



## Submission to the ACCC Supermarkets Inquiry

### Executive summary

The ACCC Supermarkets Inquiry is timely given the mounting cost-of-living pressures on consumers, and concern about prices achieved at the farmgate versus the supermarket checkout.

Alfred E Chave has over 100 years' experience in the fresh produce industry, and we value the opportunity to explain how the structure of the market has changed over the past 30 years, and how it impacts participants in the supply chain.

In the 1990s, a pivotal shift occurred in the industry when Australia's major supermarkets expanded the direct supply of produce from farmers, bypassing traditional wholesale markets.

While this has been transformational for some growers and the supermarkets, the strategy has concurrently narrowed growers' market engagement and reduced their presence in the traditional wholesale channel. There are now concerns of a power imbalance between the major supermarkets and their suppliers, which is impacting growers and consumers alike.

Meanwhile, owing to their complex and decentralised nature, traditional wholesale markets have struggled to embrace digital technology and they remain an opaque channel for growers to sell their produce.

Just as financial stock markets underwent a digital transformation, the entire fresh fruit and vegetable supply chain would also benefit from digitisation. This Inquiry provides an opportunity for us to demonstrate how an online digital trading platform can improve transparency and empower growers with real-time data. This would enable them to be more efficient in production, more competitive, and more resilient to market dynamics, economic trends, extreme weather, and natural disasters.

Based on our industry knowledge and operational experience, we believe the use of an online digital solution is fundamental to transforming transparency in transactions and improving outcomes for all stakeholders in the supply chain – from growers through to consumers.

Current wholesale market supply chains are dated. Participants are part of a vast, decentralised network where everyone relies on each other to interact manually and independently, several times on a day, to communicate opaque information that informs critical business activities.

Crucially, there is no immediate data-sharing of actual price and volume. At the time of sale, growers are given a price for their product, but they may not know the actual price until 7-14 days later when they receive a sales remittance from their wholesaler.



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The opaque nature of communication, along with this delay in critical business information, is not conducive to building trust and cooperation between participants. Critically, it is virtually impossible for farmers to have detailed insight into actual supply and demand, and it undermines their ability to make informed business decisions to support and drive efficiency in their own business.

## History

Brisbane's first central market for fresh produce began in 1868 in a shed on the city's riverfront. After various relocations within the city, in 1964 the Queensland Government moved the Central Market to a less congested location in Rocklea, where the Brisbane Markets remain today.

In 2002, prompted by industry, the Queensland Government agreed to sell the Brisbane Markets via an open tender process to Landacq Limited, which was chaired by Tony Joseph AM. Following the sale, he was appointed Chair of Brisbane Markets Limited where he successfully led the organisation until his retirement in 2021. Today, the site has grown to 77 hectares with over 40 buildings and 150 businesses working onsite. Each year, over 700 million kilograms of fresh produce valued at over \$1.2 billion passes through the gates.

From 1975 to 2011, Tony Joseph AM was Managing Director of Alfred E Chave Pty Ltd (AEC), an established business with a successful, 100-year history of trading in the Brisbane Markets. AEC continues to thrive in the hands of his sons Anthony and Paul.

The Joseph Family's commitment to the industry over the past 50 years is core to their values and success. In January 2021, Tony was honoured as a Member of the Order of Australia (General Division) in recognition of his passion, dedication, service and commitment to the wholesale fruit and vegetable industry and to Rugby League.

While the Brisbane Markets site has expanded over the years, little has changed in the way wholesale produce is sold there or at the four other terminal fresh fruit and vegetable markets in Sydney, Melbourne, Adelaide and Perth. It remains paper-based, subject to time delays and human error, and stifles efficiency, innovation and true competitiveness.



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## Geography, proximity and market share

Given Australia's vast land mass and diverse climate, the production of fresh fruit and vegetables is concentrated in regional areas, varying by season, while 78% of consumers are concentrated in metropolitan areas on the Eastern Seaboard.

The majority of fresh produce is channeled through the five terminal fresh fruit and vegetable markets. These traditional, central hubs for buyers and sellers continue to serve a crucial role in Australia's fresh produce industry. Each market has billions of dollars invested in state-of-the-art cold storage and refrigeration infrastructure, making them essential nodes in the supply chain for consolidating and distributing fresh produce across the country.

While competition may differ between metropolitan, regional and remote areas, there is a clear and direct correlation between the remoteness of a community, its population, and the cost of fresh produce. Having travelled extensively around Australia over the past 50 years to visit growers, the directors of Alfred E Chave have observed that most regional towns now have a Coles and/or Woolworths store along with an independent retailer.

