



6 March 2008

Grocery Prices Inquiry - Submissions  
Australian Competition and Consumer Commission  
GPO Box 520  
Melbourne Vic 3001

Email: [grocerypricesinquiry@accc.gov.au](mailto:grocerypricesinquiry@accc.gov.au)

Dear Sir/Madam

**"Public Submission to ACCC Grocery Inquiry by MTAQ on 6 March 2008"**

The Motor Trades Association of Queensland responds to the Australian Competition and Consumer Commission's request for submissions pertaining to the 11 February 2008 Issues Paper *ACCC inquiry into the competitiveness of retail prices for standard groceries*. Our submission is attached.

Please contact me if there are issues to discuss associated with our submission.

Yours sincerely

AIVARS BLUMS  
GROUP CHIEF EXECUTIVE

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## Summary

MTAQ has service station members with a retail convenience grocery sector linked to a fuel outlet. There are 3 broad outlets:

- (i) a vertically integrated convenience store linked to a fuel outlet;
- (ii) a non-vertically integrated convenience store linked to a fuel outlet;
- (iii) major supermarket chains (Woolworths and Coles) fuel retailers – with convenience store retailing.

It is our submission:

- that our members engaged in the in the convenience grocery sector linked to a fuel outlet provide a service to the public and will never be grocery supply competitors;
- the margin charged is a margin of convenience rather than a margin based on monopoly or other advantages;
- Convenience grocery turnover compared to total turnover is small but profitable;
- Pricing policy reflects convenience store pricing – “what the market will bear” for the supply of goods 24 hours a day 7 days a week or some other arrangement that suits the public;
- Grocery items purchased at convenience stores linked to a fuel outlet are minor and are in the personal income disposal category. The items are not base groceries or subsistence products;
- The items may be categorised as discretionary expenditure which is either impulse buying or convenience buying. The products bought are not price sensitive but price inelastic;
- MTAQ Service Station Members with convenience store linked to a fuel outlet buy-in items usually at a high price as they don't have economies of scale;
- It would be difficult to impossible to create a collective that would deliver the economies of scale as service stations are spatially dispersed and unable to obtain the logistics that effectively would deliver the benefits of a collective.

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# **"Public Submission to ACCC Grocery Inquiry by MTAQ on 5 March 2008"**

## **1. Introduction**

- 1.1 The Motor Trades Association of Queensland responds to the Australian Competition and Consumer Commission's request for submissions pertaining to the 11 February 2008 Issues Paper *ACCC inquiry into the competitiveness of retail prices for standard groceries*.
- 1.2 We note the ACCC has identified a number of issues on which it is seeking information and comment. Our response is below.

## **2. Motor Trades Association Queensland background**

- 2.1 The MTAQ is the peak organisation in the State representing the specific interests of 2,500 businesses in the retail, repair and service sector of the Australian Motor Industry. It is an industrial association of employers incorporated pursuant to the Industrial Relations Act of Queensland.
- 2.2 The Association represents and promotes the issues of the automotive industries to all levels of government and within Queensland's economic structure.
- 2.3 The MTAQ comprises 14 separate divisions, each representative of a specialist area of the State's automotive industry. They are - Automobile Dealers' Association; Farm and Industrial Machinery Dealers; Auto Electrical Specialists; Motorcycle Industry; Combined Mechanical Repairer Specialists; Tyre Dealers & Retreaders; Engine Re-conditioners; Rental Vehicle Industry; Independent Tow Truck Operators; Service Station & Convenience Store Association; National Auto Collision Alliance; Used Car; Automotive Under car and Auto Parts Recyclers.
- 2.4 The Association is the largest automotive trainer in Queensland offering nationally recognised training covering all aspects of the Retail Motor Trades Industry. The Association's Motor Industry Training Department is the largest automotive apprentice trainer in Queensland.

## **3. MTAQ Service Station Members with convenience store linked to a fuel outlet - Structure**

- 3.1 MTAQ has service station members with a retail convenience grocery sector linked to a fuel outlet. There are 3 broad outlets:
  - 3.1.1 a vertically integrated convenience store linked to a fuel outlet;
    - 3.1.1.1 for example branding such as 711 or SPAs which have tied buying from the distribution centre and by the case;
  - 3.1.2 a non-vertically integrated convenience store linked to a fuel outlet;

3.1.1.2 for example buy on an adhoc basis from cash and carry outlets such as Campbells Wholesale or engage in secondary retailing when it is price advantageous to do so; and

3.1.2 major supermarket chains (Woolworths and Coles) fuel retailers – with convenience store retailing.

