2024

Big Box Retailers

Senate Inquiry Submission

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Prepared for:
Senate Inquiry for Big Box Retailers

Prepared by:

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Executive Summary:

The emergence and dominance of big box retailers is occurring with inadequate competition law, and regulatory powers for oversight. From the 1990s we have seen mass consolidation within the DIY and Trade Industry, where Bunnings has acquired direct competitors to strengthen its power, and adjacent entities to strengthen it.

Australia is now entering a new age of mega retail where we are seeing dominance of “category killers”, and some transitioning to “industry crushers” such as the case of Bunnings through DIY and Trade. Greater regulation is required to protect consumer welfare and allow for adequate competition and functioning markets. This includes the need for a specific big box retailer code of conduct, and an ombudsman to assist in overseeing the sector.

Market dominance plays a huge theme within this report. This is in how it is amassed, then how it is used to further power and concentration. We are seeing market dominance through huge concentration of stores to Bunnings from Mitre10, where Mitre10 dropped from having 900 stores in the 1990s to 300 today, while Bunnings has the opposite. The loss of independent trade and competition, means Australia is at risk of market failure in this industry, by pure size and scale of Bunnings, and no like for like competition. In the absence of competition, monopoly firms can charge as they wish, and lack incentives to compete on price.

This report is split into two key areas. The first, is the foundational academic and evidence-based summary and framing of the market and setting of competition. The second is based on the reflections through significant experience of John Dahlsen, and his experience within the Australia and New Zealand retailing industry, as a former competition lawyer, and industry participant.

The report concludes on key recommendations for adequate reform including the need for a separate code of conduct for big box retailers, so that adequate competition can be maintained in the market so that fair practices are exercised, and fair prices are provided for consumer welfare.

About the Authors:

John Dahlesn

John Dahlsen has spent a lifetime in retailing across Australian and New Zealand. He is highly experienced at all levels of retail management, who has been actively involved in various companies and capacities. This includes as former Chair of the Woolworths, Deputy Chair of Myer, and a Director of The Warehouse Group in New Zealand. John is Chair and Owner of Dahlsens Building Centres, a family-owned trade and roof truss business, which competes directly with Bunnings in many markets throughout Australia. Dahlsens Building Centres have 79 stores and manufacturing plants nationally, it is a close competitor to Bunnings. This submission is based on a lifetime experience of working in the retail sector. As a former Competition Lawyer, John has a strong perspective on the nature of Competition Law which sets the foundation for the current reality of big box retailers. John was also the Chairman of the Herald and Weekly Times Ltd, Chairman of Melbourne Business School, Co-founder of Southern Cross Broadcasting, and a Director of ANZ and for 20 years.

Lisa Asher

Lisa Asher is a retail academic researcher at the University of Sydney, who has assisted in supporting the written submission. Her objective within this submission, was to provide a separate investigative lens into some of the challenges within the big box industry, as an independent researcher. Her academic research focus is on local and global retailing. She has assisted in providing foundational evidence-based research to support a thorough submission on competition challenges within big box retailing, specifically in the case of Bunnings.

The combination of evidence-based research, and a lived experience of the nature of competition challenges within big box retailing as it relates to Bunnings, provides a comprehensive and substantial submission from multiple lenses.

Both authors strongly believe in adequate competition for efficient and functioning markets in this sector, and proposed remedies to assist with this inquiry for better competition.

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Part Three:

Part One

Academic, and Evidenced Based Foundations for the Submission

By Lisa Asher

1. Introduction and Context

The purpose of this submission is to provide detailed knowledge on the practices in which big box retailers have been able to build themselves over time with inadequate merger, acquisition, and competition law. The report will largely focus on Bunnings as the primary example, to provide a nuanced understanding on the nature in which these retailers have become large and powerful.

2. Definition of Big Box Retailers

The term "big box retailer" for this senate inquiry, which looks to large retailers defined as having significant buying power and footprint nationally or regionally. We further define them as having the buying power to kill competition or "category killers"[1]. The nature in which they kill categories is through a large format store, deep assortment, and able to kill off smaller, or local competitors by nature of the model. This model is prevalent in the US, and has changed the retailing landscape across books, sporting goods, home centre, electronics, toy, home furnishings, and groceries. From the 1980s this has been occurring at a rapid rate in the US, significantly driving up revenue per store as a consequence[2], and Australia has employed a copycat strategy on its shores. Through the process of time, we are also seeing these "category killer"[3] stores evolve into "industry crusher" format such as that of DIY and Trade industry.