This is a direct result of the major supermarkets' investment in the vertical integration of their supply chains. Their state-of-the-art infrastructure and supply chains are extremely efficient and provided regional communities with much greater choice in the cost and quality of fresh produce.

## The fresh fruit and vegetable supply chain

To understand the challenge for Australia's fresh fruit and vegetable growers and their relationship with the major supermarkets and the supply chain, it is important to appreciate the evolution of this supply chain over the past 50 years.

Australia's booming population, coupled with advances in farming practices, mechanical optimisation, cold-chain and refrigeration, paved the way for increased production and significant improvements in food quality and extension of shelf life.

This was followed by improvements in refrigerated freight and logistics, which enabled the movement of goods with increased efficiency and reliability while maintaining the freshness and shelf life of produce.

More recently, the proliferation of technology, devices and connectivity, have streamlined operations and allowed producers to further grow and scale their operations. Together, these advances underpinned the growth of the industry while supporting population growth in Australia.

Over the past 30 years, Australian supermarkets have pursued direct supply arrangements with growers and refined their business models to scale effectively, driving economies of scale and

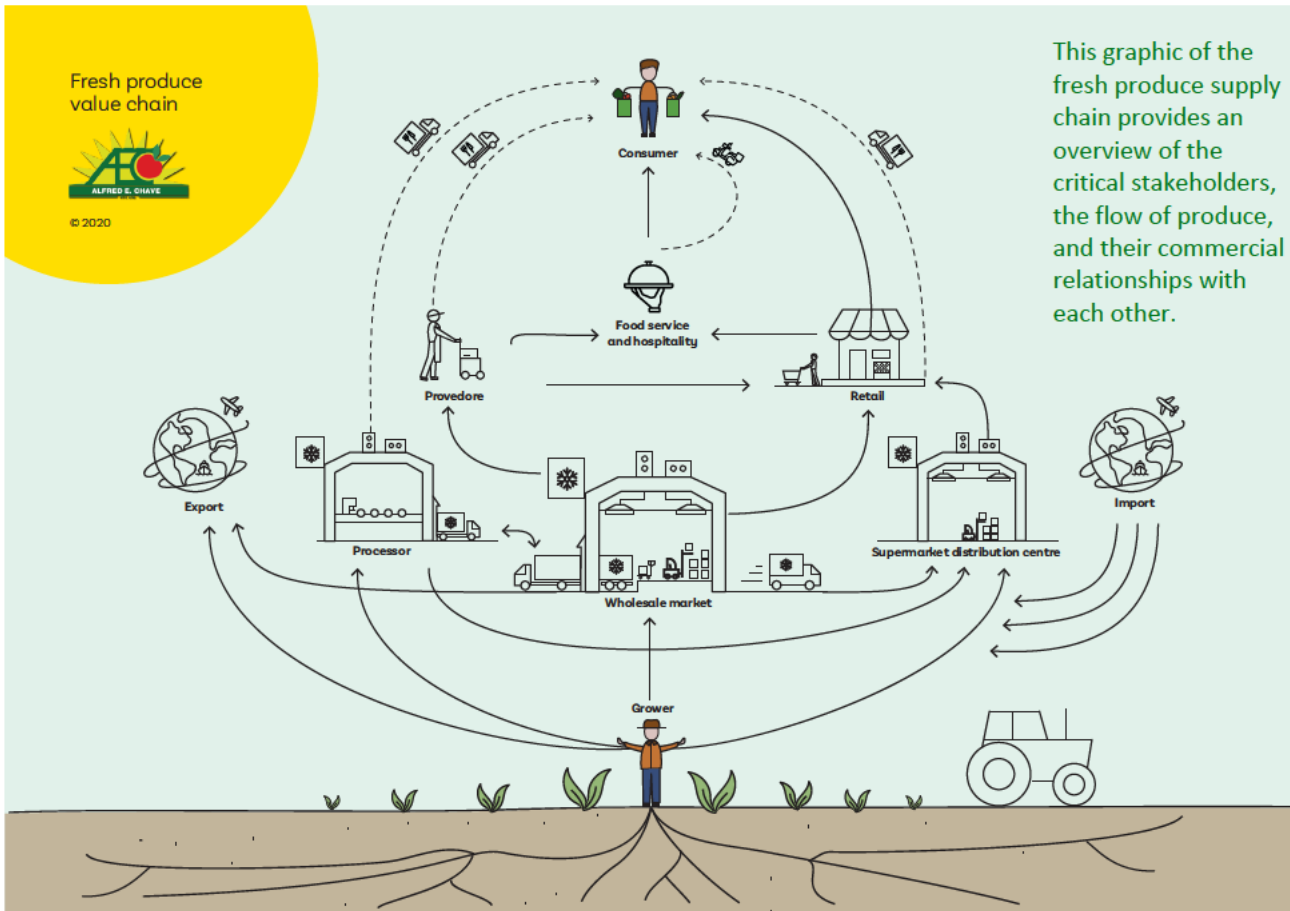
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maximising efficiency and profitability. This strategy has focused on optimising their overall supply-chain management.

