

Fourth, and public, submission to the:

**ACCC inquiry into the competitiveness of
retail prices for standard groceries**

31 May 2008

by : Peter C. Bunn

pcbunn@bigpond.net.au | 0418 487717 | P.O Box 4037, Manuka, ACT 2603

1. Preamble

I provide this fourth submission, in concert to my first submission (10 March 2008 – No. 058); my second submission (28 April 2008 – No. 194); and my third confidential submission (18 May 2008), so as to provide further information for the consideration, and possible assistance, of the ACCC during its inquiry into the competitiveness of retail prices for standard groceries.

I repeat my statements and disclosures made in paragraphs **1: *Background***; and **2: *Disclosure***, in my first public submission, and paragraph **2: *Additional Disclosure***, in my second public submission.

2. Reasons for this submission

I submit this 4th submission to the ACCC's inquiry into the competitiveness of retail prices for standard groceries, in response to the submission by Metcash Limited, under the hand of Mr. Andrew Reitzer (CEO Metcash Limited), dated 28 May 2008.

Overall, as stated by Mr. Reitzer in his forward letter, the Metcash submission is a document that “...*provides a succinct summary of our (Metcash) views...*”, and whilst it is everyone's right to provide their own views to this inquiry, it appears that Metcash's submissions are strongly biased, if not misleading, so as to justify Metcash's conduct and overbearing monopoly of the wholesale supply of grocery products to independent retailers in Australia.

As such, it may be of assistance for the ACCC to consider my following observations in respect to the abovementioned Metcash submission, I do advise that this submission is not a comprehensive analysis of Metcash's statements, but rather, I look at the more concerning statements made by Metcash in their submission, dated 28 May 2008.

I do apologise to this inquiry, as to the lateness of this submission, but as this inquiry would understand, Metcash's last submission was lodged extremely late, given the time that has been provided by the inquiry, and so my response is commensurately late.

3. Responses to Metcash statements in their submission 28 May 2008

For ease of reference, I will provide my observations under the sub heading used by Metcash, and by quoting the concerning Metcash statement.

3.1 “Independent retailers can offer genuine competition by leading prices down through a heavy focus on promotions” – Section 1 : Page 1

Metcash state that : *“Independent retailers offer reasonably competitive ‘everyday’ shelf prices and deliver strong value promotions comparable to the major chains.”*

I note that Metcash are very careful to use the words “...*reasonably competitive ‘everyday’ shelf prices..*” but Metcash do not quantify what they consider “reasonable competitiveness”, and, on what basis that such prices are considered reasonable, for instance, are the said prices reasonable in the eyes of consumers, or independent retailers, or are they considered reasonable by Metcash in view of the pricing inputs added to such retail “shelf prices” through Metcash’s retention of allowances, discounts, rebates and terms which are paid by manufacturers and suppliers on the products that Metcash supplies ?

Metcash go on to state that : *“At any point in time, IGA banner stores (greater than 1000 square metres in size) are selling around 2,000 – 3,000 items on temporary price reductions (i.e. ‘on special’), with these discounted products translating into around 40% of grocery sales volumes.”*

Metcash appear to be very careful in not identifying the actual number of IGA stores with an area greater than 1000sq mtrs, as in reality, such stores only number approx 400, and of which Metcash holds equity and/or management input on a large percentage of these stores.

The other consideration is that Supa IGA stores only represent less than 9% of the total number of independent stores which Metcash supply at wholesale level.

A further consideration is that whilst such stores may have those number of products “on special” one would need to identify if the claimed “special

price” was actually market competitive, or just a minor reduction off a higher than market ‘normal’ (or average) shelf price.

The last consideration of such price “specials” is that such “specials” are in the main paid for by manufacturers, thus Metcash is not financially contributing to such price reductions, and such specials, usually require the independent retailer to take a large reduction in gross profit on such products that are “on special”, all of which Metcash provide no financial input, even the ‘special’ shelf tickets that Metcash supply are charged by Metcash, either directly, or indirectly.

Metcash then state: ***“This focus on promotions creates competitive tension which leads prices down for all items in those areas where the independent retailer has a significant presence, delivering the benefits of competition to consumers in these markets.”***

Whilst it is acknowledged that “promotions (specials)” create some competitive tension as to retail pricing, it is everyday, or standard pricing of grocery products that brings true, and ongoing, competitive tension that delivers benefits to consumers, and thus, the lowering of inflationary pressures.