We define some of these category killers, but not limited to Mitre10, K-mart, Target, Big W, Chemist Warehouse, Priceline, Pet Barn and Pet Stock. We define an "industry crusher" as Bunnings or Amazon, whereby a retailer continues to expand its offer through mergers and acquisitions and undercutting competition by price. Then using dominance and various strategies to ensure it has the lowest prices which drives out further small and medium competition. Amazon has been included, as globally they have a poor reputation in dealing with suppliers[4], they also have atypical price setting practices which are questionable on being fair and equitable on suppliers[5]. Although they do not occupy a large box bricks and mortar box, their distribution warehouses are significant, and their conduct should be regulated under a code for fair and equitable conduct. The UK deemed them a grocery retailer in 2022 by the UK's Competition and Markets Authority, so they must abide by the UK Grocery Code of Conduct[6]. Despite this, they are under scrutiny over their treatment of suppliers, and of July 2024 the regulator has put them on notice for misconduct towards suppliers[7]. It is unclear why

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[1] Sampson, S. D. (2008). Category killers and big-box retailing: Their historical impact on retailing in the USA. *International Journal of Retail & Distribution Management*, *36*(1), 17–31.
[2] Sampson, S. D. (2008). Category killers and big-box retailing: Their historical impact on retailing in the USA. *International Journal of Retail & Distribution Management*, *36*(1), 17–31.
[3] https://www.afr.com/politics/federal/category-killers-intensify-supermarket-competition-20240409-p5fif8
[4] https://www.investopedia.com/uk-regulator-warns-amazon-it-could-be-investigated-for-dealings-with-suppliers-8676583
[5] https://fortune.com/europe/2024/07/12/amazon-jeff-bezos-trails-behind-in-u-k-compliance-test-threatened-with-investigation-over-poor-supplier-treatment-coop/
[6] https://www.pymnts.com/news/retail/2024/amazon-warned-to-improve-uk-grocery-supplier-relations/
[7] https://fortune.com/europe/2024/07/12/amazon-jeff-bezos-trails-behind-in-u-k-compliance-test-threatened-with-investigation-over-poor-supplier-treatment-coop/

Amazon were not included in the review of the Australian Food and Grocery Code of Conduct[8]. As the name states, all retailers and wholesalers who sell food and groceries should be included in the Food and Grocery Code of Conduct. This means those categories which sell food and groceries within big box retailers, should be subject to this code. Additionally big box retailers, by nature of their ability to redefine categories and industries, should also have their own code. As these businesses are gaining size through mergers and acquisitions, resulting in greater dominance, we are entering a period of mass consolidation if inadequate regulation continues as it has.

Much of this report will focus on the DIY and Trade industry, as this is by far the most concentrated, as it the industry is being crushed and expanded by Bunnings.

However the intention of the report is to shine a spotlight in other areas of large non-supermarket operators, and the changing nature of competition that requires further regulation. The argument remains this is for all those and associated retailers stated above. In the interests of fair competition, and to maintain fair competition over time, one of the core recommendations is for a big box retailer code of conduct be created to regulate these industries and entities within them.

2.1.1 Key Insights and Recommendation:

- Bunnings has redefined “category killers”, as it has now emerged as an “industry crushers”, and continues to expand its sphere of dominance into new business areas. Greater reform of competition law is required.

2.1.2 Key Questions:

- How can Australia’s competition law adequately capture and provide direction for creeping acquisitions, which do not materially appear to impact competition at the time, but result in major structural changes by nature of their acquisition by a powerful player?
- How can revised competition law allow for learnings from the past 30 years, where we have seen substantially lessening of competition directly and indirectly through category creep and store acquisition creep? The cumulative effects have created a dominant retailer.

[8] https://treasury.gov.au/sites/default/files/2024-06/p2024-534717-final-report.pdf

3. The Evolution of Bunnings from Timber to DIY and Trade Dominance with Major Changes

We have seen Bunnings change from this:

The Bunning brothers arrived in Australia in 1886. Picture: Bunnings.

To the Bunnings of today as this:

Wesfarmers acquired Bunnings in the mid-1990s and a rapid expansion began. Picture: Bunnings

A Summary of the Key Changes in the DIY and Trade Industry 1886-Present:

- Bunnings was founded in **1886**[9] **in Western Australia** by Brothers Arthur and Robert Bunning. The business was focused on **sawmilling and timber production**.

