

WOOLWORTHS LIMITED

ACCC inquiry into the
competitiveness of retail prices
for standard groceries

Public submission by Woolworths regarding
market definition and market concentration

18 June 2008

Contents

Page

1	Executive summary	1
2	Market definition	1
2.1	Commercial reality dictates that supermarkets compete with a range of retail outlets for the sale of groceries	1
2.2	Unrealistically restricting the market leads to inaccurate analysis of the grocery industry	2
3	Market concentration	2
3.1	One stated focus of the Grocery Price Inquiry is on product categories	2
3.2	Relevance of market concentration figures	2
3.3	Sales share by department	3
3.4	The “80% market share” and its limitations	3
3.5	Estimated market share figures across the grocery industry	4

1 Executive summary

Woolworths acknowledges the emphasis placed on market concentration throughout the Commission's inquiry into the competitiveness of retail prices for standard groceries (**the Grocery Price Inquiry**). In this submission, Woolworths confirms its submissions on market definition and explains data on market concentration. In particular, this submission sheds light on the confusion surrounding the allegation that Woolworths and Coles together have an "80% market share".

2 Market definition

2.1 Commercial reality dictates that supermarkets compete with a range of retail outlets for the sale of groceries

Woolworths supermarkets experience every day the commercial reality that supermarkets compete with a range of retail outlets for the sale of groceries. These retailers are not limited to other supermarkets, or to supermarkets of a certain size, but also include grocery stores, convenience stores and specialty retailers (such as delicatessens, bakers, butchers, fruit and vegetable retailers and the like).

The fact that competition occurs across a range of retailers is illustrated at the consumer level, as shown through cross-shopping data from sources such as Roy Morgan. Such evidence was presented to the Commission in Woolworths' initial submission,¹ and is also apparent in AC Nielsen's "Shopper Trends 2008" report which states that "store switching is a reality for retailers with 85% of consumers visiting more than 1 store in a 4 week period".² This report also notes that "over a third of shoppers visit specialty fresh outlets most often to buy their fresh produce",³ illustrating the strength of non-supermarket stores in providing a competitive fresh produce offering.

Indeed, even Metcash's second submission presents data which supports the prevalence of cross-shopping. In a submission that specialty retailers are not part of the relevant market, the chart presented actually illustrates that 50% of consumers had visited a fruit and vegetable shop in the previous week, thus lending support to the proposition that supermarkets compete with specialist fruit and vegetable stores for customers.⁴

Competition among supermarkets and other retailers is also illustrated at the retailer level, as evidenced through the reactions of retailers to changes in other retailers' prices via shelf price changes or promotional activity. Woolworths itself regularly price monitors not only supermarket rivals but also other retailers selling grocery products, and responds through price matching.

Indeed, the commercial reality of fruit and vegetable stores, bakeries, delicatessens and butchers existing next door to Woolworths, Coles or IGA stores logically necessitates monitoring of these competitors' prices in order to stay competitive.

¹ Woolworths' public submission to the ACCC Grocery Inquiry (14 March 2008), p 28-30.

² AC Nielsen, "Shopper Trends 2008 Australia – Executive version", p 19.

³ AC Nielsen, "Shopper Trends 2008 Australia – Executive version", p 85.

⁴ Metcash's second submission, p 27 (drawing on data from AC Nielsen, Shopper Trends 2008).

2.2 Unrealistically restricting the market leads to inaccurate analysis of the grocery industry

For the reasons outlined above, a market definition restricted to only other supermarkets, and which excludes competitors such as smaller independent supermarkets, grocery stores, specialty fresh food stores and convenience stores, would not accurately reflect commercial reality and would not allow accurate analysis of competition dynamics within the grocery industry.

