



Public Submission
to the
ACCC Grocery Inquiry

made by

ALDI Stores

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Table of Contents

Introduction	1
About this submission	1
About ALDI Stores	1
Context of the Inquiry (Q1-Q2)	2
A Structure of the grocery industry	5
Grocery Retailing (Q3 – Q9).....	5
Grocery Wholesaling (Q10 – Q16)	6
The Grocery Supply Chain (Q17 – Q21).....	6
B Consumer Behaviour and Choice of Grocery Retailer	7
Consumer behaviour and choice (Q22 – Q27)	7
Pricing Strategies of Grocery Retailers (Q28 – Q30).....	9
C Competition in Grocery Retailing (Q31 – Q41).....	10
D Competition in Grocery Wholesaling (Q42 – Q45)	12
E Buying Power in Grocery Supply Markets (Q46 – Q53)	12
F Competitive Position of Small and Independent Grocery Retailers	14
Competitive position of small retailers (Q54 – Q57)	14
Shopper Docket Schemes (Q58 – Q59)	14
Mergers and acquisitions (Q60 – Q62)	14
Conduct of grocery retailers (Q63 – Q65)	14
G Factors influencing pricing of inputs (Q66 – Q72)	15
H Impediments to efficient pricing along the supply chain (Q73 – Q80)	15
I Horticulture Code of Conduct (Q81 – Q83).....	15
Conclusion	16

Introduction

About this submission

ALDI Stores welcomes the opportunity to make this submission to the ACCC inquiry into the competitiveness of retail prices for standard groceries (the Inquiry).

Since ALDI opened its first stores at Marrickville and Bankstown Airport in January 2001, our rapid growth has meant we are now a genuine alternative to over one million Australian consumers every week.

Our arrival in Australia has helped redefine the retail landscape, introducing a new and higher quality standard in private-label groceries. In focussing relentlessly on delivering exceptional quality products, matching that of the market leading brands but at prices up to 50% lower, ALDI provides a unique alternative to the Australian consumer. Our exceptional sales growth is testament to customers voting with their feet and embracing the very fact that we offer something different.

In doing things differently, we focus first and foremost on our own business, delivering a business model that is simple, lean and efficient. In responding to the issues raised by the ACCC in its paper, we have grouped our responses in line with the questions asked. We have also endeavoured to demonstrate how we deliver our exclusive products with market leading brand quality, but at significantly lower prices by explaining our fresh and innovative approach to retailing.

About ALDI Stores

Our 166 stores are spread across three regions along the Eastern Seaboard with plans for 200 stores to be open by the end of 2008. In just seven years ALDI has grown to become one of Australia's top ten retailers with estimated annual sales of \$1.5 billion¹.

More than one million customers shop at our stores every week and our customer base largely reflects the population mix of the catchment area around our stores regardless of whether they are located in city, suburban or rural areas.

We continue to invest in Australia through new stores, employment and sourcing Australian products. We have excellent relationships with our suppliers and our people are rewarded with salaries that are considered to be the best in the industry.

All of ALDI's profits in Australia have been reinvested in Australia and in the next 3 years alone, we plan to invest a further sum far in advance of \$1 billion in Australia including the construction of two new distribution centres in southeast Melbourne and southwest Sydney.

Our core offer consists of a carefully selected range of 900 products, designed to match the needs of a consumers' weekly shopping requirements. We seek to avoid duplication wherever possible, providing the customer with a pre-selected range of market leading brand quality products saving them both time and money. Our broad and diverse range of products is very dynamic, and we are constantly refreshing and refining our offer to keep pace with the consumers changing tastes

¹ According to Inside Retailing Magazine's 2007 retail survey

and preferences. 100 per cent of our fresh meat, 98 per cent of our dairy products and 95 per cent of our fruit and vegetables are sourced from Australian producers.²

In total, more than 90 per cent of our products are ALDI's own *exclusive* brands. Whether it is our *Parkwood* biscuits, *Ocean Rise* tuna, *Choceur* chocolate, *Westacre* cheese or *Mamia* nappies, our brands stand for exceptional quality and value. Customers have come to trust our brands, recognising they are benchmarked against the very finest brands in the market, and appreciating that they are sold at significantly lower prices.

Our brand philosophy is one of the ways in which ALDI achieves its competitive advantage. We operate an exceptionally efficient business model ensuring we are not beholden to pay marketing costs, brand premiums or expensive display costs. It enables us to operate out of stores that are smaller than our competitors (an average of 850m² compared to the average MSC stores of between 3,000 – 5,000m²). This reduces the overheads associated with much larger premises, including rent, utilities and payroll.