Such everyday shelf pricing is not discussed by Metcash, which I believe is due to the fact that Metcash cannot discuss everyday shelf pricing in independent supermarkets due to the fact that Metcash’s wholesale pricing to independent retailers increases the retail pricing in independent supermarkets, which is evidenced in all independent price surveys which continually record the fact that IGA stores are well above (normally reported as around +10%) the retail pricing as compared to the MSC’s.

3.2 “Independent retailers compete effectively through non-price elements of their retail offer” – Section 1 : Page 1

Metcash state : ***“Price competition is not the only contribution that independent retailers offer consumers. Consumers benefit from improvements in the ‘retail offer’, which includes a variety of elements such as convenience and service quality as well as price.”*** and on page 2; ***“In areas where an independent retailer has a significant presence, the competitive pressure it adds through these non-price elements poses a significant constraint on a major chain store’s ability to raise prices.”***

I believe that such a statement is, firstly irrelevant, to the inquiry, as the inquiry is clearly investigating the “competitiveness of retail prices for standard groceries”, and secondly is placed before this inquiry to deflect the discussion as to wholesale pricing structure that Metcash provides to independent retailers, which directly results in the final retail prices that independent retailers are forced to charged consumers.

3.3 “Metcash offers independent retailers the ability to obtain a lower cost of supplies than otherwise possible” –
Section 1 : Page 2

Metcash state : ***“Metcash has built up a substantial wholesale customer base in the independent sector, and has pooled the purchasing volumes of independent retailers to accumulate the scale required to help them to compete against the major chains (which already hold significant economies of scale due to their retail market dominance).”***

I note that Metcash whilst extolling its achievements of the pooling of the purchasing volumes of independent retailers, Metcash very carefully evade discussing the values of allowances, discounts, and rebates, not to mention the betterment of terms, achieved from manufacturers and suppliers by the pooling of the independent retailers’ volumes.

Basically the above statement by Metcash, whilst on a cursory view appears to be intimating that Metcash are assisting the competitiveness of independent retailers by harnessing the independent retailers volumes, so as to achieve better pricing of goods, close scrutiny of the statement by Metcash in actual fact makes no definitive statement as to any wholesale costing benefit that has been delivered by Metcash to its customers (independent retailers) through such pooling, which would, and should be expected to be reflected in the retail pricing by independent retailers.

Metcash state : ***“Some retailers have commented that the wholesale prices that Metcash offers are ‘uncompetitive’. The purchasing power of the major chains (given their market share of 75-80%), their ability to guarantee a certain volume of sales plus retail level compliance means that they are able to achieve a lower cost of supply. Anecdotal evidence suggests that this is in the order of some 2% of the ‘confidential’ terms offered by suppliers.”***

I believe that this statement is clearly misleading, in that Metcash is asking the reader to believe that the “confidential terms” paid by

manufacturers to MSC's is only 2% greater, than the confidential terms paid to Metcash.

To substantiate such a claim Metcash would need to disclose all confidential terms that it receives on the goods it purchases on the volumes of independent retailers.

The other question that needs to be very seriously asked of Metcash is, as to what percentage of the confidential terms that it receives from manufacturers and suppliers on the goods that Metcash purchase on the independent retailers volumes, are actually passed on to those independent retailers by Metcash, as this has a very significant effect on the retail price that independent retailers charge consumers.

3.4 “The success of our customers is fundamental to our success” – Section 1 : Page 2

Metcash state : “To only consider the non-vertically integrated wholesalers would be an overly simplistic approach to examining the wholesale market. Vertically integrated chains (including Woolworths and Coles) also carry out all major wholesaling functions, including negotiating with suppliers, providing storage and arranging distribution of products to stores. These supply chain costs are all factored in to retail prices. Competitive pressure at the retail end means that Metcash must compete vigorously with the major chains in achieving low supply chain costs, so that independent retailers can compete effectively with the major chains.”

I believe that this statement by Metcash is extremely misleading as it attempts to make no differentiation between the MSC's wholesaling functions, and those wholesale functions conducted by Metcash to the independent retailers of Australia.

These Metcash statements are clearly undefined, and unevidenced, which should raise concern as to the ability to place reliance on such.

In actual fact the difference between the wholesale functions carried out by the MSC's as opposed to Metcash are dynamically different, for example, but not limited to the following ways:

- Whilst MSC's carry out wholesale functions, such functions by MSC's are cost neutral to their retail stores, whereas the Metcash wholesale function is profit positive (as evidenced by Metcash's reported profits), and therefore increase the costs to Metcash's customers, the independent retailers.

- Whilst Metcash do achieve lowering supply chain costs, there is evidence that such savings are not directly passed on to Metcash customers, rather they are retained by Metcash for its own financial benefit.

