

# **WA INDEPENDENT GROCERS ASSOCIATION (Inc.)**

**Tel (08) 9448 2207 Fax (08) 9448 2205**

**SUBMISSION TO**

**The Australian Competition and Consumer Commission**

## **Public Submission to the ACCC Grocery Inquiry**

**by the**

**WA Independent Grocers Association (Inc.)**

**March 11, 2008**

**INDEX**

	<b>Page</b>
Introduction	1
Context of the Inquiry	2
A. Structure of the Grocery Industry	3
B. Consumer Behaviour and Choice Of Grocery Retailer	9
C. Competition in Grocery Retailing	9
D. Competition in Grocery Wholesaling	11
E. Buying Power in Grocery Supply Markets	11
F. Competitive Position of Small and Independent Grocery Retailers	12
G. Factors Influencing the Price of Inputs Along the Supply Chain for Standard Grocery Items	14
H. Impediments to efficient pricing of inputs along the supply Chain	14
I. Horticulture Code of Conduct	14

## **INTRODUCTION**

The Western Australian Independent Grocers Association is pleased to present its submission to the Commission on behalf of Western Australia's independent grocery sector.

The WA Independent Grocers Association Inc. ("WAIGA") was established in 1990 to protect and promote the interests of WA's 200-plus independent grocery store owners in dealings with suppliers and governments. For reference, independent supermarkets in WA provide full- or part-time employment for an estimated 23,859 employees and 18,133 full-time equivalents, purchase more than \$100 million of local produce and meat each year, and have a combined annual turnover of more than \$2.1 billion. The businesses have an estimated value of almost \$646 million and account for 81 percent of all grocery stores in WA<sup>1</sup>.

The Association is an active member of the National Association of Retail Grocers of Australia ("NARGA") and in this respect WAIGA strongly endorses NARGA's submission to the Commission's Inquiry.

In view of our endorsement of NARGA's submission, this submission aims to highlight and expand on key areas of concern to Western Australian grocers in the context of matters for consideration contained in the Commission's Issues Paper.

In summary, the Western Australia grocery market's distinctive characteristics including its geographic isolation, regulatory environment and relatively low, yet concentrated population makes an excellent comparison point in respect of the eastern and south eastern seaboard markets.

WAIGA would be pleased to present its views and expand on the contents of this submission at the Commission's public hearings in Western Australia.

<sup>1</sup> PricewaterhouseCoopers "The economic contribution of small to medium-sized grocery retailers to the Australian economy, with a particular focus on Western Australia" June 2007, ibid

## CONTEXT OF THE INQUIRY

### Q1-2 Pricing and International Price Comparisons

Notionally, the WA grocery market is one of the most competitive in Australia with the major supermarket chains or MSCs (i.e. Coles and Woolworths) holding an estimated 68 percent marketshare, compared to the national average of about 78 percent.

As the PricewaterhouseCoopers' study<sup>2</sup> indicated, Perth grocery price inflation is lower than Sydney or Melbourne. It would be reasonable to therefore assume that prices of key staples sold by the MSCs (i.e. bread, milk, eggs, packaged cereals etc.) would take a similar line, taking into account short-term price competition.

Surprisingly, and as highlighted in NARGA's response to this question, this is not the case with significant and extensive discrepancies in the pricing of branded and unbranded milk and bread products in WA. WAIGA contends that these discrepancies are caused primarily by the buying power of the MSCs. The impact of this buying power is such that ultimately, inflated wholesale prices cannot be reasonably absorbed by independent grocers and must therefore be passed on to consumers.

<sup>2</sup> PricewaterhouseCoopers "The economic contribution of small to medium-sized grocery retailers to the Australian economy, with a particular focus on Western Australia" June 2007, p 38

## A. STRUCTURE OF THE GROCERY INDUSTRY

### Q3 – Major Changes To The Structure Of Grocery Retailing Over Past 5-10

#### Years

The most significant change in industry structure has been a 40 percent decline in marketshare (from an estimated 56 percent to 31.9 percent)<sup>3</sup> from the independent sector to the MSCs over the last 20 years. Although the rate of loss has somewhat reduced over the last three years, mostly at the expense of the Coles supermarket group, the long term trend is at best static for the independent sector.

