



23rd February 2017

Australian Competition and Consumer Commission
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CANBERRA ACT 2601
dairyinquiry@accc.gov.au

AACS submission re: ACCC Inquiry into the Australian Dairy Industry

To whom it may concern,

On behalf of members of the Australasian Association of Convenience Stores (AACCS), the peak body for the convenience industry in Australia, we make the following submission to the Australian Competition and Consumer Commission (ACCC) in response to the Inquiry into the Australian Dairy Industry.

Firstly, the AACCS wishes to thank the ACCC for its acceptance of our submission in this analysis phase of the Inquiry.

Convenience stores are a staple of local communities in Australia and milk is a staple of Australian family life. It's a product our members have always provided to consumers – some stores in our industry were once known as 'milk bars' – and it continues to be an important category for convenience stores, not only as a product in and of itself, but also as a driver of additional sales.

But the supermarket price wars and excessive discounting of dairy products such as milk have had a dramatic and, the AACCS submits, an anti-competitive impact on the market.

The channel shift from small businesses to the major supermarkets that has resulted from this heavy discounting campaign has contributed to the difficulties of many small businesses.

The AACCS acknowledges the disastrous impact the extreme discounting has had on the devaluing of milk and the consequential impacts this has had on dairy farmers and producers in Australia.

In recognition of the Terms of Reference and the Inquiry's responsibility to evaluate the effects of dairy industry trading practices up the supply chain, our submission is focused on the negative impacts on the convenience channel, including suppliers and retailers.

The AACS welcomes the opportunity to provide our unique perspective on this issue as the Inquiry progresses. Please don't hesitate to contact me should you require anything further.

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About the AACS

Established in 1990, the Australasian Association of Convenience Stores (AACS) is the peak body for the convenience industry in Australia.

Nationally, our industry employs over 40,000 people in over 6,000 stores. The majority of these stores operate as family run businesses, often under licence or franchise agreement, or independent ownership. They regularly employ family members and people from the local communities in which they operate.

The AACS represents the interests of these small businesses; their owners, staff, suppliers and customers.

The convenience industry in Australia was valued at approximately \$18 billion in 2015 according to companies contributing to the *2015 AACS Annual State of the Industry Report*. This report contains the most comprehensive information available on the convenience industry in Australia and we would be happy to provide a copy.

As an Association we enjoy strong ties with our international counterparts including the convenience stores associations in the US, Canada, the UK and New Zealand. We also visit similar stores in South East Asia to keep abreast of changing or emerging trends.

Supermarket price wars: small business casualties

It is not an exaggeration to say that the heavy discounting and price wars on staple items like milk have contributed to the difficulties of many small businesses.

It is impossible for the typical convenience store, with respect to the cost of doing business, to sell milk for \$1 per litre. It is not financially viable for our members to sell a product at below cost purely to stem channel shift to the major chains.

Our members therefore miss out on important sales of milk and other staples subject to these anti-competitive tactics from the major supermarket chains. They also miss out on additional sales and impulse purchases which are a significant part of their businesses.

Where milk once accounted for approximately 6% of an average convenience store's sales, that figure today, is approximately 2.1%¹.

Similar impacts have resulted from the excessive discounting of bread, which once contributed 3% of a typical convenience store's sales but today contributes just 0.6%.

This dramatic loss of market share has been shifted to the two major supermarket chains. Their unmatched buying power and ability to offset discounts in key categories like milk against their many other product categories has created an operating environment bereft of fair competition.

It's not just convenience stores, the majority of which operate as small family run businesses, often under licence or franchise agreement, but also suppliers which suffer.

The excessive discounting of milk has devalued milk as a commodity. Through their anti-competitive tactics, the major supermarkets have created an environment where consumers are accustomed to below cost milk.

This places them in an unfairly powerful position to access greater margins in their negotiations with suppliers, being overwhelmingly the vehicle for consumer purchases of these products.

It is a gross misuse of market power.

The major supermarket chains have shown they are willing and able to dictate wholesale price structures and unfairly skew the traditional supplier/retailer balance of power.

Interestingly, the devaluing of milk as a result of the supermarkets' anti-competitive tactics has affected its price at their own branded convenience stores. Where once Coles and Woolworths service stations operated separately from a price perspective to their respective supermarkets, the \$1 per litre milk offer is now typically included in the majors' convenience offering too.

¹ AACS State of the Industry Report, 2015

While this exacerbates the channel shift away from small businesses and independent retailers, it also reinforces the devaluing of milk – and by extension the dairy industry - in the minds of consumers.

As recently as February 2017, there are signs the below cost milk price campaign is undermining the businesses of those responsible for orchestrating it. For instance, the online home delivery price of 1 litre milk at Woolworths as at 22 February 2017 was \$1.25, while 2 litres remained \$2.

If the excessive discounting of milk is no longer even sustainable at the major supermarket chains, it is clearly unsustainable for small businesses and independent retailers struggling to compete.

Consumers paying more, but a backlash is developing

Marketed as benefitting consumers, the flooding of home brand lines on supermarket shelves, including \$1 per litre milk, is actually having a detrimental impact on the price of groceries.

Based on anecdotal evidence provided by other industry associations, the AACS understands prices of other supermarkets products, including dairy lines, have risen to offset the margins foregone at the expense of the \$1 per litre milk campaign.

Heavily discounted offers on products such as milk, subsidised by the major chains against their many other product categories, might have seemed a win for consumers at the start, but the long term outcome is the further erosion of competition in the marketplace and increased plight for small retailers.

If allowed to continue with these anti-competitive practices, the already dominant market share of the supermarket duopoly will continue to grow, forcing more and more small businesses out of business and robbing consumers of choice.

It's more than just a retail issue, of course. In the case of milk, it's the farmers, processors and deliverers which will suffer further if supermarkets are permitted to continue to exploit their buying power by subsidising heavy discounts on their own home branded items for the purpose of crushing smaller competitors.

Encouragingly, more and more consumers are waking up to the major chains' misuse of power.

Those who can afford to are increasingly choosing to support independent suppliers and branded milk products.

Media reports have shone the spotlight on the suffering of many in the dairy industry as a result of the price wars.

However, those consumers willing to pay extra for non-supermarket home brand milk are typically still making their purchases from the major chains.

In many ways, the damage has been done. Only through a focus on improving the competitive landscape can a more level playing field be achieved.

The AACS believes there is appetite among consumers for the ACCC to hold the major chains to account for their misuse of power.

Conclusion

The AACS, as the representative and voice for convenience suppliers and retailers across the country, emphasises the significant negative impact that the \$1 per litre of milk campaign has had not only on the dairy industry, but also on the many small businesses in our industry.

The misuse of the market power enjoyed by the major supermarkets has exploited many businesses along the entire supply chain and has contributed to the closure of many convenience stores and independent retailers.

For this reason, the trading practices employed by the major supermarkets can only be regarded as an economic failure and as fuelling an anti-competitive market.

The AACS urges the ACCC to consider the long term impacts of these anti-competitive tactics on businesses up the supply chain and on consumers, who will invariably pay more as competition erodes further.

We welcome the opportunity to assist the ACCC throughout the Inquiry and thank you for your consideration of our submission.

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