- **1952** – Bunnings Timber Holdings Ltd**. became publicly listed** on the stock exchange. By paying a dividend of 7.5% in line with the prospectus[10] this move **allowed it to capital raise** for expansion and diversification of the business.

- 1989 Bunnings purchased **Alco Handyman** in Western Australia[11]. By this time hardware store revenue had grown from $4.5m in 1900 to $1.4b in 1985, and projected revenue of $3b in 2000[12].

- **Competition** - In the **1990s Bunnings competed directly with Hardwarehouse** owned by Burns Philip, which exited hardware by selling their BBC Hardware business to Howard Smith in 1994[13] under the banner **Hardwarehouse**. At the time Burns Philp was turning over $997m (1992) versus Bunnings of $400m[14], Bunnings was the smaller challenger retailer, not the dominant player.
    - Bunnings in 1992 had a turnover of $400m[15], in 2024 its $19b, that's **47.5x increase** in 32 years.
    - By contrast Woolworths in 1992 had a turnover of $9.2b[16], in 2024 its supermarkets are $50.7b[17], which is a **5.5x increase** in revenue in 32 years.
    - By contrast, Coles in 1992 was $6.2b[18], with current turnover in 2024 $32b[19], which is **5.16x increase.**
    - These numbers are at odds with one another. The supermarket industry is highly concentrated by international standards, the DIY and Trade industry appears to have created a silent monopoly, with a huge amount of power. How did this happen?

- **1993 – Bunnings** went on to acquire a struggling competitor **McEwans for $68m,** which had gone into receivership. This acquisition added $200m of additional revenue

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[9] https://www.bunnings.com.au/about-us/our-history
[10] https://trove.nla.gov.au/newspaper/article/256906317
[11] https://hardwarejournal.com.au/flipper/AHJMar21/33/
[12] https://hardwarejournal.com.au/flipper/AHJMar21/33/
[13] https://www.wesfarmers.com.au/docs/default-source/asx-announcements/presentation-to-ubs-warburg-retail-conference-sydney-5-june-2002.pdf?sfvrsn=906b98ba_0
[14] https://www.afr.com/politics/bunnings-builds-a-profitable-future-19930218-k5bp7
[15] https://www.afr.com/politics/bunnings-builds-a-profitable-future-19930218-k5bp7
[16] https://www.afr.com/politics/retailing-is-being-revitalised-19920924-k53rn
[17] https://www.woolworthsgroup.com.au/content/dam/wwg/investors/reports/f24/f24/Woolworths%20Group%202024%20Annual%20Report.pdf
[18] https://www.afr.com/politics/retailing-is-being-revitalised-19920924-k53rn
[19] https://www.colesgroup.com.au/FormBuilder/_Resource/_module/ir5sKeTxxEOndzdh00hWJw/file/Annual_Report_2024_Online_Tab.pdf

to its topline, and $75m in existing merchandise[20]. This acquisition changed and diversified their business from timber and forestry products to now include their famous building and construction products. This also **helped Bunnings enter Victoria and South Australia**, expanding its national footprint[21]. This also added a large increase in revenue and purchasing power to the retailer.

- In 1993 **Wesfarmers** had a 45% equity stake in Bunnings, **completing full ownership by 1994**[22]. Bunnings through this transaction went from a large player in the hardware space, which was now owned by a much more powerful player, Wesfarmers with deeper pockets. These deeper pockets became much more critical in the subsequent decades.

- In **2001 Wesfarmers (Bunnings) acquired its larger competitor “Hardwarehouse” for $700m** (BBC Hardware), which substantially removed competition from the market with the acquisition of 62 stores including a move into the New Zealand market with the chain Benchmark Building Supplies[23]. These stores were then all rebranded to Bunnings.

    - In hindsight this acquisition should not have been allowed, as it not only substantially lessened competition, but almost removed it entirely[24]. During 2004, Bunnings 6 monthly sales were $1.8b while Mitre10 was $1.7b, these are not too dissimilar.
    - In 1998 Bunnings market share was reported as 4%, and BBS Hardware (Hardwarehouse) 6-8%[25], with the Mitre10 group having 900 independent stores acting as a cooperative.
    - By 1999 more Mitre10 stores were lost with store count down to 720 stores[26], and Bunnings and Hardwarehouse chasing mega big box store formats to drive out competition and lower prices.
    - Compare this now to only 300 Mitre10 stores[27], this clearly shows the fall of independent stores as we see rise and dominance by Bunnings after it acquired Hardwarehouse which had the exact same format and expansion strategy.

