

Select Committee on Supermarket Prices
PO Box 6100
Parliament House
Canberra ACT 2600

By email: supermarketprices.sen@aph.gov.au

3 April 2024

FAO the Select Committee

Re: Price setting practices and market power of major supermarkets

Please find enclosed four first-hand accounts supplied by greenlife growers that we would like to submit to the inquiry, in addition to the submission originally made by GIA on 16 February 2024:

1. Ms Karen Brock, owner of Brocklands Nursery, Tasmania
2. Mr Peter Smith, CEO of Boomraoo Nursery, Victoria
3. Mr Nick Powell, owner of Stanmore Horticultural, Queensland

These statements have been made to assist the Committee in understanding the impact of Bunnings' price setting practices and market power on greenlife growers. Ms Brock, Mr Smith and Mr Powell are prepared to attend the public hearing scheduled for on 11 April to answer further questions about their experiences.

We look forward to receiving your confirmation that this additional submission has been accepted and we are standing by to make whatever arrangements are required to enable the witnesses to attend.

With all good wishes

Joanna Cave
Chief Executive



Bunnings almost broke us: why we had to walk away as told by Brocklands Nursery

Brocklands Nursery is a wholesale nursery supplying plants grown in our laboratory in Winkleigh, Tasmania. We grow a wide range of berry plants, fruits rootstocks and ornamentals.

Established in 1996, Brocklands is managed by my husband Tim Phillips and me. Today we employ eight regional staff and turn over \$750,000 per year. We are an accredited nursery with a reputation as a high-health specialist grower, using the latest technology to propagate plants of a consistently high standard to supply to the agribusiness sector.

In 2003, we started supplying plants to Bunnings. We quickly became a preferred Bunnings supplier: we grew high quality plants which were locally produced rather than imported from the mainland. Demand grew quickly as Bunnings expanded across the state, opening new stores in Burnie and North Launceston and later in Mornington and Kingston. At the peak of our activity with Bunnings, our plants occupied 26% of the available store space in Tasmanian Bunnings stores.

Although Bunnings consistently purchased high volumes of plants from us, they did this without any contractual commitment. What this meant in practice was that we were encouraged by Bunnings to grow huge volumes of plants whilst they reserved the right to buy only some – or none – of these. At the peak of our business with Bunnings, 95% of the plants we produced were set aside for Bunnings – but without any certainty at all. This was a huge source of worry for us: if Bunnings didn't buy the plants we had grown for them, there was nowhere else for us to sell them.

Bunnings asked Brocklands to start growing water lilies for them. We were reluctant to do this as it required investment from us to set up the right growing facilities without any certainty that Bunnings would take the plants. Over three years, Bunnings pressurised us and eventually we gave in and agreed to invest \$10,000 and started growing water lilies. Bunnings praised the quality of the plants and purchased every water lily we could grow in the first year. In the second year, we experienced a shock when, having allocated 5,000 water lilies to Bunnings due to their popularity, they purchased only 500 of these, despite having opened new stores in the meantime.

This was not the only time we risked an investment without any certainty of being able to recoup it. At the peak of our activity, we spent \$150,000 on a robotic planter so we could produce the volume Bunnings said it needed. Making such investments on the basis of informal arrangements posed a serious risk to our business: at one point we had \$750,000 of plant stock grown for Bunnings without any contract from them to buy any of it.

On another occasion, Bunnings asked us to grow 700 plants for a special promotional campaign. There was huge build up to the campaign and we were put under pressure to ensure we had the plants ready on time. We were devastated when they took only six plants – and obliged us to deliver them to store, at our own cost. Obviously, we made a huge loss on that campaign: the 'no-ties' relationship with Bunnings hurt us again.

The obligations Bunnings place on growers to supply plants into stores are very unfair. We were required to deliver to any store in any location in Tasmania, at our own cost. Because Bunnings refused to commit to a minimum order, we sometimes found ourselves delivering only a handful of plants to Hobart (a six hour round trip), should the store require it. We were also required to supply plants at a discount whenever a new store opened or when an existing store was refurbished. Typically, the discounts demanded were 15%, plus the cost of transport. Often, we made a loss. A variation to the trading agreement by us for a minimum order of \$300 was rejected.

When we first started supplying Bunnings, they only agreed to pay us on a monthly basis if we gave them a 'prompt payment discount' on our plant prices. We agreed to do this because we needed the cash flow. Once in place, we were paid promptly by Bunnings every time. The certainty of this payment kept us hooked; we told ourselves it compensated for the money we were losing – but it didn't.

