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## **Notification N95877 re Peter McInnes and KitchenAid appliances**

I refer to your Notification N95877 re Peter McInnes and KitchenAid appliances seeking to supply distributors on condition that the distributor will not sell the product beyond a particular territory. Peter McInnes also proposes to supply some nominated distributors on condition that they do not sell particular products, such as KitchenAid products, via the internet. The General Trader owns the Your Habitat chain of five specialty stores in Tasmania that have sold KitchenAid products for many years.

### **Retailer of KitchenAid appliances**

Your Habitat has assisted Peter McInnes build the brand of KitchenAid products in our stores, through product investment, staff training, excellent product knowledge, and ongoing product demonstrations, to establish the brand strength and attractiveness of the KitchenAid product to our customers for over 12 years and is a significant customer of Peter McInnes, particularly for the KitchenAid product.

Over this time, it has been our experience that Peter McInnes has been a tough but fair supplier to our business who has maintained a strict focus on ensuring that the 'ambassadors' (retailers) of their products (particularly KitchenAid) have conducted themselves to ensure that the Brand integrity that they have strived to achieve for their products is maintained in order to ensure that their (our) customers feel as though they have purchased a product of significant special value, and one in which they can rely on significant after sales support and service in order to get the maximum value from their purchase.

### **Brand investment**

Given Peter McInnes years of practice (and success) of building brands and customer experiences, it is our view that they should be able to conduct their business in the manner in which they believe best positions their products (and business) for the long term. We believe that Peter McInnes have shown a long term vision and commitment for the products that they have the right to distribute in Australia. While we are not privy to the distribution arrangements between Peter McInnes and KitchenAid we understand that generally there are strict requirements placed on distributors for these brands in their designated market which we assume can be revoked if the brand owners believe the requirements are not being met. We believe Peter McInnes is best placed to determine how the business can meet its requirements. It is our understanding that Peter McInnes application is simply seeking to maintain their products / brand integrity and customer experience (essentially their 'brand equity') by ensuring their customers receive a high level of service and support in all markets, both online and offline. This 'brand equity' provides significant benefit to the retailers who have customers which seek to buy their brands rather than from others in the market.

### **Competition**

As indicated in the number of vendors outlined in the notification, there is significant competition for KitchenAid products from specialty kitchenware retailers, big box merchants and large department stores. Aggressive discounting had not been a feature of the market prior

to the influence of online retailers due to the investment required by retailers to train, service and support the products and the customers. In return for this investment in the products and brand, retailers were able to sell the products at a fair competitive price. Products sold via the internet can be sold at heavily discounted rates because Internet distribution does not involve making these investments in the product, staff or the consumer product/brand experience. It would seem fair and reasonable that 'brand owners' have some choice over the destiny of their products given retailers have the ability to select a number of products/brands in any given category and can quickly switch to a substitute product if required (e.g. if in the event that one brand might be commoditized through sustained price discounting). We have already seen some retailers de-range some products (that have been subject to aggressive discounting online because they cannot compete) and invest in other brands as a replacement. It will most likely be these replacement brands that online retailers will want to sell (discount) next to leverage the brand equity that the bricks and mortar retailers have created. However, that leaves the distributor of the original 'commoditized' product with little or no brand equity in their products and therefore reduced or no sales in the longer term — thereby potentially destroying their business in the longer term.

For those retailers who do not agree with the strategy of any given supplier there are several substitution options in any category given the high degree of competition amongst the suppliers in Australia (For the KitchenAid product there are several, including Kenwood, Breville, Sunbeam, Cuisinart and Phillips), and those retailers can work with those suppliers to build the brand equity in those brands and benefit from that investment.

However, we do not believe that the issue is one of online vs traditional bricks and mortar retailers as we understand that Peter McInnes intends to supply KitchenAid products to retailers, both traditional and online, who will continue to invest in sales training, service and product knowledge. We do not envisage a reduction in competition (either online or offline) due to the Peter McInnes' gaining statutory protection. Rather we envisage a market which will support a sustainable, long term 'omni-channel' approach from retailers who will be required to offer customers the full product/brand experience, and support the brand integrity of Peter McInnes products, rather than commoditising them with a 'race to the bottom' discounting strategy.

### **Market premium vs Commodity discounting**

The reason the KitchenAid product has been so successful for online retailers aggressive discounting strategies is because there is significant 'brand equity' in the market for the product following the significant investment by Peter McInnes and their 'ambassador' retailers in the products and the consumer experience that has been built up over many years in the eyes of the consumers.

There can be no doubt (as evidenced from the submission of this notification — an unprecedented step within our industry) that in the past two years the retail market for electrical goods and kitchenware has changed significantly with the expansion of online websites, who have distinguished themselves in the market primarily on price as heavy discounters of product. This 'race to the bottom' discounting strategy that occurs when retailers compete aggressively online (not just on KitchenAid) is 'commoditizing' the products and eroding the brand 'equity' that company's like Peter McInnes with the assistance of specialty retailers have spent years building. This strategy has been for the short term advantage of the retailers online, most of whom (in the main) have not assisted build the 'brand equity' in the first instance.

We have countless experiences of 'KitchenAid showrooming' in our stores, where customers seek our advice and product knowledge through live demonstrations, only to 'lose the sale' to quotes from online retailers who have aggressively discounted the price of this premium / sophisticated product. This has affected our company's sales and profitability, and led

inevitably to lower employment levels and lower remuneration for our front line sales staff who have developed significant product knowledge to support this product in the market, and share in sales performance.

This expertise is vitally important with a product like KitchenAid as it needs personal explanation and demonstration for the consumer to get the best out of their mixer - eg the height adjustment mechanism. At considerable cost we have flown staff to special training events run by Peter McInnes to ensure our staff have the expert knowledge of KitchenAid products. As a provider of this expert knowledge we are often called upon to help consumers who have purchased their mixer online but do not know how to get the most out of the product. We have also had a customer bring in his mixer that he bought online from an overseas source that had blown up due to the incorrect voltage. This servicing of the product comes at some significant cost to us.

### **Public Benefit v Public Detriment**

The public interest test needs to consider the benefit to the consumer over the longer term.

Price discounting by retailers online is of some benefit to consumers in the short term.

However in the long term we believe these consumers will be significantly advantaged by having access to higher service specialty retailer in Australia. We understand that it is not of direct concern to the consumer that heavy discounting (even on only a small number of important products) can have a significant detrimental effect on the retailers by reducing their profit margins (with no associated reduction in costs) and thereby affecting their ability to operate their businesses profitably. However in the longer term, if service orientated retailers cannot operate profitably they will close their stores (costing jobs), and without their presence in the market the customers will have significantly fewer outlets to view, experience and learn about the features of the physical products (particularly in regional areas). Consequently the supplier will have significantly less opportunity and ability to build their products into brands which consumers will be able to have a connection with and trust in, because the consumer experience for any product cannot be replicated online.

Online retailing is a reality to which Australian retailers must adapt, however customer experience and competition involves more than just price. If Australian consumers are going to get the best value from the products they consume. Omni-channel retailing is ultimately going to provide the 'best of both worlds' to consumers.

How that value is delivered to consumers in an 'omni-channel' world is for the consumers, retailers and suppliers to determine, but it would seem fair and reasonable for the later to have some choice over this process given the investment they have made (and continue to make) in their products and brands, which at the end of the day is the only thing that differentiates themselves from other like products.

We therefore support Peter McInnes be provided statutory protection following this notification.

Yours Sincerely

Robert Parker

General Manager  
Your Habitat & General Trader