We believe that by standardising and simplifying as many operations as possible, we can keep costs low and pass these savings on to customers in the form of *everyday* low prices. With every day low prices ALDI has led the way delivering innovation in grocery pricing to consumers. Our prices do not fluctuate wildly, but instead remain consistently low. Customers can be confident they are getting value for money each and every time they shop with us.

Building on every day low prices, in November 2007 we were the first, and remain the only grocery retailer in Australia to introduce unit pricing. This customer friendly initiative delivers greater transparency and choice for customers when buying their groceries.

It also follows our approach of pricing products consistently across each ALDI region. At ALDI, customers are not disadvantaged by where they live because they will pay the same price for groceries no matter which store in the region they choose to shop at.

For further discussion on pricing matters please refer to the Confidential Annexure to this submission.

It is the combination of outstanding quality at everyday low prices and a lean efficient operation that we call "smarter shopping".

Context of the Inquiry (Q1-Q2)

In the last twelve months we have seen unprecedented rises in global commodity prices. Some recent examples provided by our suppliers have been included in Box 1.

Shortages in supply have been the result of production failure in several major food producing countries (including Australia) and a shift of food commodities into other uses such as biofuels. Surging *demand* has been driven by global population growth and improving living standards in countries such as China and India. It is

² Percentages audited by accountants, BDO Kendalls. Sales periods for BDO Kendalls audit as follows: Dairy 01/01/07 to 31/08/07, Meat 01/01/07 to 31/08/07, Fruit and Vegetables 07/08/07 to 13/08/07. Country of origin labelling checked by Silliker Microtech testing laboratories.

the combination of tight supply and strong demand that has led to increased prices.

In Australia, the worst drought in 100 years has had a major impact on commodity prices. Farmers' costs have also increased through higher fuel and fertiliser costs, and higher costs for feed grains due to the drought. This has flowed through to costs for retailers and put pressure on retail prices.

In this environment ALDI has worked together with its suppliers in an effort to minimise cost increases. In light of the dynamic nature of our 900 strong product range, where in any given year up to 60% of our products change in some way and 25% are replaced by a new line altogether, measuring our own internal CPI is incredibly difficult. However we believe that our grocery prices have increased by less than the Australian consumer price index for food and by less than the OECD CPI index for food products over the last several years.

In fact in 2007, consumer advocate CHOICE conducted a survey which found that for a standard basket of goods, the price of the goods purchased at ALDI actually decreased by 0.7 per cent over the period since the last survey in 2003, despite an overall 16.1 per cent increase in inflation for food. At \$55.70, ALDI's basket of goods was also 44 per cent cheaper than a similar basket of goods purchased from Coles and Woolworths, the average price of which was \$100.34.³

Box 1 – Increasing Global Commodity Prices

Wheat

The price of wheat (a staple commodity input) has increased *134 per cent* from \$188 per tonne in January 2004, to a current price \$439 per tonne. Estimates are that historical highs will be maintained into this season, with high prices considered a new norm.

Barley

The price of (malt) barley has increased *141 per cent* from \$160 per tonne in January 2004, to a current price of \$385 per tonne.

Oats

Oat prices have increased by over *190 per cent* from \$120 per tonne in 2004 to over \$350 per tonne this year.

Farm Gate Milk

Farm gate milk prices have increased by 30% in the last twelve months from December 2006 through until December 2007.

Whole Milk Powder

The cost of WMP increased by over *100 per cent* from USD\$2,350 per tonne in December 2004, to USD \$4,900 per tonne in November 2007.

Skim Milk Powder

The cost of SMP increased by over *100 per cent* in the period December 2004 – December 2007 from USD\$2,300 per tonne to USD\$4,700 per tonne. Current prices are around USD\$5,000 per tonne.

Cheese

The international benchmark price for cheese increased by *93 per cent* from USD \$2,900 per tonne in December 2004, to USD\$5,600 US per tonne in November 2007. Prices are expected to increase by another 16 per cent in 2008

Butter

The international benchmark price for butter increased *93 per cent* from USD \$2,300 per tonne in December 2004, to USD \$4,450 per tonne in November 2007

Chicken

³ Choice, May 2007, "Supermarket Price Survey"

Chicken feed prices in Australia have increased over *70 per cent* from \$290 per tonne in July 2006 to \$498 per tonne in February 2008.

A Structure of the grocery industry

Grocery Retailing (Q3 – Q9)

According to a recent PricewaterhouseCoopers study⁴, Australia has one of the most concentrated grocery markets in the world, with the top two MSCs having a market share of approximately 78 per cent. Since ALDI opened its first stores in Australia in January 2001 we have been able to provide customers with a genuine, competitive alternative to the MSCs.

