



Australian Association of Convenience Stores

**Indicative regulatory cost analysis of proposed tobacco retail display ban
for convenience store operators in New South Wales, Victoria and
Western Australia**

11 June 2009



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Executive Summary

A retail display ban (RDB) for tobacco products has recently been implemented in New South Wales and is also proposed for implementation in Victoria and Western Australia. Convenience stores will need to make adjustments to their store configuration and to their operating procedures to comply with a RDB. Deloitte has been engaged by the Australian Association of Convenience Stores (AACS) to assist with an analysis of the likely compliance costs associated with a RDB for convenience store operators. This report outlines the approach and the results of the analysis.

The approach we have adopted for undertaking this analysis has been based on the regulatory costing approach used for Regulatory Impact Statements in Victoria. This methodology focuses on assessing the additional economic costs resulting from compliance with a new regulation and, in particular, estimating the additional business activities (primarily measured in time).

The data contained in this report was gathered through 30 face to face interviews with a sample of convenience store operators in New South Wales, Victoria and Western Australia. The sample was drawn from a population of the convenience store operators who are members of the AACS which has membership of 4200 stores¹. Convenience stores who were not part of the AACS membership were not included in the interview process, however, given they follow a similar operating model it is reasonable to expect that they will face similar compliance costs. Nationally, there are approximately 14,400 other convenience store style retail outlets who are not members of the AACS².

Other retailers impacted by the retail display ban, but not included in this study, include supermarkets, specialist tobacconists, duty free operators and other venues selling tobacco such as hotels and clubs. Nationally, there are approximately 12,700 outlets, other than convenience stores, where tobacco products are stocked³.

Major cost categories

Potential cost categories identified during the interviews with convenience store operators were the following:

- one-off costs: store fit-out costs
- recurring costs: increased transaction time, restocking costs, training costs, costs from having a single point of sale, increased shrinkage, workplace safety, change in sales, compliance with different legislation and regulations in different states.

Estimates of one-off costs

Compliance with this new legislation is expected to require significant reconfiguring of existing shop layouts. This includes costs associated with fitting new tobacco storage units as well as the refitting of old tobacco display units for the purpose of other displays. It was estimated by surveyed retailers that this refit would cost between \$5,000 and \$10,000 per store. These estimates are presented for AACS members in New South Wales, Victoria and Western Australia, and, for illustrative purposes, for AACS members in other states and a national total for AACS members. The breadth of the range is reflective of the different approaches to compliance proposed by interviewees and the differences in existing fit-outs at each site. Estimates for one-off costs fell within this range in all three surveyed states.

¹ AC Neilson (2007)

² AC Neilson (2009)

³ AC Neilson (2009)

Table 1. Estimated one-off economic costs for AACS members

	Number of stores	Estimated one-off economic cost
New South Wales	1300	\$6.5 million to \$13 million
Victoria	1000	\$5 million to \$10 million
Western Australia	400	\$2 million to \$4 million
Other States ⁴	1500	\$7.5 million to \$15 million
Total for AASC members nationally	4200	\$21 million to \$42 million

Estimates of recurring costs

Convenience store operators expect an increase in operating costs through increased transaction time and new operating procedures as a result of the application of a RDB. Based on analysis undertaken for this report, we estimate that the recurring annual economic costs could be in the range of \$9,530 to \$19,560 per store in New South Wales and between \$7,530 and \$17,560 per store in Victoria and Western Australia.

The most significant recurring costs were associated with the additional time estimated to complete a tobacco related transaction to ensure compliance with a RDB. The transaction time is likely to increase as a result of the time likely required to request and confirm availability of a particular brand. Other additional staff time is estimated to result from stock management. New training requirements will also result from the introduction from a RDB and will be required for all existing and future new staff. The breadth of the estimated ranges presented in this report is reflective of variance in transaction time estimates provided by interviewees.

The difference in estimated recurring costs between states reflects the differences in approach to an RDB between the states. Existing legislation in New South Wales disallows the use of both a price board and price tickets, while the proposed changes to Victorian and Western Australian legislation does not suggest that retailers will be required to make a choice between the two price instruments. This was found to increase the estimated transaction time expected by retailers in New South Wales following the implementation of a RDB. This matter is further examined in Table 4.

Based on the estimates of economic costs in this report, the potential recurring annual cost for each of the three jurisdictions is outlined in Table 2. Applying the findings of this report as a general indication of potential costs of compliance with a RDB, we have also provided an estimate of the national cost for AACS members.

Table 2. Estimated recurring economic cost for AACS members

	Number of stores	Estimated recurring economic cost (per annum)
New South Wales	1300	\$12 million to \$25 million
Victoria	1000	\$7.5 million to \$17 million
Western Australia	400	\$3 million to \$7 million
Other Jurisdictions ⁵	1500	\$11 million to \$26 million
Total for AASC members nationally	4200	\$34 million to \$76 million

⁴ Using the estimated ranges for AACS members in New South Wales, Victoria and Western Australia

⁵ Using Victoria/Western Australia estimates as presented in Table 11

Costs estimates for the first year following RDB implementation

Retailers stocking tobacco will face both the one-off costs and the annual recurring cost in the first year of implementation. For AACS members, the first year costs following the implementation of an RDB are as follows:

Table 3. Estimated economic cost in the year following the implementation of a RDB for AACS members