### Q4 - Factors Driving Change

#### **Acquisitions and mergers**

In Western Australia, Coles' and Woolworths' acquisitions of independent supermarkets have resulted in the transfer of more than \$800 million in sales between 1996 and 2005. Over the last five years the rate of acquisition as measured by sales has increased 60 percent from almost \$306 million between 1996 and 2000, to \$500 million between 2000 and 2005.

As the chart below – covering the period 1996–2000 - indicates the then Coles Myer group was amongst the most active in this respect:

STORE NAME	ANNUAL WAREHOUSE PURCHASES \$M	ANNUAL STORE SALES \$M	PURCHASER
Supa Valu Kalgoorlie	\$2.80	\$7.00	Coles
Supa Valu Mundaring	\$6.80	\$17.00	Coles
Newmart (6 stores)	\$29.90	\$93.55	Coles
Farmer Jacks Beechboro	\$8.30	\$20.80	Coles
Charlie Carters (15 stores)	\$30.25	\$75.65	Coles
Advantage (4 stores)	\$33.10	\$91.70	Woolworths
<b>TOTAL</b>	<b>\$111.15M</b>	<b>\$305.7M</b>	

<sup>3</sup> PricewaterhouseCoopers "The economic contribution of small to medium-sized grocery retailers to the Australian economy, with a particular focus on Western Australia" P34,35

## **Regulation**

Regulation has and will continue to play a key role in altering the structure of the grocery sector.

The deregulation of the dairy industry, for example, has resulted in a massive loss of WA dairy farms and consequent concentration of the industry on the east coast of Australia. Deregulation of the industry has resulted in increased power to the MSCs, with a subsequent impact on prices and competitiveness as outlined in NARGA's response to Q1.

Similarly, are calls for changes to Perth's existing regulated trading hours regime. Currently, MSCs are restricted from opening beyond 6.00pm on weeknights – excluding one late night trading day - and all day on Sundays. It is reasonable to assume that extending and in particular deregulating retail trading hours – as demanded under the National Competition Policy framework - would only serve to increase the marketshare of MSCs.

The pursuit of deregulated retail trading hours by commercial interests has already been shown to deliver greater marketshare and hence market power to the major retail chains in various states.

The chart below – the last set of published figures by ACNielsen – not only illustrates the point that Western Australians enjoy the most competitive grocery markets in Australia, but also that there is more than a passing correlation between deregulation of trading hours and marketshare.

ACNielsen ScanTrack - Share of Trade 2003<sup>4</sup>

State	Woolworths Coles/BiLo	OTHER
NSW/ACT	85.6 %	14.4 %
VIC	79.6 %	20.4 %
QLD	77.3 %	22.7 %
SA	76.5 %	24.5 %
WA	<b>61.4 %</b>	<b>38.6 %</b>
National	<b>79.0 %</b>	<b>21.0 %</b>

In addition to the national perspective, we specifically point to Victoria where deregulation of trading hours in the mid-1990s was promoted as a major bonus for consumers.

Approximately 12 months after deregulation, the Master Grocers Association of Victoria (MGAV), representing independent supermarkets and grocery stores, surveyed its members on the impact of extended trading hours on their businesses.

The MGAV's survey showed that independents had lost up to 70 percent of their Sunday trade with the average drop being around a third. In total, MGAV members reported being down an average of 15% or more on their previous weekly turnover.

Figures published in Retail World Magazine following the Kennett Government's decision show that 20 major independent banner stores (3 percent of total) exited the market in 1997, while 104 convenience/top-up stores (almost 20 percent of the total) ceased trading during the year.