After years of increasing uncertainty, we asked Bunnings for a contract. They refused. After ten years of supplying Bunnings without receiving any price increase at all, despite our own costs going up, we requested a price increase. It was refused. In total, Brocklands supplied plants to Bunnings for 13 years. In all this time, we succeeded in negotiating only one price increase which meant that we were selling plants at a loss for much of the time.

We noticed that whenever we raised a concern or challenged Bunnings' behaviour, they reduced the plants they purchased from us. I have no doubt that this was a form of punishment and a way of reminding us that Bunnings held all the power in the relationship. From 2012, Bunnings adopted an even tougher attitude to us. They became hostile and unpleasant to deal with and we were under enormous pressure to keep growing plants without knowing where we stood. The stress was so extreme I was genuinely worried that it would kill my husband Tim.

Eventually, in 2016 we realised that we could not continue supplying Bunnings. The lack of certainty, the obligations placed on us to give Bunnings discounts all the time and Bunnings' refusal to recognise our own cost increases meant our business was on the brink of collapse. We took the difficult decision to stop supplying Bunnings. This was a huge risk as we had to rebuild the business almost from scratch. As Bunnings dominates the plant retail market in Tasmania there were very few other places we could sell our plants. We opened a seasonal pop-up shop to sell plants directly to the public whilst we expanded our propagation business. We now specialise in growing plants from tissue culture in a lab. It was a huge gamble to break from Bunnings: in our fifties we were effectively starting again. But we don't regret it: it saved our mental health, our livelihood and our marriage.

We know many, many other growers still supplying Bunnings who suffer the same treatment we experienced. Because these businesses rely on Bunnings for their survival and they know that Bunnings has a reputation for being vindictive, they are too scared to speak out. At the time we were dependant on Bunnings, we would have felt the same way. It is only now that we are free of Bunnings that we can tell our story without fear of retribution.

We know that Bunnings exists to make a profit and we have no problem with this. In many ways, their expansion and success have been impressive to observe. However, our experience with Bunnings illustrates that they aggressively chase profit at the expense of growers' viability, well-being and even survival. They can do this because they are all-powerful and are able to exercise this power without any scrutiny at all.

If the government believes the supermarkets warrant regulation, we beg them to also consider the same approach to Bunnings. Just like fruit and vegetables, greenlife products are perishable: they require time and skill to grow and must be sold in high volumes to be profitable. Every grower I know agrees that Bunnings has a huge share of the plant retail sector in Australia: we estimate it to be 70% nationally and probably higher than that in Tasmania.

Government-mandated accountability is the only way Bunnings will do the right thing for the growers they rely on to put plants in their stores, for the benefit of home gardeners everywhere.

Karen Brock, owner, Brocklands Nursery, 28 March 2024

Stepping off the Bunnings cliff as told by Boomaroo Nurseries

Starting as a small family market garden, Boomaroo Nurseries has grown into one of Australia's most prominent and thriving vegetable seedling and greenlife suppliers. In over 30 years of business, we have opened facilities in Lara, Victoria and Southbrook, Queensland, spanning over 17 hectares and employing 140 employees, with customers in Victoria, New South Wales, Queensland, South Australia and Tasmania.

In 2013 a decision was made to expand into greenlife products, starting with Cyclamen and later increasing the range to indoor foliage, ferns and succulents, which we supplied to Bunnings as the predominant retailer of plants in Australia.

In the beginning, Boomaroo's established vegetable seedling business arm subsidised the fledgling greenlife business unit. Bunnings actively encouraged us to expand our greenlife production, saying the more products it grew, the more likely Bunnings was to order from us. However, Bunnings refused to enter into contracts with us and instead asked us to grow plants for them in "good faith".

This gave us no security whatsoever and was not the way that we usually did business, but as newcomers to the greenlife sector, we accepted it. We were confident that as a sophisticated and experienced operator, we would be able to make it work. Ten years later our greenlife business was generating \$8.5 million in annual sales, producing over 1.3 million units, 80% of which went to Bunnings. However, even though Boomaroo's plants were among the best quality on the market, the greenlife side of the business continued to run at a loss: our analysis showed us that it was break-even at best, and more typically ran at a loss.

We were carrying out a thorough analysis of why we were losing money, and in doing so identified the impact that Bunnings were having on the mental health of our team, the quality of our range and our profitability. The absence of a commitment to purchase was the biggest challenge. This way of working does not provide the clarity required to grow a living product to specification, in the correct volumes and at the right time. We were effectively growing huge volumes of plants entirely speculatively, which is in complete contrast to the way our vegetable business works.

