store, but obviously a lot higher than Coles or Woolworths. All stores place weekly orders on Metcash. However the Doomadgee, Kowanyama, and Pormpuraaw stores need to order at least six months non perishable stock prior to the roads closing due to the wet season. This is not an easy exercise to undertake > when will the roads close and reopen? what is the demand for those products over that six month period?

Freight > RSO tenders freight requirements each year. This covers the cost of road or rail freight to the regional cities and the cost of road, barge and air freight from the regional cities to the stores. The wet season stores (listed above) will pay anywhere

between \$2 and \$3 per kilogram for air freight of perishables during the wet season. Although RSO may tender for an 800kg lift aircraft, quite often poor weather conditions will only allow 600kg of stock as a further 200kg must be allowed to carry additional fuel in case the aircraft needs to return to base, being unable to land at the community airport. We rarely get 800kg per aircraft as the limited cubic capacity of the aircraft will only allow perhaps 500kg due (this is particularly so with low weight to volume products such as bread). Average freight costs into the RSO Cape stores will add an extra 23% above the cost of the products. This is a considerable cost difference when compared with mainstream stores.

Salary & Wages > all stores are managed by non local management teams. To attract suitable applicants, RSO needs to pay well above what a regional store manager would be paid. During my period as General Manager I was fortunate to have long serving dedicated managers in most communities. It is one thing to have good retailing skills, it is quite another to have the ability to cope with the pressures associated with running stores in remote communities. Quite often they are subjected to verbal abuse and even threats of violence from customers, they need to cope with regular equipment break downs without the local assistance of technicians, power outages are common, store break-ins are more prevalent than in mainstream stores and staff shortages often result in the store manager and partner being the only staff available to open the doors. A key factor in the success of the RSO stores has been the longevity of employment of our management teams. They get to know the community intimately, and are able to understand the needs and workings of the community, far better than managers who may move from store to store on a regular basis.

Unfortunately it is just not practical to promote local indigenous staff into Store manager roles due to the very poor level of education achieved by nearly all staff. Generally, community members who do achieve a satisfactory education tend to leave these communities and pursue careers elsewhere. Also, the single biggest issue faced by virtually all of the RSO store managers, is the work ethic of local staff. Of course there are some very loyal and dedicated staff in some stores, but in general most staff do not achieve the same level of efficiency as staff in mainstream stores. Numeracy and literacy skills are lower; they take more breaks during the day; and they often take days off or don't return from scheduled breaks without giving any notice to the Store Manager.

Stock Losses > RSO stores incur a higher level of store break-ins and in-store theft than mainstream stores. Mainstream stores can also organise several stock deliveries per week, whereas RSO stores rely on weekly deliveries during the dry season and the wet season stores attempt to pre stock six months supply just prior to the roads closing. This naturally leads to the increased risk of stock obsolescence (past use by date etc.) Also, due to the poor road conditions freight must carried over damaged product is also increased.

Depreciation (Buildings, Plant & Equipment) > Although RSO tenders any significant building or plant and equipment capital expenditure, the cost of undertaking any capital works in these communities can be 50% higher than if the work was undertaken in the regional cities. Coupled with high freight costs is also the cost of accommodation, airfares etc. and the unwillingness of many companies to undertake work in the communities.

Electricity > not only is the supply of electricity of poorer quality than for mainstream stores, but the RSO stores require more refrigerated storage due to a lower frequency of deliveries requiring more stock storage facilities. Again, the wet season stores are worst affected requiring considerable freezer/chiller storage to avoid paying air freight during the wet season.

Repairs & Maintenance > as with the capital expenditure costs, the cost of repairs and maintenance on buildings or equipment is exceptionally high. A Store manager can't just get a local technician to jump in his car and call around to repair a fault to a refrigerated unit. He usually has to describe the fault over the phone, ask the technician to get to the store as soon as possible (usually requiring airfares) and then hope that the problem can be fixed on site during the technicians first visit. If not, he may have to order a part, fly back to the regional city and return to fix the problem. In the meantime, the stock carried in that freezer/chiller may have to be written off.

Security > all stores have in store video surveillance equipment installed and after hours alarms that are monitored via a security company. In one community, break-ins have been so common that after hours security guards were employed to patrol the perimeter of the store after hours. Again, security costs are higher than mainstream stores.

Travel Costs > regular visits by Head Office staff into these remote communities is required to ensure the stores are operating efficiently and to provide assistance. (financial, stocktaking, relief management, store relays, computer etc.)

Therefore, RSO stores – and any other remote community store - will incur considerably higher costs of operation than an equivalent sized regional store. However, I believe the stores should be operated on a commercial basis, and all profits retained for ongoing reinvestment in improved services and facilities in these communities. If stores were to match regional store prices, they quite simply would operate at a loss. If governments believe people living in remote communities should have access to store lines at similar prices to mainstream stores, it is up to the government welfare agencies to increase payments to offset for that price differential.

