

Our ref: RT:2201450

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Dear Anthony and Penny,

Bakers Delight Holdings Limited - Application for authorisation AA1000650 – Request for information

We refer to question 6 in your letter dated 14 September 2023 in relation to the interim and final authorisation application (**Application**) sought to be lodged by Bakers Delight Holdings Ltd (**Bakers Delight**) with the Australian Competition and Consumer Commission (the **ACCC**).

For avoidance of doubt, Bakers Delight will be transitioning to the new POS system and will discontinue the use of the current POS system prior to April 2024. We will refer to concepts as previously defined in the Application.

We advise as follows:

Can you please provide further details as to how exactly the Proposed Conduct leads to efficiencies in supply for consumers when compared with the future without the Proposed Conduct?

1. If the Proposed Conduct is authorised then Bakers Delight Bakeries can select from five price tiers that will reflect 80% of current pricing strategies for each Promotion Discount.
2. It is further noted that not all Bakers Delight Bakeries deviate the price of Promotion Discounts, and Promotion Discounts account for only approximately **[CONFIDENTIAL]**% of total sales for a typical Bakers Delight Bakery. The Proposed Conduct will therefore have minimal impact on the pricing strategy of Bakers Delight Bakeries, so consumers should see minimal changes to the price of BDH Products and Promotion Discounts.
3. Consumers will receive the same or a better consumer experience when engaging with Bakers Delight Bakeries if the Proposed Conduct is authorised.
4. Irrespective of whether the Proposed Conduct is authorised, Bakers Delight's Information

Technology Service Team will need to create a new Promotion Discount Rule in the POS system for each price deviation which BDH or a Franchisee may want to select for a Promotion Discount.

- (a) Services rendered by Bakers Delight's Information Technology Service Team are directly chargeable to Franchisees via the technology services fee. The more work undertaken by this team, the higher the costs that could be on-charged to consumers by way of Bakers Delight Bakeries' decision to increase BDH Products and recoup the increased supply-side costs.
 - (b) At one extreme, the costs charged by Bakers Delight's Information Technology Service Team is greatest where Bakers Delight Bakeries are granted the unfettered ability to deviate the pricing of Promotion Discounts.
 - (c) At the other extreme, the lowest cost solution is to completely restrict the ability for Bakers Delight Bakeries to choose the price of Promotion Discounts.
 - (d) By engaging in the Proposed Conduct, Bakers Delight has considered the most optimal outcome for consumers because the five price tiers selected will reflect the majority of the current price deviations. This will minimise the chance that Bakers Delight Bakeries will change their current pricing strategy, whilst also reducing the work effort (and associated cost) of Bakers Delight's Information Technology Service Team to implement the coding of Promotion Discounts in the new POS system.
5. Furthermore, reducing the potential number of Promotion Discount Records in the POS system will ensure that the POS system is run at a lower cost, and avoid the need for increased costs of coding Promotion Discounts to allow Franchisee an unfettered ability to deviate prices being passed on to Franchisees and then consumers. If the Proposed Conduct is not authorised there is likely to be a degradation of system performance and consumers will experience a slower check-out process at the sales counter due to the slower processing speed of the POS system caused by the significant number of additional Promotion Discount Records in the database.

Bakers Delight have submitted that the Proposed Conduct will ultimately result in lower costs for Bakers Delight Bakeries and in turn for consumers. Please detail how the implementation of the new POS system will result in lower costs, specifically in the form of technology costs, both compared with the current system and to the new system but without the Proposed Conduct.

New POS system compared to current POS system

6. Franchisees have previously provided negative feedback to Bakers Delight on the current POS system, including encountering issues with reliability, performance and integration with other platforms used in Bakers Delight Bakeries.
7. The new POS system will be a significant improvement compared to the current POS system. The upgrades will amplify the operational efficiency of Bakers Delight Bakeries, which will increase the competitiveness of Bakers Delight Bakeries in the retail bakery market and allow for Bakers Delight Bakeries to offer competitive prices of BDH Products to consumers.
8. Features and benefits to the new POS system include the following:
 - (a) Global payment gateway

Bakers Delight conducted an extensive market evaluation when choosing the POS System supplier. The supplier selected is a well-known tried, tested and proven global supplier which provides cost effective integrated solutions

comparable to current costs which means Bakers Delight Bakeries do not have to increase their prices to meet additional costs.

The new POS system and integrated system will be used in the retail setting and online. Using the same platform across the franchise system will be more cost-efficient for the Bakers Delight's Information Technology Service Team than multiple solutions that are not compatible.

The new POS system will also provide a fully integrated payment solution for Bakers Delight Bakeries. This will reduce the number of steps required to process transactions and manage payments, and can allow for more payment options. These features will provide a more seamless check-out experience for consumers.

The new POS system will also automate the accounting process and therefore reduce the data entries collected. Data entry is a manual and laborious process, so any improvements to the efficiency of this process will substantially minimise costs to the Bakers Delight franchise system.

(b) Production and waste tracking

The new POS system introduces a feature whereby it can easily report the level of production and waste in the Bakers Delight Bakery. This feature means that Bakers Delight Bakeries no longer need to manually count stock and enter the end of day wastage into the POS system, as the system will track this throughout the day.

