



D00/23621



17 July 2000

The Chairman  
Australian Competition &  
Consumer Commission  
Level 35, The Tower  
Melbourne Central  
360 Elizabeth Street  
MELBOURNE VIC 3000

Dear Sir,

**Rebel Sport Limited (Rebel Sport)  
Public Compliance Commitment Statement**

This Public Compliance Commitment records our commitment to:

- comply with the Trade Practices Act 1974, in particular Part VB of the Act
- not engage in price exploitation in relation to the New Tax System;
- comply with the price exploitation guidelines as expanded in this commitment;
- pass on to consumers any net cost benefits realised as a result of the New Tax System changes;
- advertise and display GST - inclusive prices in a way that is not misleading or deceptive; and
- ensure there is an effective compliance program in place.

**Cost Changes**

Rebel Sport expects to receive some cost reductions from the reduction and abolition of wholesale sales tax and other indirect taxes. To assist in estimating these cost reductions, we engaged Econtech Pty Limited (Econtech) to model the impact of the New Tax System changes on the Rebel Sport business. This model has provided us with estimates of the savings we might anticipate in relation to our inventory and operating costs/capital costs from the suppliers of goods and services to our business. A commercial-in-confidence copy of this report is attached.

In addition, our internal inventory management systems are able to isolate the wholesale sales tax included in the current costing of all individual items of inventory. We will therefore be able to calculate accurately the value of wholesale sales tax to be removed from individual stock lines for the purposes of repricing products for sale and calculating our refund of the sales tax from the Australian Tax Office. Our internal inventory management systems are also able to accurately determine the gross margin values applicable to each individual item that Rebel Sport sells.

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We have developed an internal pricing model for the purpose of determining our new retail prices to apply after 1 July 2000. A sample of the model based on actual data from our inventory management system is included as Attachment 1 to this Statement for your information.

The model is built down to the individual SKU level and works as follows:

The wholesale sales tax exclusive price of the product reflected in our inventory management system

**Plus: the dollar value gross margin achieved prior to 30 June 2000**

Plus: the value of any additional net compliance costs incurred as a result of implementing the New Tax System changes

Less: the value of anticipated direct operating cost savings achieved as a result of the New Tax System changes.

Plus: the value of any losses which flow from settlement discounts and rebates (expected will relate only to sporting goods, but not including clothing and footwear).

Equals the new selling price for Rebel Sport.

The 10% GST will be added to this selling price to determine the new retail price for display on price tickets and register docketts.

The final calculated retail prices will not be rounded to set price points. They will be reviewed to ensure that no individual retail price has increased by more than 10%. Where this might otherwise occur, the retail price increase will be capped at 10% and the cost recovery will be deferred.

The pricing model will be implemented for retail price changes on 1 July 2000. The new retail prices referred to will be our normal retail prices and markdowns for advertising promotions, sales, etc. will be based on these new retail prices. We plan to maintain the revised retail prices until the next review date.

The input to the model for savings achieved under the New Tax System changes will be based on the immediate direct savings in operating costs anticipated for Rebel Sport by the Econtech model. The input to the pricing model for additional net compliance costs is discussed later in this Statement. Both of these factors will be allocated across all individual SKU's as they will be calculated based on a percentage of purchases at cost.

We plan to review our retail prices again on 1 December 2000, being the calculated time when all existing stock on hand at 30 June 2000 will be sold. The pricing model will again be used, but we also plan to factor in updated information related to "upstream savings", which will be reflected in our inventory management system by lower purchase prices of inventory from our suppliers, and the impact on the Company's net margins of changes in operating costs and supplier trading discounts

(e.g. settlement discounts and rebates which are based on inventory purchase values).

The pricing model will be used to determine the revised retail prices for all inventory and related services provided by Rebel Sport.

The Company also operates a ski hire rental business during the June to September period. The pricing of our hire rates for the current season commencing June 2000 have been set taking into account current market conditions and will be displayed as GST inclusive. The rates charged for hires that commence in June 2000 will include the GST component, but will be discounted by 1/11 to remove the GST component from the final amount that the customer pays and this will be explained to customers in our point of sale material.

### **Supplier Program**

Our Company has implemented a program to encourage suppliers to pass on to us cost savings they achieve as a result of the New Tax System.

We have communicated in writing to each of our inventory and other suppliers, reminding them of their obligations under the New Tax System to pass on all savings to their customers in revised pricing from 1 July 2000. A copy of the letters are included as Attachment 2 to this Statement for your information.

The gathering of revised pricing information is an ongoing process and we will continue to vigorously follow up these savings in our price negotiations with suppliers. We have also provided to our Buyers and other relevant staff members who negotiate prices of goods and services on behalf of the Company, copies of extracts from the Econtech report which estimate the savings that we can expect in the various industry segments in which our suppliers operate.