For several decades, this resulted in major supermarkets being able to offer competitive prices to consumers while also ensuring value creation for suppliers. However, in the past 5 to 10 years, the balance of power has shifted to supermarkets as some growers have become too reliant in supplying the major supermarkets.

## Market structure

In serving supermarkets, Australian growers have three main options to sell their fresh produce: direct supply to major supermarkets, indirect supply via a wholesaler, or a mix of both.

### Direct supply

In the 1990s, a pivotal shift occurred in the industry when Australia's major supermarkets expanded the direct supply of produce from farmers, bypassing traditional wholesale markets.

This apparent unfettered demand from major supermarkets led to small family farms expanding or consolidating into much larger operations with advanced agricultural production and practices. Today, while there are fewer farms, they are considerably larger and more efficient, and are locked in fierce competition to secure orders and maintain business from the major supermarkets.

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The early days of direct supply were transformational for growers. The supermarkets provided them with programmed supply agreements that outlined supply volumes and pricing. This gave growers much higher confidence in determining their production levels and schedule.

For the first time, growers also had surety on price as opposed to their interaction with the traditional wholesale process of loading a truck, sending it to market and hoping for the best price.

This evolution towards direct-supply relationships underscored broader industry transformation. It incentivised efficiency, scale and innovation to meet the demands of the new direct-market channel, and growers often were in a materially more advantageous position than those who continued to rely on traditional wholesale markets.

Direct-supply growers tailored their operations and product offerings closely to the specifications and demands of their supermarket partners. This deepening focus prompted growers to dedicate larger volumes of their production exclusively to these retailers, optimising their production for efficiency, quality and consistency.

However, this strategy has concurrently narrowed growers' market engagement, reducing their presence in traditional wholesale channel. This has raised concerns of a power imbalance between the major supermarkets and their suppliers.

This reliance on a limited customer base has increased growers' vulnerability. Their fortunes have increasingly become tied to the policies, preferences and business health of their major retail partners, leaving them exposed to the risks of market fluctuations and changes in retail strategy.

### **The traditional wholesale market system**

While the physical handling and distribution of fresh produce is extremely efficient, the wholesale market sector suffers significantly in terms of transparency, certainty and technological integration. The decentralised supply chain is characterised by complexity, opaqueness, inefficient flow of information, and lack of real-time data access for growers.

Put simply, the system is dated. All wholesale fresh produce supply-chain participants – from farmers to consumers – are



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part of a vast, decentralised network where each player depends on each other's actions, honesty and reliability.

For wholesalers, time-consuming, daily manual tasks include quoting and negotiating prices and volumes with growers over the phone, receiving produce from growers, advising buyers of available produce, matching available stock to orders, hand-writing order transfers, and then entering orders into a computer program. All this information is received from multiple sources, and primarily relies on conversations rather than actual data shared in real time.

Remarkably – *in 2024* – there is still no immediate data-sharing of price and volume. A grower may not learn the actual sale price of their produce, or the volume sold, until 7 to 14 days after the transaction. This delay is not conducive to building trust and cooperation between participants. It is also virtually impossible for farmers to have timely, detailed insight into actual supply and demand, which undermines informed decision-making and operational efficiency.

This opacity and the perceived lack of a clear value contribution from wholesalers have fostered a sense of distrust, making it easier for wholesalers to be seen as a disproportionate cost or exploiting their position.

Unlike supermarkets, which offer clear, structured deals, the traditional wholesale channel's ambiguity has made direct supply to supermarkets more appealing for growers seeking stability and transparency.

## Competitiveness – size and location

### Smaller retailers

Small, independent fruit and vegetable retailers procure high-quality produce at competitive prices via the direct relationships they have developed with wholesalers.