	Number of stores	Estimated economic cost for first year following RDB implementation
New South Wales	1300	\$18 million to \$38 million
Victoria	1000	\$13 million to \$28 million
Western Australia	400	\$5 million to \$11 million
Other Jurisdictions ⁶	1500	\$19 million to \$41 million
Total for AACS members nationally	4200	\$55 million to \$118 million

Consistency of approach across jurisdictions

The approach to a RDB is being developed by individual jurisdictions and to date there are some material differences in both the timing and regulatory design for implementation of this policy. This has the potential to drive additional compliance costs given a number of convenience stores operate on a national basis. This lack of a consistent approach is likely to limit the capacity of national operators to adopt a common approach to compliance and also drive additional costs of implementation across jurisdictions. Whilst we have not attempted to quantify these additional costs, it was clear from our discussion with the sector that a consistency of approach would assist to minimise the costs of the introduction of a RDB nationally.

Note that the differences in estimates presented in this report between states are driven by differences in proposed legislation. In NSW, retailers are not able to display both price tickets and price boards; rather, they must choose one or the other. Table 4 illustrates what estimated national cost of implementing an RDB would be for AACS members if all jurisdictions approached an RDB in a similar legislative manner to New South Wales, and in contrast, if it were approached as is proposed in Victoria and Western Australia. The same calculation, using estimates obtained in this report, is presented for non-AACS members to illustrate the potential difference in economic costs for these stores between approaches.

Table 4. Difference in the estimated costs associated with applying the NSW approach to a RDB and the proposed Victorian/Western Australian approach

	Estimated economic cost in first year following national implementation of NSW approach to RDB	Estimated economic cost in first year following national implementation of Vic/WA approach to RDB	Difference in estimated economic costs between approaches
AACS members nationally	\$61 million to \$124 million	\$52 million to \$115 million	\$9 million
Non-AACS members nationally using AACS member based estimates	\$209 million to \$426 million	\$180 million to \$397 million	\$29 million

The third column in the above table, 'difference in estimated economic costs between approaches' reflects the difference in estimated recurring costs between the approaches. The figure in this column reflects

⁶ Using Victoria/Western Australia estimates as presented in Table 11

estimates of an annually recurring difference between approaches as opposed to an estimate of a one-off cost difference.

Cost estimates for convenience stores who are non-AACS members

The AACS membership consists of ‘organised’ convenience stores that are either owned or are franchised by a major convenience store group and some independent convenience store owners. This study sampled convenience stores from this membership base. Convenience stores who are not members of AACS are likely to face similar compliance costs as they will be subject to the same legislation and follow similar business models to AACS members.

Table 5 presents indicative ranges for these non-AACS members based on the cost estimates for AACS members, as presented in this report. The table is to be used for illustrative purposes of the potential size of compliance costs that may be faced by non-AACS members in light of a RDB.

Table 5. Indicative ranges for non-AACS members using estimates obtained from AACS members

	Number of stores	Estimated one-off economic cost	Estimated recurring economic cost (per annum)	Estimated total economic cost in the year following RDB implementation
Non-AACS members New South Wales	4350	\$22 million to \$44 million	\$41 million to \$85 million	\$63 million to \$129 million
Non-AACS members Victoria	3400	\$17million to \$34 million	\$26million to \$60million	\$43million to \$94 million
Non-AACS members Western Australia	1200	\$6 million to \$12 million	\$9million to \$21million	\$15million to \$33 million
Non-AACS members Other Jurisdictions	5450	\$27million to \$55million	\$41million to \$96million	\$68million to \$150 million
Total for non-AACS members nationally	14,400 ⁷	\$72million to \$144million	\$117million to \$261million	\$189million to \$406million

Costs which were not quantified

Some potential cost categories identified by retailers are not reasonably quantifiable. For example, where store owners predicted a loss in sales following the implementation of the RDB, they could not reasonably estimate the predicted scale of loss without having experienced a similar scenario in the past. Cost categories identified under this heading include: time and sale costs associated with a single point of sale, increased stock shrinkage due to distractions from the shop floor, loss of sales from channel shift and costs for retailers operating in multiple jurisdictions facing different RDB legislation and regulations.

⁷ AC Neilson (2009)

1 Introduction

1.1 Purpose of this report

Deloitte has been engaged by the Australian Association of Convenience Stores to undertake an indicative regulatory cost analysis of the RDB in New South Wales, Victoria and Western Australia. The focus of this study is on the likely ongoing incremental economic cost associated with a RDB for the convenience store sector.

The cost information contained in this report is based on consultation with and information from a snapshot of convenience store operators in the three states. Data was collected through face-to-face and phone interviews with general managers of stores and staff from head offices. The costs identified in this report relate to the potential one-off costs associated with compliance, and recurring costs resulting from changes in operations that may result from the introduction of a RDB in these states. The costs estimates are not intended to provide statistically robust data; rather, they illustrate the scope and scale of potential cost.

1.2 Retail display ban: policy objective and proposed regulatory approach

Over the past decade a number of different jurisdictions around the world have implemented RDBs on tobacco products including Iceland and some parts of Canada. A number of Australian states have also signalled that they too intend to introduce such bans. Legislation has already been enacted in New South Wales, Tasmanian and the Australian Capital Territory, prohibiting point-of-sale displays of tobacco products at the retail level. Further information on legislation in Australia is contained in Appendix A. The objective of such legislation is to reduce the incidence of smoking and consumption of tobacco, particularly by young people. The following sections outline the relevant legislation and regulation in New South Wales, Victoria and Western Australia.