With a lean and efficient approach to doing business, ALDI is able to deliver market leading brand quality products at prices up to 50 per cent lower than equivalent quality brand products. We constantly review and refresh our range of exclusive brand products and have brought transparency and every day low prices to consumers who have become accustomed to practices including geographic price discrimination, hi-low pricing and funding expensive promotion through higher grocery prices.

ALDI's strategy of having over 90 per cent of its range as exclusive own label is easily contrasted to the strategies of the MSCs. It heralded a major change for grocery retailing in Australia prompting the MSCs adopt two or three tier private label strategies with different quality products sold at different price points in addition to the brand products. ACNielsen⁵ noted the impact of ALDI's approach in its 2006 retail barometer report, where it was reported that ALDI had been responsible for driving the growth in private label grocery products since entering the market in 2001.

Smaller businesses offering complimentary products have also been shown to benefit from the presence of an ALDI store in the region. A 2006 study by urban consultants Urbis found that by co-locating with an ALDI store, businesses such as pharmacies, delicatessens and newsagents may benefit from the increased foot traffic that the store brings (see Box 2).

The benefits of ALDI's approach and growth are shown in the results of the 2007 CHOICE survey which show that over four years, when ALDI more than doubled in size, our grocery prices for the selected basket of goods actually fell, while food prices generally, rose by more than 16 per cent.⁶

ALDI does not measure market share and we believe independent analysts like ACNielsen are best placed to provide performance data including market share.

⁴ PricewaterhouseCoopers, June 2007, 'The economic contribution of small to medium sized grocery retailers to the Australian economy, with a particular focus on Western Australia', Report for the National Association of Retail Grocers of Australia, p. vii

⁵ ACNielsen, 2006 Retail Grocery Report, au.nielsen.com/site/documents/2006ACNgroceryreportfinallores.pdf

⁶ Choice, May 2007, "Supermarket Price Survey"

Box 2 – Supporting Complimentary Businesses

In 2007, a study for ALDI by property advisory firm Urbis⁷ found that:

- The presence of an ALDI store in shopping centres had a positive impact on surrounding retailers, increasing both turnover and customer traffic.
- For every dollar spent at an ALDI store in a shopping centre, on average another 50 cents was spent elsewhere in the centre.
- ALDI is a destination retailer attracting supermarket shoppers from a wider geographic area than is typical for other supermarkets.
- ALDI's presence provided centres with a competitive advantage for which shoppers were willing to travel past more convenient activity centres to reach an ALDI location.

Grocery Wholesaling (Q10 – Q16)

ALDI is a grocery retailer and as such is not in a position to comment in detail on changes or developments in grocery wholesaling.

The Grocery Supply Chain (Q17 – Q21)

ALDI is only one participant in the grocery supply chain with limited knowledge of how other participants may operate. Supply chain operations are complex and other operators are likely to be better placed than ALDI to comment on the supply chain.

We aim to keep operations simple and build excellent relationships with all of our suppliers, based on trust, transparency and efficiency. Together with our suppliers we closely monitor our supply chain to manage costs and seek to pass savings on to consumers in the form of lower prices.

The number of steps (and the cost added) in the supply chain will vary greatly depending on a number of factors including:

- The supplier – who may be a producer, supplier, wholesaler or even agent
- The product or commodity being supplied – arrangements can differ depending on whether the product is fresh or frozen, canned, non perishable, from where it is sourced and supplier capability
- Trading terms and conditions
- Logistical constraints and arrangements – which will change depending on whether a product is delivered to a central warehouse or directly into a store.

⁷ Urbis, July 2007, 'ALDI Store Performance', study conducted for ALDI Stores based on ALDI store performance data, consumer shopping patterns and market trends.

In ALDI's case the usual process is for a supplier to deliver the product to the ALDI central warehouse from where the ALDI transport department delivers products directly to our stores. We believe this to be a more effective arrangement than having multiple suppliers delivering multiple products directly to stores.

We also avoid additional costs in the supply chain through simple initiatives like displaying many of our products in boxes on the pallets which they are delivered on in order to reduce the time and cost for merchandising in store.

B Consumer Behaviour and Choice of Grocery Retailer

Consumer behaviour and choice (Q22 – Q27)

We believe that ALDI customers are smarter shoppers because they recognise they are not paying more because of a brand name, expensive marketing, or because of where they choose to shop. They can trust ALDI to give them value for money with excellent quality products at every day low prices.