Depending on location and socioeconomics, success in fresh produce retailing is focused on price, quality and the subsequent value this represents to customers. Sourcing the appropriate produce at the best price to fulfill the expectations of customers in a highly competitive space is very nuanced.

Industry markup in fresh fruit and vegetable retailing in Australia is roughly 100% on the wholesale price. This reflects underlying business expenses plus the complexity of selling highly perishable produce. This markup is not fixed, and to remain competitive and profitable, retailers adjust this margin across the lines they sell throughout the year.

### Major supermarkets

Over the past 30 years as major supermarkets expanded direct supply from producers, they were not seeking to save money per se. Rather, they were focused on enhancing and optimising the security and efficiency of their supply chains while passing on higher returns to growers.

During this period, major supermarkets vertically integrated their own supply chains and now undertake most of the supply-chain functions that were previously performed by merchant suppliers in wholesale markets, including freight and logistics, warehousing, consolidation and distribution.

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Having established and developed strategic distribution centres, major supermarkets now receive products straight from the producers, entirely bypassing the traditional wholesale markets by directly negotiating with growers and forming their own commercial agreements with them.

### **Regional and remote retailers**

Most regional towns in Australia now have a major supermarket, along with an independent retailer. However, regional and remote retailers of all sizes face the increased challenge of maintaining fresh produce for longer as their proximity to the major markets may limit their delivery to once or twice a week. This is reflected in higher logistics fees which may represent a higher markup and impost to regional consumers.

## **Trading terms and practices – shifting buyer power**

Trading terms and practices in the fresh produce supply chain have significantly evolved over the past 30 years. Formal, direct supply arrangements from the major supermarkets offer clear terms on price, quality requirements, supply volumes and favorable payment terms. This fosters a degree of stability and predictability for growers. Conversely, the traditional wholesale market, with its less formal trading arrangements, has been challenged by this shift.

Initially, direct-supply arrangements between major supermarkets and growers were relatively straightforward. Agreements were characterised by minimal terms and specifications as supermarkets were slowly developing their own capabilities and systems.

To entice growers and secure a stable supply, supermarkets offered competitive pricing that provided higher returns than were achievable in the wholesale markets, leading to rapid expansion among growers who were keen to tap into this lucrative opportunity.

However, as supermarkets grew and evolved, they enhanced their own supply-chain efficiencies with significant investments in their supply chains, distribution centres, advanced technology systems, food safety and quality systems,.

Over time major supermarkets have slowly gained more control over their supply chains, constantly evolving and driving efficiencies to reduce their own costs. In turn, growers have become highly specialised to meet the requirements of the major supermarkets. However, growers have also become increasingly dependent on a concentrated customer base which has decidedly shifted bargaining power towards the supermarkets.

This has resulted in lower prices received by growers, increased transfer of risk or costs, and decreased incentive for investment and innovation along the fresh produce supply chain.

In some instances, growers with unique or highly valued products or brands in demand by consumers have been able to exercise countervailing bargaining power.

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The national discussion about the role of private label products, rebates, loyalty bonuses, promotional activities, and the capacity of industry codes of conduct to moderate some dimensions of buyer power, sheds light on a pivotal concern: The challenge in enforcing these codes effectively within a supply chain inherently lacking in transparency.



## Margins and price transparency in grocery supply chains

The fresh fruit and vegetable industry ranges from small family farms to large-scale corporate entities, encompassing myriad actors within the supply chain, each fiercely competing for profit in their own ventures. While competition is considered healthy in a free market, intense competition can undermine the stability of value and sustainable profit margins throughout the entire supply chain.

In the pursuit of profit within a highly competitive market, companies and stakeholders often undercut each other, paradoxically destroying value. This intense battle for greater market share can erode the core principles of sustainability and fair value distribution.

The concern about the difference between farmgate and checkout prices requires close examination of cost structures, transparency and pricing strategies throughout the supply chain. The

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ACCC's focus on understanding these dynamics is crucial in identifying factors that affect price, the perceived disparity, and the overall health and fairness of the supply chain.

The decentralised, fragmented and competitive nature of the supply chain tends to disadvantage primary producers who are often at the mercy of downstream stakeholders' activities. Given the perishable nature of fresh produce, there is an imperative to sell quickly. This exacerbates the issue as the value of these goods can decrease disproportionately fast and further squeeze producers' returns.