<sup>4</sup> **Source:** ACNielsen figures for total defined grocery. Includes the additional stores acquired from the break-up of Franklins supermarket group.

Equally important, the independents' share of the packaged grocery market in Victoria fell from 27.7 percent to 24.1 percent in 1997 - the biggest share drop recorded in a single year since ACNielsen's figures were first published. The market share held by the independents continued to decline prior to the break-up of Franklins, and at the end of October 2001 the ACNielsen figures showed the independent sector in Victoria had a market share of 18.2%.

The economic reality of Victoria's deregulation was that about \$300 million, or 5 percent of sales, was transferred from the independents to the major chains. Nowadays, the major retail outlets (e.g. Target and Kmart ), having soaked up sales and marketshare, have reverted their "deregulated" trading hours to closing times of 5.30pm on weekdays.

WAIGA contends that deregulation of retail trading hours, rather than acting as a boost to employment, is in reality a convenient and profitable tool for MSCs to increase profitability at the expense of jobs and small and medium sized enterprises.

WAIGA's contention is further supported by the South Australian retail trading hours study conducted by Alan Moss. In this document, Moss states:

**"..every time shopping hours are extended the big retailers inevitably increase their sales. The overall market is not expanding rapidly enough to absorb this and hence the big retailers increase their marketshare at the expense of the smaller ones."**<sup>5</sup>

Furthermore WAIGA points to the PricewaterhouseCoopers' study<sup>6</sup> which notes that small and medium sized supermarkets – with less than 20 percent marketshare - employ 57 percent of workers.

<sup>5</sup> Moss, A. 2007, Report of the 2006/07 Review of the Shop Trading Hours Act 1977, February 2007, p. 29.

<sup>6</sup> PricewaterhouseCoopers, "The economic contribution of small to medium-sized grocery retailers to the Australian economy, with a particular focus on Western Australia" June 2007, p.vi



This compares starkly to the nation's largest supermarket group - Woolworths – which is believed to control about 45 percent of the market and has increased its overall sales by 75 percent whilst shedding 20 percent of its workforce.

Deregulation of trading hours in Western Australia would have a significant and adverse impact on marketshare and employment where 52 percent of full-time grocery staff are employed by independents.

**Q5 & Q6 Economies of Scale/Measuring Marketshare**

WAIGA concurs with the comments contained in NARGA's submission to the Inquiry.

**Q 7 Entry of Competitors to the Market**

The relative size of the WA market and the need for economies of scale has restricted the entry of major new competitors. We believe it is highly unlikely that a significant new competitor could enter the WA market in at least the next decade and still generate a viable commercial rate of return without acquiring the majority of independent grocers.

**Q8 Structure Differences Between Metropolitan, Regional and Rural WA**

WAIGA concurs with the comments contained in NARGA's submission to the Inquiry, and points out that these circumstances are magnified in the case of Western Australia which has a vastly larger, yet more sparse population.

**Q9 - Q21 Grocery Wholesaling**

WAIGA concurs with the comments contained in NARGA's submission to the Inquiry.

## **B. CONSUMER BEHAVIOUR AND CHOICE OF GROCERY RETAILER**

### **Q22 - Q30**

WAIGA concurs with the comments contained in NARGA's submission to the Inquiry.

## **C. COMPETITION IN GROCERY RETAILING**

### **Q31 – 38**

WAIGA concurs with the comments contained in NARGA's submission to the Inquiry.

### **Q39 Access to Sites**

WAIGA concurs with the comments contained in NARGA's submission to the Inquiry.

Additionally, WAIGA highlights the fact that there has been a severe shortage of developed land for residential, retail, industrial and commercial office purpose in metropolitan and regional WA. This shortage is expected to continue owing to continued and rapid population expansion, along with statutory land development approval processes.