- **Competition of Masters –** In 2009, Woolworths thought it could match Wesfarmers and launched the Masters brand as a clear rival to Bunnings, in a joint venture with Lowes owning 35%[28]. Financial losses combined of $600m, capital spend of $3b on

[20] https://www.afr.com/politics/bunnings-builds-a-profitable-future-19930218-k5bp7
[21] https://hardwarejournal.com.au/flipper/AHJMar21/33/
[22] https://www.realcommercial.com.au/news/the-inside-story-of-how-bunnings-became-a-multi-billion-dollar-household-name
[23] https://www.nzherald.co.nz/business/hardwarehouse-to-get-bunnings-branding/AWHXCG4Y677M47VMMC3QU6VMZ4/
[24] https://www.afr.com/companies/hardware-hard-ball-20030424-ka8ia
[25] https://www.afr.com/companies/bunnings-bounty-overcomes-jitters-about-new-property-trusts-19981005-kb4ym
[26] https://www.afr.com/companies/no-surrender-for-mitre-10-in-hardware-war-19990806-kb64h
[27] https://www.mitre10.com.au/company/about-us?srsltid=AfmBOoqawI_FirdxSrBTUI2d0IGg_lPny7tlYt3e6xGHmJptzEk1ipXX
[28] https://www.smh.com.au/business/companies/what-went-wrong-at-woolworths-masters-20160118-gm8fge.html

63 stores and related infrastructure. They were forced to find second tier locations for their stores, and barriers to entry were considered high for this industry, despite the strength of the Woolworths Group backing. This was sold to a PE firm in 2017[29], after significant losses and shareholder value losses and confidence.

- **Bunnings acquires then sells Homebase UK–** a retailer turning over $3b in the UK, 265 stores and $40m in profit was purchased in **2016**[30] by Wesfarmers. Eventually it was sold in 2018 for $1.35 to private equity, after spending nearly $2.3b in the failed venture[31]. This demonstrates the dominant Bunnings model, only works, with minimal competition.

- In **2019 Bunnings acquired Adelaide Tools**, which was a specialist retailer of tools and power equipment. This assisted Bunnings in further enhancing its offer to professional trades market and compete with dedicated tool retailers - expanding its category offer. At the time of the ACCC approval Bunnings operated 302 hardware stores throughout Australia, including 15 warehouses and 2 Bunnings Trade Centres in Adelaide[32]. Adelaide Tools was privately owned and provided outdoor power equipment, further enhancing and entrenching Bunnings expanding offer with **Tool Kit Depot.** It was noted at the time that professional tradespeople did not see Bunnings as a preferred retailer for tools, flooring, lighting and plumbing, and would go elsewhere. Therefore, acquiring in these areas helped Bunnings to expand to further categories[33].

- In **2021 Bunnings acquired Beaumont Tiles**, after 61 years of family ownership[34], and **151 stores**. This acquisition helped Bunnings expand its range within DIY and homeware, to reputable brands for professional tradespeople. This was also during the COVID lockdown period, where more home renovations were becoming apparent, but highly restricted movement of people. Beaumont Tiles in 2014 had opened its 100th store turning over $200m, by the time Bunnings purchased it, it had added another 51 stores in 7 years. This acquisition moved Bunnings credibly into premium home tiling with greater economies of scale for its own offer instore. It was not opposed by the ACCC, as at the time of its acquisition, "our investigation found that Bunnings is not a strong competitor in tile sales"[35] – Rod Sims.

The summary of history and timeline of mergers and acquisitions, demonstrates that Bunnings through its access to capital from the original share market float in 1952 to subsequent

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[29] https://www.smh.com.au/business/companies/finally-woolworths-extricates-itself-from-masters-mess-20171012-gyzpn8.html
[30] https://hardwarejournal.com.au/bunnings-uk-ireland-what-went-wrong/
[31] https://www.forbes.com/sites/markfaithfull/2020/11/11/how-homebase-came-back-from-bunnings-big-bbqs-and-a-multi-billion-dollar-fiasco/
[32] https://www.accc.gov.au/media-release/bunnings%E2%80%99-adelaide-tools-acquisition-not-opposed
[33] https://www.afr.com/companies/retail/bunnings-eyes-acquisitions-to-lure-tradie-dollar-20210603-p57xre
[34] https://www.afr.com/companies/retail/hardware-giant-bunnings-buys-beaumont-tiles-20210428-p57n7w
[35] https://www.accc.gov.au/media-release/bunnings-acquisition-of-beaumont-tiles-not-opposed

Wesfarmers buyout, has allowed this greater access to capital to considerably expand its business. This expansion from its core business of timber to a highly diversified hardware, building supplies, homewares, tools, and the purchasing of competition, has seen it grow substantially from $400m in the 1990s, with revenue for the Bunnings Group at $19b in FY24[36]. Through this process, it has been able to drive out direct competition in small businesses and acquire larger competitors.