### **Implementation and Compliance Costs**

In assessing the net effect of the New Tax System on costs, we have included only those estimated implementation and compliance costs reasonably incurred and directly attributable to the introduction of the New Tax System. We have offset against these compliance costs the estimated interest cost savings from the collection of the GST on sales in advance of its remittance to the Australian Tax Office.

A detailed analysis of the net implementation and compliance costs is included as Attachment 3 to this Statement for your information on a commercial-in-confidence basis.

### **Impact of New Tax System Changes on our Business**

The impact of the New Tax System changes on our sporting retail business is that the overall basket of goods representing items from all product categories that we sell, will be more expensive after the implementation of the GST. This is based on present contributions to total sales of each of our product categories. On this measurement, the impact of reduced prices of sporting hardgoods (which primarily include the wholesale sales tax) will be less than the impact of the increased retail prices of clothing, footwear and related products (which primarily exclude the wholesale sales tax).

### **Customer Information**

We plan to provide our customers with information about the potential impact of GST on their purchase decisions. This will be completed primarily through point of sale materials and "fact sheet" posters which will be prominently displayed in our stores. Examples of this information are included as Appendix 4 to this Statement.

Rebel Sport will continue its commitment to ensuring that we will not mislead or deceive our customers in the claims we make about the goods and services we sell.

In recognition of these responsibilities, our marketing, buying and operations teams work closely with our national advertising agency (McCann Ericsson) to ensure that all product and service claims and descriptions are accurate and in accordance with Trade Practices guidelines. These principles are also passed onto customer service staff in our retail stores through regular training sessions and operational managers' meetings.

### **Complaints Handling**

Rebel Sport has an established complaints handling system, and encourages customer complaints or disappointments to be communicated and resolved directly with senior management of the Company. An internal system will be implemented, and communicated to our customers through in-store signage, to handle specific queries related to the GST.

Complaints and customer relations queries, including specific queries relating to the GST, will continue to be addressed by our Human Resources Manager, who will deal with such matters as considered appropriate. Any technical GST queries will be referred to our GST Implementation Team for resolution.

### **Price Display**

Rebel Sport will be showing GST inclusive prices at all points of interaction with the customer. During the changeover period from 1 July 2000, we will be adopting a dual pricing policy, whereby register pricing will be changed immediately on 1 July 2000 for GST inclusive prices and all shelf display prices will be altered within one week of 1 July 2000. Individual stock unit price tags will be progressively altered over the period to 31 July 2000, with prominent signage displayed throughout our stores to indicate whether prices on products are GST inclusive or exclusive.

Our register dockets will display all prices as GST inclusive and conform with the Tax Invoice requirements. The dockets will indicate the total GST paid by the customer included in the final aggregate sale amount and identify whether each individual item is taxable.

### **Pricing Policies**

As documented previously, Rebel Sport has developed a pricing model to ensure that price changes are in accordance with ACCC guidelines. The pricing model will be used to document all global price changes after 30 June 2000, for individual stock items which were in existence on 30 June 2000. At this stage, we plan to review our prices every five months, for at least the first twelve months after 30 June 2000, to reflect the Company's average stock turn period.

All price changes from April 2000 will continue to be documented to demonstrate that pricing is in accordance to ACCC guidelines. It is envisaged that we will keep any

such price changes to a minimum during the period up to 30 June 2000 to assist with the smooth operation of the pricing model.

Our pricing policy for any new products added to our ranges is to achieve similar gross margins to those we have achieved for similar products in our range.

### **Compliance Program**

Rebel Sport has a comprehensive compliance and customer management program which is to be extended to cover the New Tax System.

The pricing policy component of the program is the responsibility of the Buying General Manager and the customer management component of the programme is the responsibility of the Human Resources Manager.

Both our Buying Department and retail customer service staff will be trained in their respective responsibilities and customers' rights.

As stated previously, we have a comprehensive complaints handling program that ensures we find solutions to consumer issues.

### **Liaison with the Commission**

Rebel Sport is committed to complying with our obligations under the law. As part of this commitment, we will ensure complaints made and issues arising are dealt with expeditiously and with the full co-operation of our organisation. We appointed Craig Fisher, Financial controller, to be our liaison officer responsible for providing information to, and being the first point of contact for, the Commission on this commitment.

We will co-operate with Commission representatives undertaking price monitoring and other activities in exercising its powers under the Act.

### **Reporting and Information Provision**

Our Company will inform the Commission before making any significant general "across the board" price changes related to or likely to be perceived to be related the New Tax System changes. We will provide relevant information supporting the basis for those price changes.

We will ensure that reports and information provided are independently verified, where possible, and will be sufficiently detailed to enable the Commission to be satisfied that our prices reflect cost savings achieved. These reports will be provided on a six monthly basis.

Yours faithfully



**Ian D Dresner**  
**Joint Managing Director**