New South Wales

Public Health (Tobacco) Act 2008

The *Public Health (Tobacco) Act 2008* (the 'Act') regulates the conduct of tobacco retailers and suppliers in New South Wales. The Act legislates that once the lead-in period has ceased, retailers stocking tobacco and tobacco related products must ensure that visual displays of these products are obscured from the view of the general public both inside and outside the premises. Further, tobacco and tobacco related products may only be sold from a single point of sale within each outlet, where 'point-of-sale' is defined by the presence of a single cash register. Special exemptions are granted to specialist tobacconists. The New South Wales Department of Health estimates that there will be approximately 400 tobacconists who will qualify for this exemption⁸.

Public Health (Tobacco) Regulation 2009: public consultation draft

This Regulation will be made under the *Public Health (Tobacco) Act 2008*, including sections 9 (2) (c), 14 (1), 16, 39 (2) and 58 (the general regulation-making power) and clauses 1 and 5 of Schedule 1.

Part 3 of the regulation prescribes material which may be displayed which relate to the sale of tobacco on the premises at the point of sale. Specifically, this refers to pricing boards and tickets, both of which must comply with a set of rules governing their size and appearance as outlined in the regulation. This pricing information is to be displayed along side health warning boards at the point of sale.

The Act specifies varying lead-in periods for different retailers. Retailers who employ more than 50 members of staff are given six months to comply with the retail display ban from July. Those with less

⁸ New South Wales Department of Health (2009), *Public Health (Tobacco) Regulation 2009* Regulatory Impact Statement

than 50 employees are given a year, while specialist tobacconists are granted a further three year grace period.

Victoria

The Victorian Government has committed to implementing policies which reflect their commitment to the National Tobacco Strategy 2004 - 2009. The *Victorian Tobacco Act 1987* contains legislation pertaining to retail displays and advertising of tobacco products. The Act was amended in 2006, introducing a set of restrictions on tobacco displays in retail outlets. Specifically:

- tobacco displays must be contained within an area of 4m². Cigars are not required to be displayed within this area
- only one of each product line of a tobacco product may be displayed. This precludes the display of different sizes of the same product
- cigarette cartons may not be displayed. An exemption to this applies in the case of duty free outlets beyond customs barrier at Melbourne Airport, which are permitted to have a limited display of cigarette cartons, such that only one carton per product line is visible.

In a white paper released in 2008, the Victorian Government announced intention to legislate such that point-of-sale displays of tobacco will be banned entirely by 1 January 2011, with exemptions granted for specialist tobacconists.⁹

The paper states that all tobacco retailers will be permitted to inform customers of available products for sale on a price board or similar prescribed tool, which will be required to include a graphic health warning such as those currently displayed on cigarette packs.

Western Australia

Legislation pertaining to licensing, tobacco displays and tobacco advertisements in Western Australia are contained in the *Tobacco Products Control Act 2006*. The accompanying regulations are contained in the *Tobacco Products Control Regulations 2006*. Currently, restrictions apply to the size and specifications of tobacco product displays, the number of packages can be displayed and the manner in which they can be displayed. Specifically:

- tobacco displays cover an area of 1m² with a perimeter not exceeding 5m
- only 150 different brands and kinds of product may be displayed with only one of each brand and variant on display.
- the display cannot be highlighted or illuminated in anyway to make it stand out from its surroundings
- products marketed specifically for children may not be displayed within 1m of a tobacco product display.

On the 26 November 2008, a Private Members Bill titled '*Tobacco Products Control Amendment Bill 2008*' was introduced to the Parliament, on motion by Dr Janet Woollard, MLA and read a second time.

The amendment reads:

Delete section 22 and insert:

22. Display of tobacco products

(1) A person who is the responsible person in relation to licensed premises on which tobacco products or smoking implements are sold must ensure that customers cannot see any of those products or implements from inside or outside of the licensed premises

Penalty applicable: see section 115

(2) This section does not apply to:

⁹ To obtain certification as a specialist tobacconist, the retailer must demonstrate that the relevant trading premises derived at least 80% of its gross turnover in the preceding 12 months from the sale of tobacco products. The Secretary will have discretionary provision to ensure that the business is consistent with the common understanding of what a specialist tobacconist is. For example, a newsstand with very high tobacco sales would not qualify as a specialist tobacconist, even if its gross turnover of tobacco products was over 80%.

- (a) the display of tobacco products and smoking implements to a customer at his or her specific request; or
 (b) the display of tobacco products and smoking implements by customers on licensed premises.

A joint parliamentary committee has examined Dr Woollard's Bill and is recommending the introduction of a RDB in Western Australia.

Key elements of proposed and existing RDB legislation

The following table outlines the state of legislation in each of the three jurisdictions and highlights some potential differences between them.

Table 6. Key elements of proposed and existing RDB legislation

	Legislative status	Lead in periods and exemptions	Allowances for pricing communication tools
New South Wales	Legislation implemented, regulations tabulated (period of review)	6 months for stores with less than 50 employees, 12 months for stores with greater than 50 employees and an additional 3 years for specialist tobacconists	Only a price board or price tickets.
Victoria	Proposed – 1 January 2011	Lead in period to be defined. Exemptions for Specialist Tobacconists from RDB	Allowances for both price tickets and a price board
Western Australia	Private Members Bill, Parliamentary Committee	Lead in period for retailers to be defined. Lead in period for specialist tobacconists 12 months from commencement of act. (Private Members Bill).	The current regulations allow for both price tickets and a price board

1.3 Approach

The data on compliance costs was gathered primarily through face-to-face interviews and some telephone interviews, with a sample of convenience store operators in New South Wales, Victoria and Western Australia. The sample of interviews was sourced from convenience stores ranging from small to large in size as well as from different models of ownership.