The Bunnings Group has seen steep store numbers climb, even in very recent times. Stores have grown from 378 stores in 2020[37] [38] to 513 stores by FY24. This is made up of, 286 warehouses, 65 smaller format stores, 31 trade centres in the Bunnings network, 15 Tool Kit Depot stores, and 116 Beaumont Tiles stores[39]. **In 4 years, they have increased their store numbers by almost 36% -** this is considerable, and yet receives minimal press scrutiny.

Through the process of merger and acquisitions, we have seen Bunnings acquire credibility and capability in many new categories within the building space. There are economies of scale achieved here, but also "category killing"[40] along the way to the "industry-crushing" it is now doing. It could be apt to say, ***"if you cannot beat them, buy them".***

Bunnings by growth, public perception, and shareholder results is considered a successful retailer. The succession of CEOs over time have continued a growth trajectory. Acquisitions has played a central role to Bunnings growth strategy since the beginning. This growth strategy has come at the cost of competition and enhanced their dominance further.

Market Structure:

- Finding market share data that is fair and adequate is not as easy to find for DIY and Trade. IBIS World provides the most comprehensive source, of which we will use for our basis.
- Australia – Total Hardware, Building Supplies Retail in FY23/24 = $26.2b[41]. **Bunnings $19b (less NZ of ~$AUD1.66b[42] = $17.3b) is 66%, Mitre10 $3.5b[43] is 13.4%.** The **top two retailers account for over 79.4% of this market.**
- Economists use several types of concentration ratios to determine how concentrated a market is. The classics are C4 and C8, which sum the top 4 or 8 firms market share

[36] https://www.wesfarmers.com.au/docs/default-source/asx-announcements/2024-annual-report-(including-appendix-4e).pdf?sfvrsn=1ab4e5bb_0 page 28
[37] https://www.wesfarmers.com.au/docs/default-source/reports/annual-report-2020.pdf page 29
[38] https://www.ig.com/en-ch/news-and-trade-ideas/sandstone-insights--can-bunnings-growth-accelerate--241007
[39] https://www.wesfarmers.com.au/docs/default-source/asx-announcements/2024-annual-report-(including-appendix-4e).pdf?sfvrsn=1ab4e5bb_0 page 27
[40] Sampson, S. D. (2008). Category killers and big-box retailing: Their historical impact on retailing in the USA. *International Journal of Retail & Distribution Management*, *36*(1), 17–31.
[41] https://my.ibisworld.com/au/en/industry/g4231/at-a-glance
[42] https://businessdesk.co.nz/article/retail/bunnings-reports-profit-and-400m-inter-company-loan#:~:text=NZ%2Dregistered%20Bunnings%20Ltd%20pushed,%24276%20million%20to%20%24286m.
[43] https://www.metcash.com/wp-content/uploads/2024/08/21068_Metcash_AR24_Web_V1.pdf#page=20

as a measure. An additional measure is the HHI (Herfindahl Hirschman Index)[44]. This looks closer at competition and where the concentration of power sits within the top firms. A C4 overlooks a firm holding over 50% market share, whereas this can be better captured with HHI. The calculation is done through squaring the market share and summing the values to a predefined index of concentration. The small players that could make up C8, become small and negligible.

- Competitive markets have HHI values of >0.15, 0.15-0.25 markets are considered moderately concentrated, and market are considered highly concentrated if they are <0.25[45].
- With the estimated market shares in the first point, with imperfect market assessment information, this puts the HHI concentration ratio of ***DIY, Hardware, and Trade Retail north of 0.45***. If >0.25 is considered highly concentrated, this is EXTREMELY concentrated.
- By comparison the ***grocery industry in Australia HHI is 0.32***, which is considered highly concentrated[46] (see table 1).
- When we consider the recent merger request of New Zealand supermarkets Foodstuffs North Island Limited, and the Foodstuffs South Island Cooperative, their merger request would have moved the market from a concentration ratio of 0.39 to 0.50. This would be from highly concentrated, to extremely concentrated. This was rejected by the regulator on 01/10/24 as it would substantially lessen competition and raise barriers to entry[47], with potential of increasing prices further.