We have been able to simplify the shopping experience for our customers. Every ALDI store carries around 900 products and to be included in the range each and every product is subjected to rigorous testing and sampling to satisfy the very high quality benchmark we set for our range. In addition, each product must be in the most popular pack size, in the most popular flavour variants, be better than or equivalent to the market leader in terms of quality, and be priced to offer exceptional value.

Importantly, we believe that it is not store size but the make up of the range of products offered that determines whether or not customers can carry out a one-stop shop at a supermarket.

Our product range is extremely dynamic, regularly adapting to match the changing tastes and preferences of our customers. In fact, up to 60 per cent of our product range changes each year as we consider quality, tastes, size, packaging and price. This means that in effect over a two to three year period, our entire product range changes in direct response to the needs and expectations of our customers.

Our strategy is also to appeal to as broad a customer base as possible and as such our customer profile reflects the demographic of the area in which the store is located. We endeavour to choose convenient locations for our stores and we regularly find that the presence of an ALDI store will often bring an immediate pricing response from our competitors.

Since November 2007, ALDI has led the way with unit pricing in Australia. While used widely in Europe and the United States, ALDI is the only retailer to have implemented it here. It continues our commitment to bringing greater trust and transparency to grocery pricing and has been shown to help customers reduce the cost of their weekly grocery shop.

Management consultancy Insight Partners has said that "consumers spend less on packaged goods if unit pricing information is available" describing unit pricing as a "huge net benefit to consumers ... (with) a net one off decrease of inflation ... of about 0.14 per cent".⁸

⁸ ABC Online 29 January 2008, "Unit Pricing could ease Australia's inflationary woes: expert"

The Consumer Action Law Centre has said "Unit pricing can improve competition in the grocery market by improving the ability of consumers to make decisions about price... they can use it to better assess value for money". CALC went on to say that unit pricing has been shown to deliver substantial benefits to customers in terms of greater price transparency and improved decision making, reducing the overall weekly grocery bill by up to 37 per cent.⁹

Consumers are often confused when attempting to compare prices between retailers or different sized products. Unit pricing is an effective way of overcoming these difficulties and immediately introduces transparency for consumers helping them make an informed buying decision. It creates a baseline that makes it easy for shoppers to compare products and as such can deliver substantial savings.

We believe the exceptional growth of ALDI here in Australia is testament to the impact such positive initiatives can have. Its introduction has been supported in many quarters including leading consumer organisations like CHOICE as "an effective way of comparing prices across products".¹⁰

The ALDI system of unit pricing is based on the intuitive UK approach set out here in Box 3:

Box 3 ALDI Unit Pricing Guidelines		
Product Format	Weight / Count entry	Unit Price Entry
Weight	12g 125g 1.5kg	per 10g (exception) per 100g per kg
Volume	10ml 200ml 1.5L	per 10ml (exception) per 100ml per litre
Length	10cm 20m	per cm (exception) per m
Multipak with declared weight or volume per individual pack	2 x 700g (1.4kg) 6pk/300g 2x2.5kg (5kg) 6x100ml (600ml) 4x2L (8L)	per 100g per 100g per kg per 100ml per litre
Multipak with <u>no</u> declared weight or volume per individual pack	2pk 4pk 200pk	per unit per unit per 100 units
Individual unit with no declared weight	Each	not needed
<ul style="list-style-type: none"> All Fresh Meat products display the unit price as per kg. All Cheese products display the unit price as per kg. All Soft Drinks and Alcohol products display the unit price as per litre. 		

The shift to unit pricing has not resulted in any additional costs for consumers. The feedback we have received from customers since its introduction has been excellent and we believe all grocery retailers should take the positive step to introduce unit pricing given the benefits it delivers to customers.

We believe that the most effective form of marketing is word of mouth because friends and family are consumers' most trusted and reliable source of information.

⁹ Consumer Action Law Centre, Media Release 'Grocery unit pricing can help consumers deal with inflation', 14 February 2008

¹⁰ Choice, May 2007, "Supermarket Price Survey"

We rely heavily on this cost effective and powerful way to spread the word of ALDI's everyday low prices and attest to the exceptional quality of our products.

Each week we produce a catalogue, advertising grocery items, non-food items and other useful information. The catalogues are available in store and are distributed into household mailboxes. Customers can also subscribe to receive a weekly update through our website, which is the *number one* shopping website in the grocery sector.¹¹

ALDI also advertises in store with banners, providing information on new products and initiatives. This is also supported with local media (mainly print) advertising.

Finally, we believe that consumers gather information from a wide array of sources and the media plays an important part in this process. Our experience is that programs like 'A Current Affair' and 'Today Tonight' as well as consumer advocate groups like CHOICE are influential in helping to inform consumers.