The study first scopes major categories of potential economic costs and then estimates the potential scale of the cost categories which may reasonably be quantified. To reflect this objective, the interview format required that interviewees first identify sources of both one-off and recurring costs necessitated solely by a change in existing legislation and then provide cost estimates for these activities where practicable.

2 Convenience Store Sector

There are approximately 1300 convenience stores in operation in New South Wales, 1000 in Victoria and 400 in Western Australia. Two thirds of these stores are from major convenience store groups, that is,

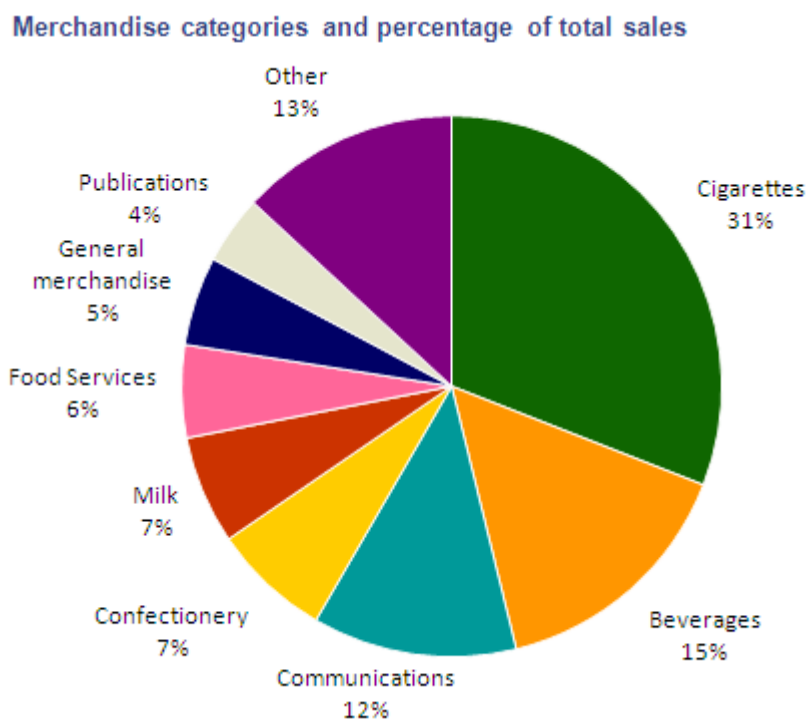
Caltex, Coles Express, 7-Eleven, BP, Mobil and Woolworths Petrol, many of which operate across multiple jurisdictions. The remaining one third of stores are independently owned.¹⁰

The typical convenience store is defined by the following figures:

- ten staff are employed on average by each store¹¹
- staff turnover rate per year is approximately 30%¹²
- the average wage is \$20.00 per hour
- the average number of customers per day is 830¹³.

The average composition of sales patterns is illustrated in figure 2-1. Cigarette sales comprise just over one third of total sales on average.

Figure 2-1: Merchandise categories and percentage of total sales



Source: AC Nielsen, Coal Consulting Face and Him! For AACS (2007), State of the Industry Survey Australia 2007

2.1.1 Classification of convenience stores

Convenience stores can be nominally classified by their size. On advice of the AACS, the follow three categories were identified for undertaking this exercise:

- small: Occupying an area less than 300 m² with 1 to 5 employees
- medium: Store size is 300 m² to 600 m² with approximately 5 to 10 staff members
- large: Store size is over 600 m² with 10 to 15 staff members, or potentially more.

A further categorisation was applied for the purpose of this exercise. Again, through consultation with AACS, the following three categories of ownership were identified:

- category 1: Stand-alone convenience stores (franchised and independently owned)

¹⁰ AC Nielsen, Coal Consulting Face and Him! For AACS (2007), State of the Industry Survey Australia 2007.

¹¹ ibid

¹² ibid

¹³ ibid

- category 2: Independently owned service stations with convenience stores
- category 3: Convenience stores located in franchised service stations .

3 Summary of data collection exercise

One of the primary challenges with any regulatory costing exercise is the collection of robust data on the likely compliance and ongoing costs associated with a new legislation. The challenge arises from the possibility that many businesses may not be aware of the potential impact of the legislative requirements on their business. For this reason, the data on compliance costs was gathered primarily through a set of face-to-face interviews with a sample of convenience store operators in Victoria, New South Wales and Western Australia. When face-to-face meetings were not possible, a small number of interviews were conducted over the telephone. Such personal discussion enables the interviewer to communicate the requirements of the legislation to the store operators, allowing them to identify the potential sources and scale of costs associated with such legislation.