Metcash state : ***“It is unlikely that an increase in ‘choice’ of wholesaler to independent retailers would yield any benefits to them. Unless the market shares of the major chains decline significantly, no wholesaler would be able to negotiate better terms of supply than the major chains.”***

I believe that it would be illuminating, not to mention interesting, for Metcash to evidence, and substantiate, such a claim, and secondly this statement by Metcash flies in the face of the fact that Metcash strongly advocates choice, by competition in the retail grocery market, so as to drive down prices, but very poorly attempts to argue against competition in the wholesale grocery market....very clearly Metcash’s self interest is shading its statements, in an attempt to mislead people as to Metcash having competition in the wholesaling to independent retailers.

Metcash states : ***“On the contrary, any significant reduction in the volume of products purchased through a wholesaler would reduce its ability to maintain low supply costs. An example of this can be seen in 2002 when Australian Independent Wholesalers (AIW) was forced to exit the market after losing a significant customer that represented a significant volume of purchases.”***

Once again Metcash are attempting to justify, if not very poorly, its monopolistic position as wholesaler to the independent retailers in Australia, but clearly this statement is somewhat misleading as Metcash are referring to AIW, then owned by Woolworths.

There is evidence that Woolworths had already made a decision to exit wholesaling to independent retailers, and when it lost the then small, FoodWorks group to Metcash, Woolworths closed its Victorian warehouse, and sold its Queensland warehouse to a group of independent retailers which now operates as Spar, which is carrying on a very respectable, although small wholesale operation, which proves that the above statement by Metcash is firstly not comprehensive as to fact, and secondly is blatantly misleading.

Metcash state : “The importance of maintaining economies of scale is also highlighted by the impact of creeping acquisitions. For example, the proposed acquisition of Karabar Supabarn by Woolworths will undermine Metcash’s ability to buy at competitive prices and reduce per unit costs. This reduction in Metcash’s ability to compete effectively with the major chains at the wholesale level will reduce the ability of independent retailers to offer competitive prices.”

I must state that I find this statement by Metcash almost pathetic, and certainly disrespectful to the ACCC’s intelligence, in Metcash’s attempted evidence, in that Metcash are clearly stating that by losing one store Metcash’s ability to “buy at competitive prices” will be undermined !! This is actually extremely insulting, in that Metcash are attempting to state that because the ACCC is allowing Woolworths to buy the Supabarn supermarket its (Metcash’s) abilities are affected.

Firstly, Metcash has lost far bigger customers, previously, and following that loss, Metcash actually stated that it had increased profit and that the loss did not affect Metcash’s operation.

Secondly Metcash reported in December 2007 that they have 249 new stores “on the books” of which 40-60 were planned for the 2008 full year. Clearly the loss of one store is more than compensated for, by all of the new stores being reported by Metcash.

It is my personal opinion that such a statement is an attempt by Metcash to publicly discredit the ACCC’s conduct so as to advance Metcash’s own commercial aims.

3.5 “The ‘cosy duopoly’ between Woolworths and Coles has led to weaker competition in the retail market” – Section 3 : Page 6

Metcash state : “The entry of the discount retailer Aldi has had little effect on the major players.”

Whilst I am sure that the ACCC has seen more than sufficient evidence as to the positive effect that Aldi has had for grocery consumers, and the subsequent effect such has had on both grocery retailers and manufacturers as to pricing of many of the top selling grocery items in Australia, I believe that such a statement by Metcash shows Metcash’s disrespect to fact when it is attempting to advance its own position within the Australian grocery industry.

Metcash state : “Metcash, as a wholesaler, does not have extensive data on the margins of retailers and is not in a position to comment on the margins of retailers. Hence, it cannot assess the validity of this claim.”

This statement by Metcash is contradictory as to the statements made to this inquiry, by Metcash, in its submissions, whereby it states that “IGA stores are competitive on price, and run strong promotions”, (page 7, Metcash submission 11 April 2008) because for Metcash to make such a statement it must have comprehensive detail of retail prices charged by the IGA stores (IGA is run by Metcash), and being the wholesaler to those IGA stores it knows very well the wholesale price that IGA stores pay, therefore it would be more than able to comment on the margins achieved by the Metcash supplied IGAs, if not all independent retailers supplied by Metcash.

3. Conclusion

I do not attempt to imply that my above responses are all encompassing as to the concerns of Metcash’s statements to this inquiry, all I have attempted to provide, due to time constraints due to the timing of Metcash’s late submission, to this inquiry, is sufficient detail, so that it is able to further question, and investigate Metcash’s statements and claims.