This will free up time of approximately 45 minutes every day, which can be re-allocated towards useful tasks such as servicing more consumers.

(c) UberEats integration

The new POS system will be integrated with UberEats and allow for BDH Product prices to be automatically loaded, rather than manually entered by employees.

The integration will reduce the number of steps that Bakers Delight Bakeries must do to accept UberEats delivery orders and streamline the entire process.

(d) Bakers Delight loyalty program integration

Data from the Bakers Delight loyalty program will be integrated into the new POS system. Customers are no longer required to call the Bakers Delight Customer Relation department if they wish to receive a refund because refunds can be processed through the POS system, which will reflect the consumer's loyalty points in their account.

9. The technology costs associated with the new POS system will be similar to the costs under the current POS system.

New POS system compared to new POS system without Proposed Conduct

10. If the new POS system is installed without engaging in the Proposed Conduct, then Bakers Delight Bakeries will have the unrestricted ability to deviate pricing of Promotion Discounts.
11. As outlined in paragraph 3.3(e) of the Application, assuming that there are 36 pricing deviations per Promotion Discount, up to **[CONFIDENTIAL]** new Promotion Discount Records will need to be set up in the POS system.

12. Bakers Delight's Information Technology Service Team will need to devote significant time and resources to set up the Promotion Discounts and Promotion Discount Records, as these records can only be set up manually. Every Promotion Discount Rule needs to be tested to ensure that it works as intended.
13. The costs associated with setting up the Promotion Discounts and Promotion Discount Records to facilitate the unrestricted ability to deviate pricing will be passed on to Franchisees by way of increase to their IT services monthly fee.
14. More "compute" resources are needed to be added to the POS System if the additional Promotion Discounts and Promotion Discount Records degrade system performance. Further costs associated with this will be directly charged to Franchisees again via an increase to their monthly IT services fee.
15. The increased costs in the form of increases to the monthly IT services fee will be passed on to all Franchisees, not only Bakers Delight Bakeries that deviate the price of Promotion Discounts. The increased costs will most likely lead to price increases of BDH Products to enable all Franchisees to recover their increased IT service costs.

How does Bakers Delight consider that each option is likely to affect costs for Bakers Delight Bakeries and therefore the prices for consumers (both in the short term and long term)?

16. Irrespective of whether the Proposed Conduct takes place or not, Bakers Delight's Information Technology Service Team will need to expend time and resources to install the new POS system which will increase the technology costs and fees payable by Bakers Delight Bakeries.

New POS system with Proposed Conduct

17. In the short term, Bakers Delight Bakeries will need to print new pricing labels if their current pricing does not align with one of the five price tiers introduced by Bakers Delight. This is an infrequent cost that is borne by Bakers Delight Bakeries, so it is unlikely to be passed on to consumers by way of increasing the price of BDH Products.
18. As discussed above, the price tiers proposed by the Proposed Conduct will capture 80% of all price deviations. The Proposed Conduct will not affect the pricing strategy of Bakers Delight Bakeries, so consumers should see minimal changes to the price of BDH Products and Promotion Discounts.
19. In the long term, the technology fees associated with the Proposed Conduct will be stable. The POS system is a long term solution not expected to be changed in the next 5 years. Bakers Delight's Information Technology Service Team will be required to undertake relatively minor work when new Promotion Discounts are introduced as it requires the team to manually set up and test the Promotion Discount Records. However, there may be efficiencies when seasonal Promotion Discounts are re-introduced (i.e. Christmas or Easter BDH products) as some of the Promotion Discount Records would have been previously programmed in the POS system and could be re-activated by Bakers Delight's Information Technology Service Team.

New POS system without Proposed Conduct

20. In the short term, BDH will need to devote more time and resources to install the new POS system and set up the Promotion Discount Records in the POS system compared to if the Proposed Conduct was permitted. Please see paragraphs 12 - 15 above.
21. It will be costly to permit Bakers Delight Bakeries with the ability to freely deviate prices in the long term.

22. Bakers Delight typically runs 12 major marketing campaigns each year and different Promotion Discounts apply to support these campaigns. Bakers Delight's Information Technology Service Team will be extremely busy during these periods as they will need to install many Promotion Discount Records for each price deviation of each Promotion Discount. These costs will be passed on to Bakers Delight Bakeries through higher technology fees.
23. If the time and cost involved with running the marketing campaigns is too onerous, then Bakers Delight may reduce the number of marketing campaigns that are introduced, or to reduce the number of Promotion Discounts offered. This outcome will be detrimental to consumers, as the price of Promotion Discounts are cheaper than purchasing the Individual Products separately.
24. Furthermore, the POS system will degrade faster and be slower to use given that there will be significantly more records (by way of a significant number of Promotion Discount Rules) due to the amount of records in the system. The POS system will therefore require more frequent maintenance and servicing, with these costs being directly chargeable to Franchisees via the IT services fee.

Please contact the writer if the ACCC would like any further information or have any further queries.

Yours sincerely



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