The snapshot was sourced from convenience stores ranging from small to large in size as well as from different models of ownership. Contacts for interviewees were obtained through AACS and contacted by Deloitte. Thirty interviews were conducted across the three states. This includes interviews with store managers as well as those with head office staff. Part of the interview process was a confirmation of the classifications identified in Section 2 of this document. The format of each interview, although unscripted, followed a similar sequence of key themes. It progressed as follows:

Table 7: Interview format

Analysis	Method
Presentation of background information	1. Each interview began with a verbal briefing on the legislation in place in New South Wales and the proposed legislation in Victoria and Western Australia to maintain a consistency of understanding across participants.
One-off cost analysis	2. Interviewees were first asked to nominate possible compliance measures, for example, the installation of drawers or overheads around the point of sale for tobacco storage. 3. Participants provided estimates of the cost of refitting the point of sale area.
Recurring Annual Costs	4. Interviewees were asked to describe, in a step-by-step manner, a typical transaction involving the purchase of tobacco. Next they outlined the same transaction except as it would occur under the new/proposed legislation. A time estimate was provided under each scenario. 5. Interviewees outlined current restocking procedures and then new restocking procedures which would be required under the changes. A time estimate was provided under each scenario. 6. Interviewees outlined any new training which they felt would be required for employees under the new changes. They provided a time estimate for how long such training would take.
Cost which could not be quantified	7. The interviewees outlined any other changes they felt would result following the inception of the new changes. This included items such as behavioural changes in their clients, concerns about occupational health and safety and increased security risks.

4 Categorisation of potential compliance costs

The interviews undertaken for this costing snapshot identified three broad areas of potential compliance costs:

- one-off costs
- recurring costs which can be quantified
- other recurring costs which are problematic to quantify.

Under each of these areas, retailers identified major categories of costs which could potentially be incurred following the implementation of a RDB. Similar themes were reported across retailers based in different states. These cost categories are discussed below.

4.1 One-off costs

Compliance with this new legislation will require significant reconfiguring of existing shop layouts. This includes costs associated with fitting new tobacco storage units as well as the refitting of old tobacco display units for the purpose of other displays.

Common methods of compliance suggested included the installation of overhead storage compartments or under the counter drawers/cupboards.

Tobacco storage units are commonly supplied by tobacco companies; however, the cost of installation is reflected in the rebate which is returned to the store. Refits also incur additional costs associated with the loss of sales during the period of reconstruction.

4.2 Recurring costs

Increased transaction time

Compliance with the new legislation is likely to significantly increase the time taken to complete a transaction including the sale of tobacco products.

The following tables outline the steps of a tobacco sale currently, and the probable sales transaction following the implementation of the legalisation.

New South Wales

Transaction time scenarios for New South Wales are tabled to those for Victoria and Western Australia to account for the allowance of only one of either a price board or price tickets in New South Wales, and potentially both in Victoria and Western Australia.

Table 8: Possible transaction scenarios New South Wales

Current Sale Scenario	Possible Future Sales Scenario	Estimated change in transaction time
Customer views availability of product, asks for product	Customer either scans price board or searches price tickets, &/or inquires about availability of a brand	+ 3 to 5 seconds
	Sales assistant searches for stock	+ 5 to 10 seconds
Customer views pricing information	Customer inquires about price and quantity	+ 3 to 5 seconds
	Sales assistant provides information	+ 2 to 5 seconds
	Customer agrees to transaction	+ 2 to 5 seconds
Sales Assistant asks for identification	Sales assistant asks for identification	-
Customer produces identification, it is checked	Customer produces identification, it is checked	-
Sales assistant gets the product	Sales assistant gets the product	-
Customer pays for the transaction.	Customer pays for transaction	-
Sales assistant enters the transaction and receipt is produced	Sales assistant enters the transaction and receipt is produced	-
Total estimated increase in transaction time		+ 15 to 30 seconds

Victoria and Western Australia

The following tables outline the steps of a tobacco sale currently, and the probable sales transaction following the implementation of the legalisation for Victoria and Western Australia.

Table 9: Possible transaction scenarios Victoria and Western Australia

Current Sale Scenario	Possible Future Sales Scenario	Estimated change in transaction time
Customer views availability of product, asks for product	Customer scans price board and searches price tickets, &/or inquires about availability of a brand	+ 2 to 5 seconds
	Sales assistant searches for stock, uses price tickets to locate	+ 2to 5 seconds
Customer views pricing information	Customer inquires about price and quantity, can use price board	+ 2 to 5 seconds
	Sales assistant provides information	+ 2 to 5 seconds
	Customer agrees to transaction	+ 2 to 5 seconds
Sales Assistant asks for identification	Sales assistant asks for identification	-
Customer produces identification, it is checked	Customer produces identification, it is checked	-
Sales assistant gets the product	Sales assistant gets the product	-
Customer pays for the transaction.	Customer pays for transaction	-
Sales assistant enters the transaction and receipt is produced	Sales assistant enters the transaction and receipt is produced	-
Total estimated increase in transaction time		+ 10 to 25 seconds

These time estimates do not incorporate delays to non-tobacco related purchases from queuing or any confusion resulting from customers attempting to purchase tobacco from the incorrect point of sale.

Restocking costs

Stores reported that current restocking procedures often involved staff bringing out cartons of cigarettes, placing them on the counter and filling the stock from the carton to the storage units while simultaneously serving customers. This method of restocking means that cartons of stock and the cigarette stocking area can be left unattended for short periods of time at the counter while the retailer tends to customers. Restocking was typically reported to occur 2 to 3 times a day.

Under the new legislation, to avoid incidental viewing of cigarettes and tobacco products, store owners thought it likely that a staff member may need to dedicate their full attention to restocking only, meaning that either restocking must occur out of store hours or when more than one staff member is present. This was considered particularly problematic by stores with long or continuous operating hours.