Pricing Strategies of Grocery Retailers (Q28 – Q30)

Every day low prices is a central tenant of our pricing strategy because it provides ALDI with a discernible point of difference from all other grocery retailers. It is made possible through our lean and efficient operations and is combined with an exclusive range of carefully selected products to provide exceptional value for money.

The simplicity of every day low prices, consistent prices across regions and unit pricing is easily contrasted to most grocery retailers. MSCs continually engage in systematic price changing, hi-low pricing and selective product promotion on a weekly or monthly basis. For example, one of the major MSCs often advertises 'more than 3000 'specials' a week'.

Combined, these factors give rise to very complex pricing strategies and make it very difficult to closely monitor grocery prices. We monitor the activities of our competitors to make sure we are delivering on our commitment to our customers. We expect that our competitors would also monitor our own products and prices very closely.

Because there is a lack of transparency in grocery pricing we believe that consumers can benefit from regular independent comparisons between different grocery retailers. Basket of goods comparisons are a useful exercise in this regard, but only if they are able to make accurate and fair comparisons.

In ALDI's case, while our pricing is simple and transparent, our strategy of exclusive brands means it is difficult to make comparisons because of their unique positioning with regard to quality and value within the Australian grocery market. In many cases three or four brand products might need to be considered to establish the right value equation for an ALDI product.

We believe that the quality of our products compare to that of the market leading brands. In a price comparison in 2007, Choice appeared to agree with this

¹¹ Hitwise Australia – the ALDI website receives more visits per month than any other of the 865 websites classified in the "Shopping and Classified – Grocery and Alcohol" sector

assessment by comparing ALDI's basket of exclusive label products with brand label products from other retailers and comparing like for like quality.¹²

Finally, ALDI does not provide shopper dockets or fuel vouchers. As marketing tools they are inconsistent with our commitment to transparency and every day low prices because ultimately the cost of any discount must be recouped through higher prices elsewhere.

C Competition in Grocery Retailing (Q31 – Q41)

Competition occurs at many levels in the Australian retail grocery market. It occurs between products, brands and locations. However we believe one of the largest barriers to competition is the capacity of a retailer to access suitable sites for stores.

In *general*, supermarkets tend to be located either in shopping centres or business and retail activity centres. To be genuinely competitive and attractive to consumers it is therefore important for a retailer to be able to secure sites in these areas.

In the case of shopping centres it is often difficult for new entrants to secure a site because the landlord is restricted by the contracts they have in place with existing supermarket retailers. These contracts may contain restrictive covenants or clauses that allow incumbent supermarket retailers to drastically reduce the rent they pay in the event of a new operator commencing operations in the centre. These reductions are so significant that despite the prospect of rent from a new supermarket retailer, it is not enough to offset the loss of rent from the incumbent, making it unviable to proceed with a new entrant. It also prevents the incumbent supermarket retailer(s) facing new competition.

Further information is contained in the confidential annexure to this submission.

Outside of shopping centres it is becoming increasingly difficult to obtain approval for new developments because these must occur on land that is appropriately zoned and such land is in short supply. This is because new retail developments should occur within defined retail activity centres, which are geographically finite land areas within existing communities. With a declining supply of appropriately zoned land, existing supermarket operators already enjoying prime positions are entrenched. New entrants on the other hand struggle to obtain any land within retail activity centres, let alone land with good retail characteristics.

As the economy grows it is extremely important that planning and zoning laws keep pace with development and allow for the expansion of retail activity centres. Unfortunately it is our experience that local planning authorities are often constrained by a lack of resources, which makes it hard for them to deal effectively with the strategic planning required for future growth.

Combined, these factors make it extremely difficult for new supermarket retailers to compete and as a result we are often forced to pursue rezoning for 'out of centre' developments. This is difficult because planning laws usually favour the expansion of existing centres rather than new developments. Without planning approval, vendors are often unwilling to sell land to a buyer who is waiting on approval because the outcome is uncertain and it may take up to 18 months for

¹² Choice, May 2007, "Supermarket Price Survey"

council to consider and assess planning applications. Furthermore any development might be constrained by the practice of 'land banking' where owners purchase land adjacent to their existing centre to prevent further development.

In cases where we might look to develop a new store on land that will require re-zoning, the process of rezoning is extremely difficult, if not impossible. Local planning authorities generally have an incontestable right to determine a re-zoning application regardless of a site's attributes, or benefits to the local economy and community. In these cases there is no avenue for review of decisions and no means for a new entrant to bring about any sort of review of an existing retail activity centre.