Endless discounts

Bunnings operates a system of discounts (or rebates) which eroded our profit margins. For example:

- We had a 2% volume rebate and 1% marketing allowance, effectively a 3% deduction.
- We had to discount any plants purchased by Bunnings to supply a new or refurbished store, usually at a rate of 15%.
- We had to discount our plants by 5% if we wanted Bunnings to pay within 14 days, 3% payment in 30 days. If we accepted 60-day payment terms, no discount was required – but this meant the plants had likely sold to a consumer before we were paid for them.
- The more Bunnings purchased from us (% level above last year), the greater the price discount we had to make. 0.5% volume discount (known as LTI (Long Term Incentive) was not unusual, and as high as 1.5% in some years.

Some of these discounts might have been acceptable had we received from Bunnings a commitment to purchase from us but in the absence of this it made it very difficult to plan with accuracy and preserve profit margins.

Unreasonable demands

Bunnings also imposed operating requirements on us that we regarded as unreasonable. For example:

- Bunnings preferred that we used their transport system to get stock into store. This required us to deliver our plants to their nominated cross dock by whatever means possible and at our own cost. Bunnings then charged us an “agreed greenlife logistics fee” for transporting our plants into their individual stores by imposing further discounts on our plant prices, ranging from 15% to 28% depending on the requested store location. These costs and discounts were hard to predict and had a major impact on our margins.
- Over the years there were constant rule changes. We were asked by Bunnings to change pots and labels at the drop of a hat and at our own expense, and although we always agreed, these demands were disruptive and costly.
- We were encouraged by Bunnings to invest in the business to become more productive. We discussed with Bunnings our idea to invest in a new \$4.5 million greenlife production facility, potting shed and equipment. They encouraged the investment and on this basis we went ahead. However, when we proudly invited them to tour our new facilities, they were completely disinterested. We were utterly deflated by this response which felt like a power game: it seemed to us that Bunnings didn’t want us to feel in any way important to them.

Price increases

During and after COVID, Boomaroo’s labour costs and input costs increased significantly, which was driving the need for a price increase in products we were losing money on. In August 2023, which was much later than we hoped, we met with Bunnings and openly explained the basis of our rising costs. We requested clarity from Bunnings on their planned orders (especially on plants with lead times of six months plus grow time), which we should have received by this time, and we requested feedback on our request for an increase in our plant prices which had been submitted some weeks earlier, acknowledging that if some were not achievable we would remove them from our range.

In response to the pricing issue, Bunnings advised that they were “not offended” by the proposal, and they gave us the impression they would strongly consider it, which gave us hope for the future. However, at the same meeting, Bunnings instructed us to cease production of indoor plants. This came as a shock to us and left with a stockpile of the inputs we had purchased to grow the indoor plants, including plugs that we are still taking delivery of 8 months later. Bunnings’ decision, which came unexpectedly, immediately stripped \$2.7 million of forecast revenue from our bottom line. We were also informed that the SA and NSW Bunnings stores would be taking considerably less volume from us as they had found local supply, and we would need to focus on Victoria from now on. During the same meeting Bunnings advised that our ‘delivery in full on time’ performance (known as DIFOT) had been poor over the last 12 months and that if it failed to improve, we could be dropped as a supplier. It’s an unreasonable stipulation: without firm orders or prices, it’s almost impossible to deliver in full on time.

By November 2023, nothing had improved for us and the losses on the products we supplied to Bunnings continued to accumulate. We were also carrying over \$700k of stock that we had grown but had not been taken by Bunnings. Despite multiple requests to Bunnings, we had still not received a response to our requests for firm orders or feedback on a price increase. By November 2024, our losses were in excess of \$600k and the nursery was in an untenable position.

The next team meeting at Boomaroo was grim. We made the decision to stop producing greenlife products. Over the following four weeks, we redeployed as many staff as we could but there were inevitable redundancies. One worker who we made redundant had been a valued employee for over 20 years. It was a heartbreaking time for us.

The end of Boomaroo Greenlife

Finally, after months of ignoring us, we received a phone call from Bunnings demanding to know why we had not told them about our plans to shut down the greenlife branch and insisting Bunnings would have helped us, had they known. This response seemed ludicrous, given how candid we had been about our situation at the August meeting. Bunnings had actively avoided our numerous requests for feedback ever since.

We explained that the actions of Bunnings had forced us into a decision to stop greenlife production and to issue over 20 redundancies in total, as well as mothballing the facilities we had only recently invested in. Bunnings warned us, in cold and threatening language, against letting others in the industry know what had happened and said if we used words like 'closure' we "would never be let back in." We understood the message to be a threat and we realised we were facing a potential blacklisting.

In a call the following day, Bunnings adopted a more conciliatory tone and asked us to continue trading. We said that the only way we could consider this would be if Bunnings make substantial changes including issuing us with a fair, written contract that outlined products and quantities, with a shared responsibility for the waste generated through orders not taken. We said any future relationship would need to be a true partnership.