During the past 5 to 10 years, industry has faced an onslaught of uncontrollable cost increases, significantly impacting costs across the supply chain. These include rises in fuel, freight, chemicals, labour and electricity. Similarly, the current economic climate featuring rising interest rates and a tightening money supply, have markedly influenced profitability and margins at each level of the supply chain.

These challenges are set against a backdrop of continuous technological advancements, shifting consumer behaviours, and supermarkets' strategic efforts to streamline their supply chains for efficiency. These optimisation efforts come at a direct cost to primary producers who are squeezed by both rising operational costs and the pressure to meet the demands of their customers.

## The case for digital transformation

In 2017, Alfred E Chave developed a web-based online trading platform and app for wholesaling fresh fruit and vegetables. '[Phoenicia](#)' accurately tracks sales price and volume in real time and delivers it into the palm of growers via their mobile phones.

Our deep domain knowledge and the results we have realised in our operations prove that embracing this digital technology enables growers and wholesalers to operate more strategically. Sharing real-time data not only optimises business activities, it also enables all stakeholders to make faster, more accurate decisions, identify latent waste and deliver improved financial outcomes.



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Alfred E Chave has successfully operated its trading business on Phoenicia for the past seven years. During this time, it has achieved significant business improvements across the board and delivered better returns to its growers while reducing the overall cost to transact. The disconnect between grower supply and market demand is overcome when growers can see the sales process in real time.

The growers using Phoenicia report that accessing real-time sales data, along with sophisticated insights to demand, enables them to confidently make better-informed decisions in sales and in production planning.

Given the majority of Australia's fresh fruit and vegetables sales are still transacted through the traditional terminal markets, there is an urgent call for the horticultural sector to explore a digital solution for the central market system.

Such a move is not just about technological advancement. It is also about providing growers with the vital opportunity to diversify their off-take and mitigate exposure to a narrow customer base that currently dictates commercial terms. This paradigm shift offers a powerful solution to reclaim commercial power and ensure a more balanced, equitable market landscape.

Building on this critical need for change, Phoenicia demonstrates the transformative power of digital technology in connecting growers with real-time market dynamics.

Alfred E Chave's experience shows that digital adoption is now an option for fostering sustainable

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growth, efficiency and resilience across the fresh produce value chain.

By eliminating the disconnect between growers and market demand, it has supported a fundamental shift from a speculative business model that results in growers being price takers to having a direct understanding of actual demand through the wholesale market. This has provided growers with the opportunity to strengthen and grow their businesses through these relationships.

This digital transformation represents more than improving financial outcomes; it is a collective step towards building a stronger, interconnected fresh produce value chain where every participant is equipped to thrive amidst challenges and change.

Alfred E Chave's success is a clear testament to the untapped potential that lies in embracing digital innovation. To our government, policy makers and industry leaders: It is time to acknowledge technology as not just an enhancement but as the foundation for the future success of our industry.

Together, the fresh produce industry needs to challenge itself and move toward a more informed, efficient and sustainable industry. This will secure prosperity for all stakeholders and ensure the continued, sustainable production of one of the life bloods of our great country.

## Conclusion

As Australia navigates the challenges and opportunities within our horticultural supply chain, it is imperative we leverage the knowledge and commitment of industry leaders and stakeholders.

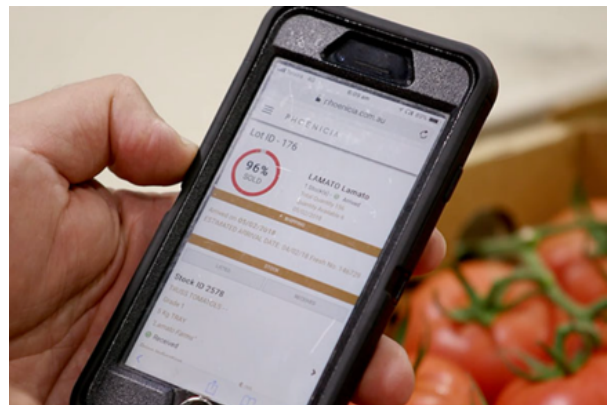
The challenges laid out in the *ACCC Supermarkets Inquiry Issues Paper*, alongside the insights drawn from Alfred E Chave's experiences and the capabilities demonstrated by the successful design, development and deployment of the Phoenicia online trading platform, underscore the urgent need for a concerted effort to modernise the fresh fruit and vegetable supply chain.

The Joseph Family's legacy, cultivated through generations of involvement in the fresh produce industry, and the proven success of Alfred E Chave in adapting to and leading industry shifts, reinforce their credibility and trustworthiness as thought leaders at this time.