We do recognise that planning policy exists to prevent unrestrained and unregulated development but unfortunately in many cases it can prevent development altogether. This means the local community misses the opportunity to benefit from greater retail competition.

In Maroochy Shire for example, planning policy continues to prevent the development of a new ALDI store, despite market analysis suggesting the region could in fact support up to six ALDI stores. Existing planning policy places a 1,000m² cap on developments outside of shopping centres and for the reasons outlined above, in centre development remains impossible.

In most instances town planning schemes were drafted prior to ALDI's entry into the Australian market and this presents challenges for councils who can often find it difficult to deal with the distinctive characteristics of an ALDI store. So despite the substantial benefits a store can bring through support of complimentary businesses, smaller total footprint (e.g. 1,300-1,500m² (850m² plus amenities) versus 4,500m² for MSCs), limited trading hours, control over limited deliveries and even a commitment to minimising environmental impacts through store construction and design, we find it challenging in obtaining approval to build new stores in 'competitive' locations.

Rarely there are positive outcomes achieved and the recent opening of the ALDI store on Weyba Road at Noosaville is a good example of this. In that case Noosa Council approved construction of an ALDI Store on grounds of the competition benefits it would bring for consumers, despite the application having initially been refused by the Town Planner.

For further examples where ALDI's growth has been impacted by planning restrictions, please see the confidential annexure to this submission.

In addition to the above property-related issues, in all instances when looking to acquire undeveloped land for new supermarkets and other commercial facilities, ALDI is required to submit an application for approval to the Foreign Investment Review Board (FIRB) under the terms of the Foreign Acquisitions and Takeovers Act 1975 and the associated Foreign Investment Policy – Urban Land ('Policy'). FIRB examines these applications and provides advice to the Federal Treasurer who is the responsible Minister under the Act. Under the terms of the Policy, approval is usually granted on the basis, inter alia, that 'continuous construction' commences within 12 months of site acquisition.

The stringency of this requirement for commencement of continuous construction within 12 months represents a significant regulatory barrier to the timely and efficient expansion of ALDI's commercial operations in Australia. This regulation also puts ALDI at a significant competitive disadvantage to the MSCs and other

domestically owned supermarkets who are able to acquire land on the basis of long-term business planning without these constraints.

D Competition in Grocery Wholesaling (Q42 – Q45)

As a grocery retailer ALDI is unable to comment in any detail on competition in grocery wholesaling.

E Buying Power in Grocery Supply Markets (Q46 – Q53)

The majority of the core range products sold in ALDI stores are manufactured and supplied in Australia. 100 per cent of the meat, 98 per cent of the dairy and 95 per cent of the fruit and vegetables sold in our stores is sourced from Australian farmers and manufacturers.¹³

We place great value on our relationships with suppliers because we believe that this is one of the keys to being competitive. Our suppliers are an important part of our business and like us, they subscribe to our commitment wherever possible to be lean and efficient. They also share our strong commitment to quality at every day low prices and many of our suppliers have grown with us through mutually beneficial and co-operative arrangements.

Box 4 below shows that in a November 2007 'Retail Barometer' survey conducted by ACNielsen ALDI was considered the overall preferred retailer by Australian manufacturers, which is testament to our commitment to suppliers.

Box 4 – ALDI the preferred retailer overall



In a November 2007 'Retail Barometer' survey conducted by ACNielsen ALDI was considered the overall preferred retailer by Australian manufacturers.

In the survey of around 100 Australian manufacturers, they were asked to rate retailers' performance on specific attributes.

ALDI was rated at the top in seven of the eight categories. Categories included:

- understanding the needs of the consumer;
- quality of the range review process;
- fairness of trading terms and negotiations;
- store compliance;
- supply chain efficiency;
- strength of the management team; and
- strategies for success.

In the remaining category, efficient promotional planning and execution, ALDI rated second which is also outstanding given our strategy of not extensively promoting our products.

¹³ Percentages audited by accountants, BDO Kendalls. Sales periods for BDO Kendalls audit as follows: Dairy 01/01/07 to 31/08/07, Meat 01/01/07 to 31/08/07, Fruit and Vegetables 07/08/07 to 13/08/07. Country of origin labelling checked by Silliker Microtech testing laboratories.

Our business approach is to be consistent, simple and fair. These values provide the general framework for our attitude towards our employees, customers, suppliers, and our business partners. They are intended to make our actions transparent and predictable.

Both the size of the retailer and the size of the supplier will impact on the exact nature of terms and conditions. ALDI however, maintains consistency in key terms namely:

- ALDI Stores require no rebates, discounts or listing allowances;
- Payment terms are 30 days net; and
- We have an excellent reputation for paying our suppliers on time.