Training costs

Store owners reported that new operation procedures would require an increased level of ‘on-the job’ training, as well as a revision of existing procedural manuals. The operators noted that transactions often involve the customer pointing or motioning at the product that they wish to purchase, making it easier for the sales assistant to locate the right product. Store operators felt that their staff, who are not always familiar with commonly used abbreviated terms for tobacco products, may find it difficult to locate the requested product without a physical indication from the customer. Sales assistants will also have to be trained on other compliance issues such as avoiding all opportunities for incidental viewing (closing drawers and learning new restocking methods) or working solely from a single point of sale.

4.3 Costs which were not quantified

Single point of sale

Section 10 of the *Public Health (Tobacco) Act 2008* (NSW) requires that only one point of sale is used for tobacco related transactions, where a single point of sale is defined as a single cash register as opposed to a single sales counter. Store owners raised concerns about an incapacity to adequately signal the appropriate register to queue for and the loss of efficiency in service resulting from the division in function of a limited number of cash registers. They were concerned that in a small space, without clearly defined separations between registers, customers may become confused as to which queue they must line up in and aggravated if they are not served when they reach the front of the queue.

Stock Shrinkage

Store owners indicated that the time spent searching for and restocking products stored in a concealed location may detract from the store operator’s ability to focus on the shop floor. This could potentially lead to an increase in theft from the shop floor. This was particularly a concern for 24 hour stores, where fewer staff were employed at night increasing the security risk.

Workplace safety

Some retailers described situations where some concealment methods had been trialled which involved the fitting of doors and drawers behind the point of sale. They observed that this new fit out method increased the level of work place accidents.

Change in sales

Operators were concerned that the display ban may lead to a significant channel shift in sales from their stores to the larger supermarkets and specialist tobacconists. Displays are the main method of signalling which lines a convenience store carries. In the absence of display, customers may find it easier to visit larger supermarkets which will stock their preferred product with certainty.

Consistency of approach across jurisdictions

The approach to a RDB is being developed by individual jurisdictions and to date there are some material differences in both the timing and regulatory design for implementation of this policy. This has the potential to drive additional compliance costs given a number of convenience stores operate on a national basis. This lack of a consistent approach is likely to limit the capacity of national operators to adopt a common approach to compliance and also drive additional costs of implementation across jurisdictions. For example, stores which suggested the installation of dispensing units to curb the possibility of incidental viewing for stores in some states, will not be able to implement the same measure in the Australian Capital Territory due to restrictions in this jurisdiction on such units. While we have not attempted to quantify these additional costs, it was clear from our discussion with the sector that a consistency of approach would assist to minimise the costs of the introduction of a RDB nationally.

5 Indicative estimates of quantifiable potential compliance costs

The following table provides indicative estimates of the economic costs associated with these predicted changes. Time is converted to a dollar value to represent the monetary value of the opportunity cost of times estimated. Some costs which could not be quantified are treated as though they were zero, but are listed at the bottom of the table.

Table 11. Indicative estimates of economic costs per Convenience Store

	Description of economic cost	New South Wales	Victoria/Western Australia
One-off costs			
Refitting	<ul style="list-style-type: none"> new tobacco storage area allowing for a new restocking method refitting of area previously used for tobacco stock 	\$5000-\$10,000	\$5000-\$10,000
Total one-off costs		\$5000-\$10,000	\$5000-\$10,000
Recurring costs (annual)			
Additional transaction time	<ul style="list-style-type: none"> transaction time estimates provided in tables 8 and 9 for New South Wales, Victoria and Western Australia 200 packets of cigarettes sold on average average staff wage is \$20.00 per hour 	\$6,000 to \$12,000	\$4000-\$10,000
Restocking	<ul style="list-style-type: none"> staff time dedicated to restocking to avoid incidental viewing increases by 30-60 minutes per day 	\$3,500 - \$7,500	\$3,500 - \$7,500
Training	<ul style="list-style-type: none"> new store procedures must be imparted to each staff member- 30-60 minutes of practical training a medium sized store will employ approximately 10 staff. Turn over is 30% (lower bound estimate) 	\$100 - \$300 in the first year with an estimated annual cost of \$30- \$60 for subsequent years	\$100 - \$300 in the first year with an estimated annual cost of \$30- \$60 for subsequent years
Indicative Estimate of Total recurring economic cost per Convenience Store		\$9,530 - \$19,560	\$7,530-\$17,560
Costs not quantified			
<ul style="list-style-type: none"> additional staff time required when there is more than one point of sale (so that one may be dedicated to the sale of tobacco products) shrinkage of stock due to increase security risk work place injury due to concealed storage methods sales lost through increased transaction time- increased queuing time as a deterrent sales lost to larger supermarkets due to the inability to adequately communicate stock Costs associated with differences in legislation and regulation between jurisdictions. 			

6 Conclusions

6.1 Findings

Based on the survey of convenience store operators, potential economic impacts of a RDB are likely to include the following:

- increased transaction times of 15 to 30 seconds for every transaction including the sale of tobacco creating delays for both tobacco and non-tobacco purchasers

RDB has the potential to change the nature of a transaction, increasing the time taken to serve a customer purchasing tobacco. This represents a significant economic cost for operators. Retailers expressed concerns that in the instance of limited signage, further delays and customer aggravation could extend from the allowance of sales from only one point of sale, where a point of sale is defined as a single cash register rather than a single service counter

- channel shift due to the RDB and potential delays in transaction

The inability to advertise the sale of tobacco may drive channel shift from small to larger retailers. Delays may also deter customers from stopping in convenience stores to purchase tobacco, opting to either purchase it in supermarkets that have a more appropriate store layout in place or specialist tobacconists who are often subject to exceptions

- increased operating costs

This includes costs associated with changes in restocking methods, training costs and one-off refit costs.