#### **4 MTAQ Service Station Members with convenience store linked to a fuel outlet – Role in Grocery Retailing**

4.1 It is noted that the Issues Paper is ambivalent about convenience stores in the retailing grocery sector. It is our submission that our members engaged in the in the convenience grocery sector linked to fuel outlets:

4.1.1 provide a service to the public and will never be grocery supply competitors;

4.1.2 could never buy-in at a rate to compete with the major supermarket chains or drive prices up or down;

4.1.3 do not have the capacity in terms of quantity or choice to challenge the existing supermarket chains;

4.1.4 are not competitors in the grocery sector to maintain prices or compete with the supermarket chains; (It should be noted that Woolworths and Coles' fuel outlets with convenience stores are not permitted to compete with their respective supermarket chain.) and

4.1.5 do not substantively impact on the competitiveness of the retail price prices for standard groceries.

#### **5 MTAQ Service Station Members with convenience store linked to a fuel outlet – Provision of service**

5.1 MTAQ Service Station Members with convenience store linked to a fuel outlet provide a service to the general public, the passing trade and to many shift workers for milk, cigarettes etc.

5.2 Shift workers have the opportunity to wait for the supermarket to open to purchase goods. The decision to purchase the products at the Service Station is a discretionary use of personal disposal income where pricing is both inelastic and can be very high.

#### **6. MTAQ Service Station Members with convenience store linked to a fuel outlet – Margin**

6.1 The margin charged is a margin of convenience rather than a margin based on monopoly or other advantages.

- 6.2 It is our considered view that the margin does not have an inflatable impact on the grocery regimen.
- 6.3 MTAQ service station members with a retail convenience grocery sector linked to a fuel outlet do not have a structured grocery pricing regime. They run a "cost + business" and take a margin which is determined on "what the market will bear."
- 6.4 The high convenience product margin in many cases cross-subsidises the price of fuel having some benefit to the motorist as service station overheads are disproportionately high. It means that fuel prices to the consumer can be better managed.

#### **7. MTAQ Service Station Members with convenience store linked to a fuel outlet - Convenience Groceries – Percentage of Turnover**

- 7.1 Convenience grocery turnover compared to total turnover is small but profitable.
  - 7.1.1 For a vertically integrated convenience store linked to a fuel outlet convenience groceries anecdotally may be as high as 5 per cent of total turnover;
  - 7.1.2 For a non-vertically integrated convenience store linked to a fuel outlet, convenience groceries anecdotally constitutes between 2 and 3 per cent of total turnover;
  - 7.1.3 For major supermarket chains (Woolworths and Coles) fuel retailers convenience groceries anecdotally is between 3 and 5 per cent of total turnover.

#### **8. MTAQ Service Station Members with convenience store linked to a fuel outlet - Pricing of Service Station convenience store items**

- 8.1 Pricing policy reflects convenience store pricing – "what the market will bear" for the supply of goods 24 hours a day 7 days a week or some other arrangement that suits the public.
- 8.2 Margins on convenience goods are high, anecdotally between 27% and 30%.

#### **9 MTAQ Service Station Members with convenience store linked to a fuel outlet - Items Purchased from Convenience Store**

- 9.1 Grocery items purchased at convenience stores linked to a fuel outlet are minor and are in the personal income disposal category. The items are not base groceries or subsistence products.
- 9.2 The items may be categorised as discretionary expenditure which is either impulse buying or convenience buying. The products bought are not price sensitive but price inelastic.

- 9.2.1 For example a Woolworths convenience store linked to a fuel outlet stocks both Woolworths' milk and Parmalat milk. The price differential between the branded and non- branded product may be as high as 70 – 80 cents. Consumers purchase the Parmalat milk, favouring the branded to the non-branded product.
- 9.2.2 In non-vertically integrated convenience store linked to a fuel outlet similar patterns exist with bread where there is branded and generic bread. Consumers prefer the branded bread compared to non-branded bread.
- 9.2.3 Across the MTAQ Service Station Members with convenience store linked to a fuel outlet service station chain, the experience is that consumers favour brands compared to generics by a factor of 4 to 1.
- 9.3 Of interest is that products that are demand inelastic such as cigarettes comprise some 40 per cent of total convenience store sales items.

## **10. Conclusion**

- 10.1 MTAQ Service Station Members with convenience store linked to a fuel outlet buy-in items usually at a high price as they don't have the economies of scale.
- 10.2 It would be difficult to impossible to create a collective that would deliver the economies of scale as service stations are spatially dispersed and unable to obtain the logistics that effectively would deliver the benefits of a collective.

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