The simplicity of these arrangements fosters a more open and honest environment for discussing cost with suppliers without the impact of complex trading arrangements.

As we have grown we have become more attractive to suppliers who have recognised the opportunities our growth provides for them. By supplying products to ALDI they have the potential to sell substantial volumes as one of 900 exclusive quality products, rather than as one of up to 40,000 products sold by the MSCs. Suppliers also welcome the opportunity to build long-term relationships and obtain access to a rapidly expanding base of retail customers.

In dealing with suppliers, we do not charge them slotting, or any other fees, in order for them to obtain product exposure. We consider such arrangements to be inconsistent with our low cost approach and incompatible with supplying our own exclusive brand products. Ultimately the customer will carry the cost of slotting fees in the form of higher prices and they may also miss the opportunity to obtain the best value product. With slotting fees and other supplier funded promotional activity, customers are not offered the best product but the product that is able to pay for placement.

While many suppliers often welcome the opportunity to grow with us there are still situations where the terms and conditions with major suppliers can act as a major barrier to competition. Often this is because suppliers do not wish to see their branded products, of which there are a very small number in ALDI's range, sold more cheaply. It was our experience as a smaller retailer that it was at times difficult to negotiate better terms and conditions with suppliers as we were competing against larger retailers for the supply of the same products. While this situation has improved with our growth we believe that we are often still disadvantaged in negotiating with some suppliers who also supply the MSCs.

Please see the Confidential Annexure to this submission for further discussion of supplier issues.

F Competitive Position of Small and Independent Grocery Retailers

Competitive position of small retailers (Q54 – Q57)

ALDI is unable to make informed comments on the current competitive position of small and independent grocery retailers.

Shopper Docket Schemes (Q58 – Q59)

ALDI does not use shopper docket or petrol voucher schemes. The cost of these programs is not consistent with our strategy of every day low prices because inevitably the cost of any discount must be recovered from the customer through higher prices elsewhere.

We believe that our customers recognise the savings they can achieve by shopping at ALDI outweigh any perceived savings from shopper dockets or fuel vouchers.

Mergers and acquisitions (Q60 – Q62)

We remain focussed on our own business and have no comments to make on the outcomes of any mergers or acquisitions in the market place.

Conduct of grocery retailers (Q63 – Q65)

We are not in a position to provide any informed comments on the activities of our competitors other than those we have already made in this submission.

G Factors Influencing Pricing of Inputs (Q66 – Q72)

Retail grocery prices are influenced by many factors depending on how they are supplied, the nature of the product itself and a range of other influences including transport, labour, operating overheads and the level of competition. The exact makeup of prices will vary widely from product to product.

We have noted that ALDI operates a lean and efficient business model that strips out many of the costs that might normally be associated with the movement of products through the retail grocery supply chain. We prefer to deal directly with suppliers rather than through agents and we actively encourage efficiency initiatives. With this focus on efficiency and control of the steps required, we are able to reduce the price a customer ultimately pays. We do not discuss our retail product pricing decisions with suppliers.

In some cases, large suppliers can also act in ways that are detrimental to smaller operators or new market entrants. Refusal to supply or supply on uneconomic terms and conditions can impact new entrants with less bargaining power than incumbent operators. Please refer to the confidential annexure for further discussion on this issue.

ALDI's retail prices reflect the costs of supply. We work closely with suppliers to promote a sustainable supply base and minimise the impact of cost fluctuations on consumers in order to consistently deliver every day low prices.

H Impediments to efficient pricing along the supply chain (Q73 – Q80)

ALDI is not in a position to provide any informed comment on the activities of suppliers other than those that have already been made in this submission.

I Horticulture Code of Conduct (Q81 – Q83)

From ALDI's perspective we expect that initiatives such as the Horticulture Code of Conduct may have benefits for those who are directly affected by it. However to date we have not seen it have any direct bearing, either positive or negative on ALDI's relationships with its suppliers. As such we are not in a position to make any further comment.

Conclusion

ALDI is a different supermarket retailer to the MSCs offering a genuine quality alternative and value for money to over one million Australian consumers every week.

Since our arrival in Australia we have helped re-define the retail landscape, introducing a new quality standard in private-label groceries.

Our commitment to quality means that our customers can trust us to deliver exceptional quality products that match the market leading brands but at prices which are up to 50% less than brand equivalent products.

We have shown that by focusing on our own business, which is simple, lean and efficient, by standardising and simplifying as many operations as possible, we can keep costs low and pass these savings on to customers in the form of *everyday* low prices.