Supermarket HHI in Developed Markets

Country	2015	2024	Change 2015 - 2024 BPS	Concetration Level
Australia	0.33	0.32	-0.01	Highly Concentrated
Austria	0.29	0.28	-0.01	Highly Concentrated
Canada	0.24	0.22	-0.02	Moderately Concentrated
Czech Republic	0.17	0.17	0.00	Moderately Concentrated
Denmark	0.28	0.26	-0.02	Highly Concentrated
Finland	0.54	0.56	0.02	Highly Concentrated
France	0.14	0.14	0.00	Not Concentrated
Germany	0.15	0.17	0.02	Moderately Concentrated
Greece	0.17	0.27	0.10	Highly Uncompetitive
Ireland	0.19	0.18	-0.01	Moderately Concentrated
Italy	0.10	0.11	0.01	Not Concentrated
New Zealand	0.39	0.39	0.00	Highly Concentrated
New Zealand (post merger)	**0.39**	**0.50**	0.11	Highly Concentrated
United Kingdom	0.13	0.12	-0.01	Not Concentrated
USA	0.15	0.14	-0.01	Not Concentrated

44 Miller, R. A. (1982). The Herfindahl-Hirschman Index as a Market Structure Variable: An Exposition for Antitrust Practitioners. The Antitrust Bulletin, 27(3), 593–618.
45 Carlton, D. W., & Perloff, J. M. (2015). Modern industrial organization (Fourth edition, Global edition.). Pearson.
46 https://comcom.govt.nz/__data/assets/pdf_file/0015/362031/Lisa-Asher-submission-in-response-to-FSNI-and-FSSI-statement-of-unresolved-issues-15-August-2024.pdf
47 https://comcom.govt.nz/__data/assets/pdf_file/0025/362761/5B20245D-NZCC-24-Foodstuffs-merger-clearance-determination-30-September-2024.pdf

Table 1: HHI calculated for developed market concentration ratios >0.25 highly concentrated[48]

- Concentration ratios at this level often attract the term "**market failure**"[49] [50]. Finding data for the DIY and Trade industry globally, is much harder, due to the fragmented nature of it in most countries, except for Australia, as it largely sits with one retailer, Bunnings.
- By comparison in the US market, DIY, hardware are in one channel, and trade sits somewhat in another channel. This allows for better competition, particularly on price and better distribution of power and control over the network, as it is less concentrated.
- The US National Retail Federation published a 2024 list by Kantar to show in the top 100 retailers in the US and their size, with hardware and paint, featuring prominently, allowing us to get a gauge on market structure of DIY and hardware:

Multiple hardware and paint companies made the NRF's list[51]:

- #5 The Home Depot ($150.7 billion)
- #9 Lowe's Companies ($84.0 billion)
- #21 Ace Hardware ($27.5 billion)
- #33 Tractor Supply Co. ($14.6 billion)
- #35 Menards ($13.1 billion)
- #41 Sherwin-Williams ($13.4 billion)
- #62 Harbor Freight Tools ($7.0 billion)
- #75 True Value Co. ($6.0 billion)

Additional Trade – Top Building/ Trade Supply Companies:

- **Martin Marietta Materials**: $6.9 billion to $7.3 billion.
  - The company specializes in aggregates, cement, and construction materials across the U.S. market[52].
- **Vulcan Materials Company**: Approximately $7.58 billion.
  - Vulcan is a major supplier of aggregates, asphalt, and concrete products[53].
- **Summit Materials**: Estimated around $3.38 billion.

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[48] Pavic, I., Galetic, F., & Piplica, D. (2016). Similarities and Differences between the CR and HHI as an Indicator of Market Concentration and Market Power. British Journal of Economics, Management & Trade, 13(1), 1–8.
[49] Carlton, D. W., & Perloff, J. M. (2015). Modern industrial organization (Fourth edition, Global edition.). Pearson.
[50] Goolsbee, A., Levitt, S. D., & Syverson, C. (2020). Microeconomics (Third Edition). NY : Worth Publishers.
[51] https://nrf.com/research-insights/top-retailers/top-100-retailers/top-100-retailers-2024-list
[52] https://ir.martinmarietta.com/news-releases/news-release-details/martin-marietta-reports-first-quarter-2024-results
[53] https://ir.vulcanmaterials.com/news/news-details/2024/VULCAN-REPORTS-FIRST-QUARTER-2024-RESULTS/default.aspx

- Focusing on cement, aggregates, and construction materials for infrastructure projects[54].
- **Ferguson Enterprises**: $29.6 billion.
    - Ferguson provides plumbing, HVAC, and waterworks products across residential and non-residential construction markets[55].