Convenience stores expected an increase in operating costs and also a potential loss in sales. Based on analysis undertaken, it is estimated that the recurring annual economic costs could amount to approximately \$9530 to \$19,560 per store. This includes the dollar value of time costs which could potentially span from such legislation. There was also a one-off cost identified of \$5000 to \$10,000 per store. The AACS estimates that there are 2700 stores in New South Wales, Victoria and Western Australia and 4200 stores across Australia. This section summarises the discussion of this report and illustrates the potential scale and scope of economic costs which may result from an RDB as suggested by the estimates presented in this report.

Major cost categories

Potential cost categories identified during the interviews with convenience store operators were the following:

- one-off costs: store fit-out costs
- recurring costs: increased transaction time, restocking costs, training costs, costs from having a single point of sale, increased shrinkage, workplace safety, change in sales, compliance with different legislation and regulations in different states.

Estimates of one-off costs

Compliance with this new legislation is expected to require significant reconfiguring of existing shop layouts. This includes costs associated with fitting new tobacco storage units as well as the refitting of old tobacco display units for the purpose of other displays. It was estimated that this refit would cost between \$5,000 and \$10,000 per store. These estimates are presented for AACS members in New South Wales, Victoria and Western Australia, and, for illustrative purposes, for AACS members in other states and a national total for AACS members. The breadth of the range is reflective of the different approaches to compliance proposed by interviewees and the differences in existing fit-outs at each site. Estimates for one-off costs fell within this range in all three surveyed states.

Table 12. Estimates of one-off costs by state and nationally for AACS members

	Number of stores	Estimated one-off economic cost (per annum)
New South Wales	1300	\$6.5 million to \$13 million
Victoria	1000	\$5 million to \$10 million
Western Australia	400	\$2 million to \$4 million
Other States ¹⁴	1500	\$7.5 million to \$15 million
Total for AASC members nationally	4200	\$21 million to \$42 million

Estimates of recurring costs

Convenience store operators expect an increase in operating costs through increased transaction time and new operating procedures as a result of the application of a RDB. Based on analysis undertaken for this report, we estimate that the recurring annual economic costs could be in the range of \$9530 to \$19,560 per store in New South Wales and between \$7530 and \$17,560 per store in Victoria and Western Australia.

The most significant recurring costs were associated with the additional time estimated to complete a tobacco related transaction to ensure compliance with a RDB. The transaction time is likely to increase as a result of the time likely required to request and confirm availability of a particular brand. Other additional staff time is estimated to result from stock management. New training requirements will also result from the introduction from a RDB and will be required for all existing and future new staff. The breadth of the estimated ranges presented in this report is reflective of variance in transaction time estimates provided by interviewees.

The difference in estimated recurring costs between states reflects the differences in approach to an RDB between the states. Existing legislation in New South Wales disallows the use of both a price board and price tickets, while the proposed changes to Victorian and Western Australian legislation does not suggest that retailers will be required to make a choice between the two price instruments. This was found to increase the estimated transaction time expected by retailers in New South Wales following the implementation of a RDB.

Based on the estimates of economic costs in this report, the potential recurring annual cost for each of the three jurisdictions is outlined in Table 13. Applying the findings of this report as a general indication of potential costs of compliance with a RDB, we have also provided an estimate of the national cost for AACS members.

Table 13. Estimated recurring economic cost for a RDB for AACS members

	Number of stores	Estimated recurring economic cost (per annum)
New South Wales	1300	\$12 million to \$25 million
Victoria	1000	\$7.5 million to \$17 million
Western Australia	400	\$3 million to \$7 million
Other Jurisdictions ¹⁵	1500	\$11 million to \$26 million
Total for AASC members nationally	4200	\$34 million to \$76 million

¹⁴ Using the estimated ranges for AACS members in New South Wales, Victoria and Western Australia

¹⁵ Using Victoria/Western Australia estimates as presented in Table 11

Costs estimates for the first year following RDB implementation

Retailers stocking tobacco will face both the one-off costs and the annual recurring cost in the first year of implementation. For AACS members, the first year costs following the implementation of an RDB are as follows:

Table 14. Estimated economic cost in the year following the implementation of a RDB for AACS members

	Number of stores	Estimated economic cost in first year following RDB implementation
New South Wales	1300	\$18 million to \$38 million
Victoria	1000	\$13 million to \$28 million
Western Australia	400	\$5 million to \$11 million
Other Jurisdictions ¹⁶	1500	\$19 million to \$41 million
Total for AASC members nationally	4200	\$55 million to \$118 million

Consistency of approach across jurisdictions

The approach to a RDB is being developed by individual jurisdictions and to date there are some material differences in both the timing and regulatory design for implementation of this policy. This has the potential to drive additional compliance costs given a number of convenience stores operate on a national basis. This lack of a consistent approach is likely to limit the capacity of national operators to adopt a common approach to compliance and also drive additional costs of implementation across jurisdictions. Whilst we have not attempted to quantify these additional costs, it was clear from our discussion with the sector that a consistency of approach would assist to minimise the costs of the introduction of a RDB nationally.