- *the effectiveness of the Outback Stores model, and other private, public and community store models;*

I only have limited knowledge of other models, including Outback Stores. However, I can make the following observations:-

Unlike the \$77m funding provided to Outback Stores, RSO does not require taxpayer funding to support the six stores it currently operates. It operates profitably with store prices that are acceptable as judged by Queensland Health during their Healthy Food Basket Survey (HFAB). That survey compares pricing and product availability with like stores. All of the profits generated by the RSO are retained for use within RSO. The RSO Head Office, located in Brisbane, operates with only 10 staff but is still able to provide an excellent support service to the stores. I have been advised the Outback Stores support staff numbers are in excess of 40. Without knowing the detail of those positions or the salary structures in place, this seems like a very “top heavy” structure. I would also be surprised if stores that appear to be trading profitably - perhaps

without promoting healthy eating and stocking nutritional products – would sign up to the Outback Stores Agreement. The agreement allows Outback Stores to takeover the complete running of the store for a minimum period of 10 years and the current owners (community/council) do not have the right to even sell that business within that period.

Privately operated stores are obviously in the business to make a profit. Communities are vulnerable due to the lack of competition and the inability of many community members to make informed choices about the products available for sale. At least any profits generated RSO, Outback Stores, ALPA and IBIS will be available for distribution or re-investment back into the communities they serve. My view of community stores which are owned or operated by the council, a community enterprise or a private operator on behalf of the council, is that the store operations are open to mismanagement. Councils don't have the management expertise to oversee the operations of a retail store business. There are usually not sufficient checks and balances put in place to ensure the activities of the store are being run correctly. As an example of this, in November 2007 I was asked to provide assistance to the Aurukun Council Store. The acting CEO was quoted in the Cairns Post as stating the store had lost \$1m in trading for the previous financial year. After discussions with the CEO and the council, RSO was asked to takeover temporary management of the store. When we arrived at the store, we found the stocking to be a mess > virtually no fresh fruit and vegetables or fresh milk and only out of date bread on the shelves. After transferring temporary managers from our other stores, in our first month of operation sales increased from \$420k in December 2007 to \$550k in January 2008. After twelve months of management, the December 2008 reported sales were \$850k. When we arrived at Aurukun the daily trading cash takings were given to the council bank agency. The agency refused to issue receipts for the cash given to the agency, and there was no independent check to ensure the cash given to the agency balanced with the end of day register reports.

For stores that are struggling in Queensland, I believe the RSO model would be more than capable of providing support to those stores, more so than Outback Stores, as RSO has the successful track record and experience in dealing with stores in remote Queensland.

- *the impact of these factors on the health and economic outcomes of communities.*

Firstly, a few general observations from my 10 years experience in remote communities:-

- I often hear the comment from politicians "... we need to create jobs in these communities...." Why is it that most store manager's biggest problem is the inability to get staff to come to work for their rostered hours? Staff turnover is very high even though the rate of pay for a shop assistant is actually higher than paid for in mainstream stores. I believe the "pressures" on community members not to work is the main factor. Comments from staff include:-
 - "...my mates don't work..."
 - "...I can get unemployment benefits like CDEP for very little effort...."
 - "...I don't like the work you want me to do..."
 - "...there's a card game on this afternoon..."

- Another common misconception is “... we need to give these communities access to healthy foods...” As I stated previously, in the 6 community stores I managed, the quality and stocking of any products was not a major issue. The problem was the lack of demand for these products. Thus, the old saying, “...you can lead a horse to water...” The prices of products was dearer than regional stores for the reasons I outlined previously, but this applied even more so to cigarettes, soft drinks, meat pies etc. and yet community members would usually choose these products over the more healthy choices, even though the healthy choices were subsidised to some extent. The lack of education to choose healthy over non healthy lines is the problem.
- And yet another misconception is “... we need to create viable businesses run by locals in these communities.....” I am not aware of any viable businesses that have been started and run successfully by locals in any of the communities where RSO operates. Usually a lot of taxpayer funding is poured into starting enterprises only to see them fall over due to a lack of management expertise. Generally, well educated community members tend to move away from these communities. Some council’s have agitated for the RSO stores to be handed over to them so that they can be managed by the council. This concept is not practical. Most council’s currently receive qualified audit reports from the Queensland Audit Office, so I don’t believe they have the skills to either run a retail store efficiently or oversee a contracted manager to run the store for them.
- If the government is committed to improving the general well being in communities, some options could include:-
 - Income management extended to all communities to ensure a portion of centrelink payments are directed to the stores for community members to only purchase specific healthy lines
 - Ban “unhealthy” lines from sale in community stores. Simply placing a higher premium on these lines has minimal impact. This just means less disposable income is available for other healthy lines.
 - Improved education programs in the schools and general community. This would necessitate full time health professionals (nutritionists) to be employed in the communities.

I hope my views have been of some assistance to this inquiry, and I would again like to stress these are entirely my own views

Ron Young