3 Market concentration

3.1 One stated focus of the Grocery Price Inquiry is on product categories

Woolworths understands that the Commission has chosen to focus the Grocery Price Inquiry on specific retail grocery product categories. These categories include packaged food, frozen food, fresh meat, fresh fruit and vegetables, dairy products, bakery products, delicatessen items and packaged non-food items.⁵

Woolworths considers that such an approach is an appropriate way to analyse the grocery industry since it:

- recognises the reality that consumers shop for products at a range of retailers;
- does not artificially restrict the concept of “the market” on the basis of certain categories of retailers;
- recognises that these separate product categories together make up a greater whole; and
- recognises that the concentration of retailers within a specific product category does not represent the “market share” of that retailer across the whole industry.

3.2 Relevance of market concentration figures

An analysis of market concentration figures provides a snapshot of a market, which can be a helpful starting point for competition analysis. However, market concentration is only a static measure, and does not give meaningful insight into a market’s competitive dynamics. As the Commission states in its Draft Merger Guidelines:⁶

...market concentration is not determinative in itself. For example, firms can gain a high market share by adopting a more efficient technology, lowering costs and reducing prices. In such cases, high levels of market concentration do not necessarily reflect the existence of market power.

Accordingly, market concentration figures, as stand-alone figures, are not definitive. As they are static, they do not take into consideration the dynamic nature of markets. Furthermore, they are not an outcome of market power, but are instead an outcome of competitive tension and competitive efficiencies.

⁵ Issues Paper: ACCC inquiry into the competitiveness of retail prices for standard groceries (11 February 2008), p 7.

⁶ Australian Competition and Consumer Commission, “Merger Guidelines (draft)”, 2008, paragraph 6.7.

It is competitive efficiencies that shape market structure and market conduct, which manifest in innovation, quality of production, competition for location, amenities and price competition. Accordingly, the focus of any competition analysis should be on establishing whether competition is present, and if so, the form that it takes. Within the market for the retail sale of standard groceries, there is overwhelming evidence that the market is in fact competitive. One need look only to the ongoing innovation within the industry (eg Metcash's investment in its "IGA D>Fresh" division),⁷ the successful entry and growth of new competitors (eg ALDI) and strong price competition among retailers for evidence of this.

3.3 Sales share by department

In order to assist the Commission to better understand the grocery industry, Woolworths has commissioned industry experts Pitney Bowes MapInfo to estimate Woolworths' own share within broad product categories.

Woolworths' estimated sales share figures were disclosed to the Commission during the public session of Woolworths' hearing on 19 May 2008, and appear within the publicly available transcript of the hearing.⁸ They are as follows:

Table 1: Woolworths' estimated department share figures (2008)

Department	Estimated sales share for national specified departments (%)
Meat	30.11
Produce (fresh fruit and vegetables)	26.16
Groceries	32.80
Deli	30.58
Seafood	25.77
Bakery	23.03
TOTAL NATIONAL SALES SHARE	30.77

3.4 The "80% market share" and its limitations

Given the above discussion, it is important to acknowledge that the suggestion⁹ that Woolworths and Coles collectively have an 80% share of the market has limitations.

⁷ See for example "Metcash – Company results, financial year ending 30 April 2008", 3 June 2008, p 21. Accessible online at http://www.metcash.com/site_files/s1001/files/June_0308_ASX_Ltr_re_CEO_Presentation.pdf.

⁸ Australian Competition and Consumer Commission, Transcript of grocery price inquiry hearing, Melbourne Central Tower, Monday 19 May 2008, p 35. Accessible online at <http://www.accc.gov.au/content/item.phtml?itemId=814382&nodeId=a6795e7b27ec29351659579d43fa8cff&fn=Public%20Transcript%20of%20Proceedings%E2%80%9494Melbourne%2019%20May%202008.pdf>.

Rather than representing Woolworths and Coles' share of the entire grocery industry, this figure, sourced from AC Nielsen, relates only to dry packaged groceries. In Woolworths' view, this figure is not appropriately described as a "market share". Confusion has arisen because of a lack of understanding about the limitations of this data.

Further, AC Nielsen acknowledges these limitations.