I made a note of the chilling response I received: "We are Bunnings. We do not do partnerships. We have suppliers. We think about our customers". I was appalled by this attitude and said so.

Our final engagement with Bunnings happened when they contacted us to offer the price increase we had requested months before and that they would purchase our remaining stock. This was insulting, in the circumstances, and felt an act of damage control on Bunnings' part rather than a genuine gesture. Nonetheless, we felt we had no option but to accept it to help mitigate our losses, as there are no other retailers large enough to purchase the volume of stock that we had grown for Bunnings. This was how our relationship with Bunnings ended.

I really thought we could build a solid relationship with Bunnings – but they are like an abusive partner who makes you feel like you're inadequate all the time, and then, when confronted, tries to make you feel small. Bunnings 'cliffs people'. That is, it constantly keeps you on the edge – emotionally and financially – and you can never be sure when they might push you off. I know Bunnings is a business and needs to make a profit – but they can surely balance making a lot of money with treating growers fairly and professionally and ensuring the future supply to their business.

Boomaroo continues to have a successful vegetable seedling business and we will survive our experience with Bunnings. But our experience took its toll on the business, our suppliers, and our staff. Boomaroo stands to gain nothing at all from sharing our story. But we know others in the greenlife industry who experience the same poor treatment from Bunnings. If there is a chance that our account influences the government to support smaller business owners that supply to Bunnings and improve and secure the future of the Australian Greenlife industry, then we are glad to contribute.

Peter Smith, CEO, Boomaroo Nursery 29 March 2024

The mental anguish of dealing with Bunnings as told by Stanmore Horticultural

I started Stanmore Horticultural in a cow paddock in the mid-1990s when my Fire Service career ended due to cancer. At its height, the nursery's annual turnover was around \$1 million. After a chance meeting with Bunnings, I was signed up to supply general nursery lines and continued to do so for 17 years. Over time, I learnt that Bunnings' only interest is make money.

At first, the relationship with Bunnings worked reasonably well. They gave me verbal encouragement to build up my nursery, promising to buy more stock if I could provide more plants. Whereas I signed an agreement outlining my obligations to them, Bunnings' contract was unwritten – without as much as a handshake. Little did I know this is their standard practice, designed to control growers and ensure they are slaves to the corporation with no way out.

So, I expanded my business and didn't give much thought to other customers. It wasn't long before the realisation dawned that diversity in the retail nursery industry had suffered as Bunnings gradually depleted national competition by price undercutting through size dominance, supply chain control and aggressive marketing.

As Bunnings grew, their method of dealing with us hardened appreciably. Prices offered to my nursery were constantly pressured downward in real terms as inflation ate into profit margins and I had no bargaining power. On top of this, Bunnings made deductions from my invoices for items such as being paid within 60 days. Plant purchases progressively lost continuity and thus affected not only cash flow to meet commitments but crucially prevented planning. Given that the production time for some plants was as much as 2–3 years, it was virtually impossible to plan appropriately to remain viable. A neighbouring nursery was crippled when Bunnings chose not to purchase the plant allocation they had made. This was a sobering moment for me.

Pressure further mounted as Bunnings issued more directives controlling conformity with pricing, labelling, presentation and delivery methods. The final straw for Stanmore Horticultural occurred when Bunnings denied us the right to deliver our own plants to stores. By developing their own freight systems, Bunnings imposed on each nursery whatever cost they desired to cover this expense (from memory it was between 15% and 20%).

This was the turning point for me. The mental strain of dealing with Bunnings had become unbearable – the uncertainty of no written contract, the risk of them not honouring their orders, the lack of capacity to plan, the increasing demands, the lowball pricing that meant it was hard to produce quality plants and still turn a profit.

In the end, I had to reduce staff to service debt and cope with reduced orders. After years of this financial and mental strain, I could not take it anymore. I said to my Nursery Manager, 'We need to stop dealing with Bunnings or it's going to kill us.' I meant it.

I spent time and money with my manager driving around the Eastern seaboard trying to get enough customers to survive without Bunnings. After 12 months of effort, I was finally able to inform Bunnings I would no longer deal with them. The long-term viability of my business is still impacted by Bunnings because they have driven so many smaller nurseries out of business but at least I no longer suffer the mental anguish of dealing directly with Bunnings.

It is beyond comprehension how regulator allowed this behemoth was to enter the marketplace knowing that so many small businesses would go to the wall as a result. Over the past 30 years I learnt to cope with leukaemia, prostate cancer, lymphoma and other medical issues but not the unconscionable dealings of Bunnings.

Nick Powell, owner Stanmore Horticulture, 2 April 2024