For example, WAIGA is advised that a major residential development planned for one of Perth's foothills suburbs and which is projected to house at least 15,000 people, is already more than 12 months behind its five year development schedule owing to procedural delays and a shortage of local government staff. Significant delays in re-zoning applications in established suburbs are not uncommon and are likely to increase with the addition of new and more stringent social, environmental and legislative requirements.

**Q40 & 41**

WAIGA concurs with the comments contained in NARGA's submission to the Inquiry.

## **D. COMPETITION IN GROCERY WHOLESALING**

### **Q42 – 45**

WAIGA concurs with the comments contained in NARGA's submission to the Inquiry.

## **E. BUYING POWER IN GROCERY SUPPLY MARKETS**

### **Q46**

WAIGA concurs with the comments contained in NARGA's submission to the Inquiry.

### **Q47 Transfer of Buying Power to Shelf-Prices**

As indicated in NARGA's examples in Q1 it is WAIGA's view that savings at the producer and manufacturer levels are not being passed on to consumers.

### **Q48 – Q53**

WAIGA concurs with the comments contained in NARGA's submission to the Inquiry.

## **F. COMPETITIVE POSITION OF SMALL AND INDEPENDENT GROCERY RETAILERS**

### **Q54 Sources of Competitive Advantage and Disadvantage of Small and Independent Retailers**

WAIGA concurs with the comments contained in NARGA's submission to the Inquiry.

### **Q55 – Q59**

WAIGA concurs with the comments contained in NARGA's submission to the Inquiry.

### **Q60 Acquisitions Not Brought to the ACCC's Attention in the Last 3 Years**

WAIGA concurs with the comments contained in NARGA's submission to the Inquiry.

### **Q61 Effect of Acquisitions**

Additional to NARGA's submission to the Inquiry, WAIGA highlights the impact of the transfer of sales noted in its response to Q4, namely the transfer of more than \$800 million in retail sales since 1996.

### **Q62 Costs to Independent Wholesalers**

This response is best addressed by Wholesalers.

**Q63, 64 & Q65 Evidence and Examples of Anti-Competitive Conduct, Predatory Pricing and Examples**

Further to comments contained in NARGA's submission to the Inquiry, WAIGA highlights the following example.

*In the mid 1990s and in the regional city of Bunbury, a medium-sized independent grocery store (turnover \$250,000 per week), located opposite a major chain supermarket, sold several market-leading products at prices similar to those offered in the Perth metropolitan area. For a period of approximately 12 months, and in a bid to gain extra business, the MSC slashed the price of numerous product lines to well below the price that it sold these products for in its Perth metropolitan stores.*

*Being unable to obtain the same breadth of competitive wholesale prices as the major chain, and therefore unable to withstand the protracted discount onslaught, the independent store owner opted not to renew his lease, which was not on like-terms to the chain's lease agreement, and subsequently closed the business. Closure of the business, which was a major buyer of local produce and regional services, and a significant contributor to small local community and sporting groups, resulted in the loss of between 80 and 120 full- and part-time jobs. Furthermore it reduced competition in the town to just the two major supermarket chains and one other independent grocery store.*

*The above example highlights the current interpretation of s64 of the Act, whereby it would be entirely legal for a single major chain supermarket to cut the price of its stock by 50 percent with the aim of undercutting or closing a smaller competitor's store, or to keep a new entrant out of its geographic market. Meanwhile, these losses could be subsidised by profits from the chain's other stores.*

## **G. FACTORS INFLUENCING THE PRICE OF INPUTS ALONG THE SUPPLY CHAIN FOR STANDARD GROCERY ITEMS**

### **Q66 – Q72**

WAIGA has no comment on these issues.

## **H. IMPEDIMENTS TO EFFICIENT PRICING OF INPUTS ALONG THE SUPPLY CHAIN**

### **Q73 – Q80**

WAIGA concurs with the comments contained in NARGA's submission to the Inquiry.

## **I. HORTICULTURE CODE OF CONDUCT**

### **Q81 – Q83**

WAIGA concurs with the comments contained in NARGA's submission to the Inquiry.