## Phoenicia – an online digital solution

The previous Federal Government funded industry associations to develop an online, web-based marketplace to create a more a transparent supply chain. Although this did not eventuate, Alfred E Chave privately developed the technology to improve its own operations and to provide a lasting legacy to the industry.

With more than 100 years' combined experience in the fresh produce industry and a clear understanding of the need to innovate, fourth-generation fruiterers Anthony and Paul Joseph, along with their father, Tony Joseph AM, made the



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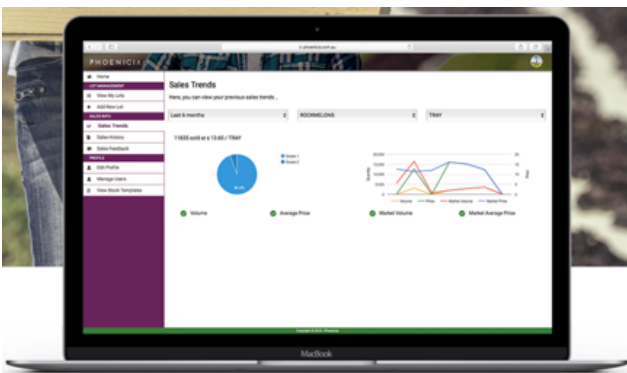




bold decision to design and develop a digital trading platform.

In 2018, Alfred E Chave moved its fresh produce wholesale business to the 'Phoenicia' digital trading platform and provided online access to its suppliers and buyers.

Phoenicia consolidates sales information, tracks marketing performance with full price transparency and communicates with supply-chain participants in real time. This arms businesses with the information to dynamically manage sales and marketing. It also identifies latent waste, enables better-informed decision making, and facilitates operational adjustments that have delivered cost savings of greater than 30% to Alfred E Chave.



The platform provides participants with immediate insights into market demand, pricing and supply-chain dynamics. This enables them to optimise production and distribution, lower operational costs and enhance overall efficiency. A shift to a digital platform returns value to all involved and fosters a more sustainable, trusting and responsive fresh produce supply chain.

Tony Joseph AM, Chairman of Alfred E Chave, said: "I can say with confidence that our decision to innovate and develop pioneering technology has significantly revolutionised our business. This has occurred at a pivotal moment as industry counterparts seek viable strategies for sustainable growth and transformation."

### Phoenicia case studies

The following case studies of two suppliers involved in stone fruit and bean production highlight the profound benefits of digital adoption.

Both suppliers improved communication, eliminated pricing ambiguities and enhanced market intelligence. Real-time sales data enabled them to quickly make informed decisions, optimise logistics and anticipate market trends, thereby achieving better returns and operational efficiencies.

#### Cutri Fruit

Cutri Fruit, one of the largest stone fruit growers in Australia, began using Phoenicia in 2018. Prior to Phoenicia, like all growers, Cutri Fruit would call a variety of wholesalers to get a price indication for their produce before deciding who to engage. A typical range could be, for example, \$20 to \$24, which is a significant difference for a grower. These offers were all verbal and jotted down on paper. Actual sales results came 7 to 14 days later, which were then correlated with notes taken during phone calls up to a fortnight earlier. The entire decision-making process, for growers and wholesalers, was driven by speculative market information from multiple sources at any given time.

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The move to the Phoenicia digital sales platform has resulted in real-time price certainty, built trust in Cutri Fruit's relationship with the merchant, and provided the confidence to optimise and streamline daily freight and logistics arrangements for their fresh produce.

- **Returns** - Better understanding of price and volume trends ahead of time; better able to maximise returns.
- **Volume** - A doubling of the volume of fruit sent to the merchant.
- **Data** - During Covid, real-time access to data enabled Cutri Fruit to quickly redirect some lines of produce to alternative markets.
- **Insights** - Access to improved market intelligence enabled analysis of demand down to the customer level, enabling an increase in sales volume and price on specific lines of fruit.

*Dion Santamaria – General Manager, Cutri Fruit*

### **Rosengal Queensland**

"The benefits of having access to my sales information have been profound for our business. I can see what stock is sold before it gets to market and for how much. Conversely, I can monitor the velocity of sales and if sales slow and there's considerable stock on hand, I have the ability to alter my harvest allowing me to react and control what I might harvest in the coming days. My ability to make informed decisions in real-time essentially gives me greater control and helps me make decisions that ultimately improve my returns."

*David Galati, Rosengal Queensland*

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