The suggestion that Woolworths and Coles collectively have an 80% share of the market is limited for the following fundamental reasons:

- AC Nielsen scan data is generally based only on dry packaged groceries.¹⁰ This category is but a narrow component of the grocery industry to which the Grocery Price Inquiry's Terms of Reference relate. Furthermore, given the range of product categories that the Issues Paper states are of interest to the Inquiry and the different retailers participating in the sale of different categories of products, it is not reliable to assume that the category of dry packaged groceries can be used as a "proxy" for the entire grocery industry;¹¹
- AC Nielsen notes that scan data is collected for only a limited range of products, and in some cases is based on estimates (ie HomeScan data);¹²
- Given that AC Nielsen's ScanTrak data for Woolworths, Coles, Franklins and some of the independents is based on point of sale (**POS**) data, and AC Nielsen itself states that POS data is not suitable for measuring retail share of trade, it is difficult to see how these data can be cited as being definitive of any sort of "market share";¹³ and
- AC Nielsen's data is obtained only from some outlets, resulting in a tendency to over-report the "share" held by those that are more represented in the survey.¹⁴

3.5 Estimated market share figures across the grocery industry

Woolworths estimates its market share nationally within the grocery industry for 2006/07 to be 30.77%. This estimated market share figure, calculated by Pitney Bowes MapInfo, was provided to the Commission during the public session of Woolworths' hearing on 19 May 2008 and appears within the publicly available transcript of the hearing.

Woolworths' estimated market share figures for other retailers were also publicly disclosed during the hearing, and are set out in the table below:

⁹ See for example Metcash's second submission to the Grocery Inquiry (11 April 2008), p 22; NARGA's first submission to the Grocery Inquiry (22 February 2008), p 14.

¹⁰ AC Nielsen collects two sources of data: **ScanTrack**, which records only packaged barcoded grocery sales (ie excludes significant categories such as fruit and vegetables) from supermarkets and grocery stores including Woolworths, Coles, Franklins, some independents and ALDI sales (based on HomeScan data); and **HomeScan**, an in-home scanning panel for a sample of 10,000 shoppers who scan packaged and fresh food brought back to the home. The robustness of HomeScan data therefore depends on the reliability of the participating shoppers.

¹¹ Indeed, Metcash's second submission acknowledges this at p 14 by noting that the "80%" figure refers to "grocery retail market shares (dry/package goods only) for Woolworths and Coles, as calculated by ACNielsen, Parliament of Australia Joint Select Committee on the Retailing Sector, 1998".

¹² See footnote 10 (above), which explains the basis on which HomeScan data is collected.

¹³ AC Nielsen, ShopperTrends 2006, "A comprehensive study of the Australian grocery shopper, prepared for the ACCC" (March 2007), p 8.

¹⁴ See footnote 10 (above), which explains the retailers from which data is obtained.

Table 2: Estimated market share figures for take-home food and grocery retailers (2006/07)

Participant	Share (%)
Woolworths	30.77
Coles / Bi-Lo	22.76
Metcash	16.64
ALDI	2.84
Franklins	1.09
Mass merchants (including discount department stores; department stores)	1.64
Other retailers selling food (butchers, bakers, convenience stores, delicatessens etc – excludes takeaway food and restaurants)	24.25

Importantly, the market share figure estimated for Metcash by Pitney Bowes MapInfo (16.64%) is roughly equivalent to Metcash's own stated market share figure for the period of 18.1%.¹⁵ This suggests that the basis on which the estimated market share figures have been derived is sound. It also suggests that parties who have otherwise overstated the magnitude of Woolworths and Coles through citing the "80% market share figure" themselves recognise the limitations in doing so.

¹⁵ See Metcash's second submission to the Grocery Inquiry, p 4. Accessible online at [http://www.accc.gov.au/content/item.phtml?itemId=823296&nodeId=c76c69f6933ad03ebef785f412e21e33&fn=181%20\(late%2011%20Apr\)%20-%20Metcash%20\(sub.2\)%20\(74%20pages\).pdf](http://www.accc.gov.au/content/item.phtml?itemId=823296&nodeId=c76c69f6933ad03ebef785f412e21e33&fn=181%20(late%2011%20Apr)%20-%20Metcash%20(sub.2)%20(74%20pages).pdf).