We have led the way with innovation and transparency in grocery pricing as the only retailer to have introduced unit pricing and with consistent prices across large geographic regions.

While our pricing is simple and transparent, our strategy of exclusive brands means it is difficult to make comparisons and this may present challenges for any review of grocery pricing.

In comparing and potentially monitoring prices it is essential to have full regard to the quality and value for money ALDI has brought to the Australian retail grocery market.

It is also important to have regard to a range of other factors that have been addressed in this submission and the confidential annexure, which can affect the ability of innovative retailers like ALDI to fairly compete with the MSCs.

Finally, the exceptional growth of ALDI here in Australia is testament to the appetite among consumers for the genuine retail grocery alternative we provide.

SUMMARY OF ISSUES RELATING TO PROPERTY RESTRICTIONS	
1	Are major shopping centre landlords willing to offer sufficient space to a new supermarket chain? Are there any restrictions (contractual or otherwise) that may limit the ability of landlords to offer such space?
1.1	Planning policy encourages the concentration of retail development into localised areas typically controlled by large shopping centre owners. ALDI has often been unable to lease space in these shopping centres because of incumbent supermarket lease restrictions. In turn ALDI then struggles to source retail “centre based” land in the area and is forced to pursue “out of centre” sites only to encounter planning objections from competitors or Shopping Centre Owners who usually object, because they are obliged to, pursuant to their anchor supermarket’s lease.
1.2	Leases are used as an instrument to restrict competition and protect incumbent supermarket tenants. ALDI has been excluded from many shopping centres by restrictive lease clauses. AMP for example have acknowledged that restrictive covenants are the principal reason why ALDI is not represented in any of their centres.
1.3	Existing larger shopping centre tenancies with appropriate loading dock arrangements are committed to traditional supermarkets on long term leases. ALDI file correspondence on various prospective sites show lessor and ALDI willingness to conclude leasing deals which have not materialised due to the lack of available space in the centre or potential centre expansion constrained by anchor tenant controls (including carpark control zones and first right of refusal rights).
1.4	Identical space in terms of development cost is leased at different rates. Traditional supermarkets are offered better commercial terms because of the foot traffic they generate, financial recognition of their covenant by analysts/valuers/banks and negotiating leverage they have due to ownership of multiple retail concepts e.g. DDS, electronics, fashion, fuel. Other retailers therefore compete from a higher rental base. It should also be noted that landlords typically require the provision of sensitive tenant turnover figures which ALDI, as a privately owned business, is not prepared to divulge. It is believed that in the absence of potential turnover rental, landlords seek a higher rent from ALDI.
1.5	Rent reviews exceed inflation which compounds over the term of the lease negatively affecting a store’s occupancy cost.
1.6	Anti “out of centre” planning policy makes it difficult to renegotiate commercial terms at the end of the lease because ALDI cannot relocate outside the centre. This places the shopping centre owner in a superior negotiating position at lease renewal.
2	Is access to suitable sites a significant impediment to the entry or expansion of supermarket chains? Do local planning and zoning laws impede access to suitable sites?
2.1	Planning policy exists to avoid unrestrained and unregulated development but it has the unintended consequence of being anti-competitive.

SUMMARY OF ISSUES RELATING TO PROPERTY RESTRICTIONS	
2.2	<p>Planning laws favour the expansion of an existing centre rather than new “out of centre” development.</p> <p>Shopping centre owners are best placed to integrate adjoining land with their centres taking advantage of existing access, visibility and frontage. Shopping centre owners also land bank next to their centres.</p>
2.3	<p>Zoned retail land is, by and large, improved with existing retail development encumbered by leases that have to be paid out, thereby affecting the viability of redevelopment.</p>
2.4	<p>Councils argue that by rezoning sites for retail, land needed for other purposes is being absorbed e.g. industrial.</p>
2.5	<p>Competition is not taken into account by Council Planning Officers. Council Officers administer the town plan in a “land use” sense having regard to economic need but not competition.</p> <p>Councils have difficulty in assessing ALDI’s out of centre applications because most town planning schemes were drafted prior to ALDI’s entry into the market. Councils are therefore unable to properly deal with the distinctive characteristics of an ALDI store. This is especially relevant to how our use is defined (for example a shop, general store or supermarket). The definition of an ALDI store is inconsistent between the municipalities we deal in and this is frustrating for ALDI as an applicant.</p> <p>It is noted that a similar inquiry into the grocery market in the UK has recommended that regard be given to competition when assessing retail development approvals. This is more specific than the traditional economic need test. This type of reform would place more emphasis on the ALDI offer rather than just viewing ALDI as another supermarket in an existing catchment.</p>