DIY and Trade Market Structure AU to US:

- Given the sheer size of the industry in the US, and it relative to Australia, the top US retailers of hardware, paint and DIY equal $316b with a population of 346m[56], we acknowledge other smaller players are missing from this list. Relative to Australia of $26.2b with a population of 26.7m[57]. Comparatively revenue ~8% in size and population ~7.7%, therefore we are not too far from a decent level of market coverage.
- Comparatively the HHI of DIY Hardware and some trade in the US, based on the data available, is under <0.25 with imperfect information, while the Australian market again with imperfect data is over >0.45.
- The trade channel is more separate and independent, however Home Depot dominates retail DIY and hardware. The US is a much more competitive market, with greater diverse players, and clearer delineation of market and industry. Of the top 4 trade only companies, they equally add $45.16b to the size of the market. The fragmentation of players, allows for adequate competition. This is not present in Australia, as Bunnings own 66% of both channels.
- Although Bunnings in their submission, argue they have significant competition across many of the categories they compete in, as part of the Big Box Retailing review[58], none offer a one stop shop to purchase all of these items. To demonstrate the sheer number of industries they operate across, an inclusion has been included below.

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[54] https://buildops.com/resources/biggest-construction-material-manufacturers-in-the-united-states-chart/
[55] http://www.corporate.ferguson.com/pressroom/news-releases/news-details/2024/Ferguson-Reports-Fourth-Quarter-and-Year-End-Results-Issues-FY2025-Guidance/default.aspx
[56] https://www.worldometers.info/world-population/us-population/#:~:text=The%20current%20population%20of%20the,345%2C426%2C571%20people%20at%20mid%20year.
[57] https://www.worldometers.info/world-population/australia-population/#:~:text=Australia%202024%20population%20is%20estimated,of%20the%20total%20world%20population.
[58] https://www.aph.gov.au/DocumentStore.ashx?id=063fb626-491e-46ff-902e-3b1d3174ee11&subId=765645

Schedule 1 – Bunnings competitive landscape by key categories

3.1.1 Key Insights Recommendation:

- Market failure for DIY and Trade is present in Australia, due to inadequate competition policy, which has allowed Bunnings to acquire its competitors, and build out its business into more channels and more industries through acquisitions, where it dominates all other retailers from pure scale and size.

- The barriers to entry are increasing, and ability to succeed in this market, continue to be dramatically reduced, as Bunnings continues an aggressive store expansion strategy with store growth at 36% in the last 4 years, and it is moving into more categories to extend its reach and dominance.
- Bunnings appears to have a great hold over Australia’s access to products for affordable shelter, by their level of market concentration, compared to the hold Coles and Woolworths have over our access to food. Food and shelter are “basic necessities” for welfare, and therefore closer scrutiny of these industries is required.
- Adequate competition policy which separates DIY and Hardware from Trade is necessary. Given the size of Bunnings, the onus of proof that should it chose to move into new channels or categories, it would need to demonstrate it would not substantially lessen competition.

3.1.2 Key Questions:

- Why has Bunnings been allowed to concentrate to the point of driving out substantial competition across DIY, hardware, and trade?
- Why is trade not separate as a channel like other slightly more competitive markets such as the US?

4. Benchmarking DIY and Trade to Supermarkets – The New Inquiry

When we contrast the media, political, and regulator interest in the supermarket industry versus that of the DIY and Trade industry, we see two very different competition landscapes and coverage.

- **The DIY and Trade** industry is made up of the Bunnings Group with turnover of $19b[59], then the next likely competitor is Metcash owned Hardware including Mitre10 with $3.5bn in revenue which includes the Total Tools network sales of $1.1b within that number[60]. Bunnings is 443% larger than its next largest competitor; this is significantly ***more market power.***

- **The Supermarket Industry** by contrast has more players, with the supermarket divisions of Woolworths at $50.7b[61], Coles at $39b[62], Aldi at $11b[63], Metcash Food Wholesale of $8.3b[64] (excludes store revenue), and Costco Wholesale at $3b[65]. This starts to paint a very different picture of competition between the highly scrutinised supermarket sector, and DIY and Trade sector. Woolworths is only 30% larger than Coles, and there are other players within the industry.