Note that the differences in estimates presented in this report between states are driven by differences in proposed legislation. In NSW, retailers are not able to display both price tickets and price boards; rather, they must choose one or the other. Table 15 illustrates what estimated national cost of implementing an RDB would be for AACS members if all jurisdictions approached an RDB in a similar legislative manner to New South Wales, and in contrast, if it were approached as is proposed in Victoria and Western Australia. The same calculation, using estimates obtained in this report, is presented for non-AACS members to illustrate the potential difference in economic costs for these stores between approaches.

Table 15. Difference in the estimated costs associated with applying the NSW approach to a RDB and the proposed Victorian/Western Australian approach

	Estimated economic cost in first year following national implementation of NSW approach to RDB	Estimated economic cost in first year following national implementation of Vic/WA approach to RDB	Difference in estimated economic costs between approaches
AACS members nationally	\$61 million to \$124 million	\$52 million to \$115 million	\$9 million
Non-AACS members nationally using AACS member based estimates	\$209 million to \$426 million	\$180 million to \$397 million	\$29 million

¹⁶ Using Victoria/Western Australia estimates as presented in Table 11

The third column in the above table, ‘difference in estimated economic costs between approaches’, reflects the difference in estimated recurring costs between the approaches. The figure in this column reflects estimates of an annually recurring difference between approaches as opposed to an estimate of a one-off cost difference.

Cost estimates for convenience stores who are non-AACS members

The AACS membership consists of ‘organised’ convenience stores that are either owned or are franchised by a major convenience store group and some independent convenience store owners. This study sampled convenience stores from this membership base. Convenience stores who are not members of AACS are likely to face similar compliance costs as they will be subject to the same legislation and follow similar business models to AACS members.

Table 16 presents indicative ranges for these non-AACS members based on the cost estimates for AACS members, as presented in this report. The table is to be used for illustrative purposes of the potential size of compliance costs that may be faced by non-AACS members in light of a RDB.

Table 16. Indicative ranges for non-AACS members using estimates obtained from AACS members

	Number of stores	Estimated one-off economic cost	Estimated recurring economic cost (per annum)	Estimated total economic cost in the year following RDB implementation
Non-AACS members New South Wales	4350	\$22 million to \$44 million	\$41 million to \$85 million	\$63 million to \$129 million
Non-AACS members Victoria	3400	\$17million to \$34 million	\$26million to \$60million	\$43million to \$94 million
Non-AACS members Western Australia	1200	\$6 million to \$12 million	\$9million to \$21million	\$15million to \$33 million
Non-AACS members Other Jurisdictions	5450	\$27million to \$55million	\$41million to \$96million	\$68million to \$150 million
Total for non-AACS members nationally	14,400 ¹⁷	\$72million to \$144million	\$117million to \$261million	\$189million to \$406million

Costs which were not quantified

Some potential cost categories identified by retailers are not reasonably quantifiable. For example, where store owners predicted a loss in sales following the implementation of the RDB, they could not reasonably estimate the predicted scale of loss without having experienced a similar scenario in the past. Cost categories identified under this heading include: time and sale costs associated with a single point of sale, increased stock shrinkage due to distractions from the shop floor, loss of sales from channel shift and costs for retailers operating in multiple jurisdictions facing different RDB legislation and regulations.

¹⁷ AC Neilson (2009)

6.2 Options identified by Convenience Store Operators

The options identified by convenience store operators which may reduce the costs identified in this study included:

- the redefinition of one point of sale as a service counter rather than a single cash register to avoid confusion and delays
- clearer signage to indicate which register cigarettes may be purchased from
- the allowance of both price boards and price tickets in all stores to reduce transaction time costs
- the allowance of a method to communicate availability of a product such as a book with visual aids which a customer can use to point out the product they would like and the retailer can use to locate the product quickly
- harmonisation of legislation and regulation across jurisdictions to reduce costs associated with formulating separate compliance measures for stores situated in different regions by operators who have stores in multiple jurisdictions.

This report brings to light several costs for consideration which retailers feel may be mitigated with well considered wording of the legislation and accompanying regulations.

Appendix A

Nationally changing policy environment

Tobacco retail display bans in Australian jurisdictions

Although none of the Australian jurisdictions have formally tabled their specific regulations for a RDB, it is worth noting that each jurisdiction's policy appears to have different implementation periods and will have different specific rules. Exemptions for specialist tobacconists also vary between jurisdictions. Table 21 indicates the current position of Australian states and territories and their position with respect to the introduction of a retail display ban.

Table 21: RDB in Australian States and Territories

Jurisdiction	Current status	Start date
NSW	New legislation has been assented. Regulations have not been tabled.	Small retailers (under 50 staff) will have 12 months to comply with new regulations and large retailers will have 6 months.
VIC	No legislation has been enacted or introduced to parliament.	1 January 2011
TAS	New legislation has been assented. Regulations have not been tabled.	2 February 2011
ACT	New legislation has been assented. Regulations have not been tabled.	1 January 2010 for retailers and 1 January 2011 for specialist tobacconists.
QLD	Has not announced (or indicated it is considering) a RDB.	-
WA	A cross-party parliamentary committee recommended that the Western Australian Government introduce a RDB.	Not announced
SA	Has not announced (or indicated it is considering) a RDB.	-
NT	Government has announced an intention to introduce a ban but has not set a date or timetable.	Not announced