- **Apples and Hammers–** To argue the supermarket industry is highly concentrated, which it is, and by global standard it is, however the DIY and Trade industry in Australia is almost a monopoly at national level, and risks losing even medium size competitors by the size and power of Bunnings. Within some regions, it is a monopoly with competitors such as Mitre10 being put out of business or having their stores purchased by Bunnings[66], when they know they cannot compete. This is a source of concern, and increases further barriers to entry, and adequate competition if not addressed.

Despite this overwhelming dominance, Bunnings replaced Woolworths as the most trusted brand in 2023[67] in Australia, and as of 2024 remains the most trusted brand in Australia by Roy Mogan[68]. Bunnings wins the most trusted within the retail category, a competitive set

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[59] https://www.wesfarmers.com.au/docs/default-source/asx-announcements/2024-annual-report-(including-appendix-4e).pdf?sfvrsn=1ab4e5bb_0
[60] https://www.metcash.com/wp-content/uploads/2024/08/21068_Metcash_AR24_Web_V1.pdf#page=20
[61]https://www.woolworthsgroup.com.au/content/dam/wwg/investors/reports/f24/f24/Woolworths%20Group%202024%20Annual%20Report.pdf
[62]https://www.colesgroup.com.au/FormBuilder/_Resource/_module/ir5sKeTxxEOndzdh00hWJw/file/Annual_Report_2024_Online_Tab.pdf
[63] https://www.aldiunpacked.com.au/aldi-contributes-30-billion-to-australian-economy-as-it-celebrates-20-years-in-australia/
[6464] https://www.metcash.com/wp-content/uploads/2024/08/21068_Metcash_AR24_Web_V1.pdf#page=20
[65] https://investor.costco.com/news/news-details/2023/Costco-Wholesale-Corporation-Reports-Third-Quarter-and-Year-to-Date-Operating-Results-for-Fiscal-2023/default.aspx?os=win&ref=app
[66] https://www.aph.gov.au/DocumentStore.ashx?id=ec1ae1e8-fdaa-4407-8333-ab87d16e4b41&subId=767843
[67] https://www.roymorgan.com/findings/9082-roy-morgan-trusted-brand-annual-awards-2022
[68] https://www.roymorgan.com/findings/roy-morgan-unveils-the-trusted-brand-award-winners-for-2024-across-all-categories

beyond the DIY and Trade which it competes in. Given the huge public scrutiny on the supermarket industry in Australia on price gouging[69] [70], and subsequent inquiries[71] and legal action by the ACCC[72] it seems quite logical, the Australian public would lose trust in Woolworths. Perhaps less obvious to the public, is the potential lack of scrutiny over Bunnings. This could be based on the fact, that there are very few competitors to compare it to.

4.1 Roy Morgan Australian Trusted Brands

December 2023 before heavy political and public scrutiny on Supermarket industry[73]:

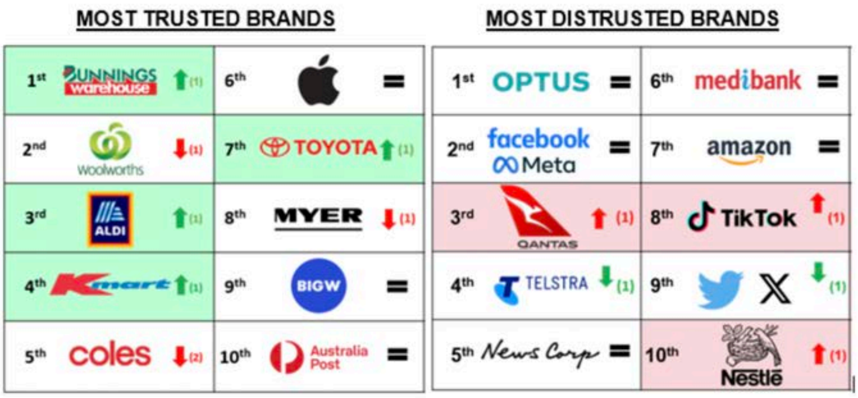

Figure 1: Australia’s 10 most trusted and 10 most distrusted brands in December 2023.

March 2024, after political and public scrutiny on Supermarket Industry[74]:

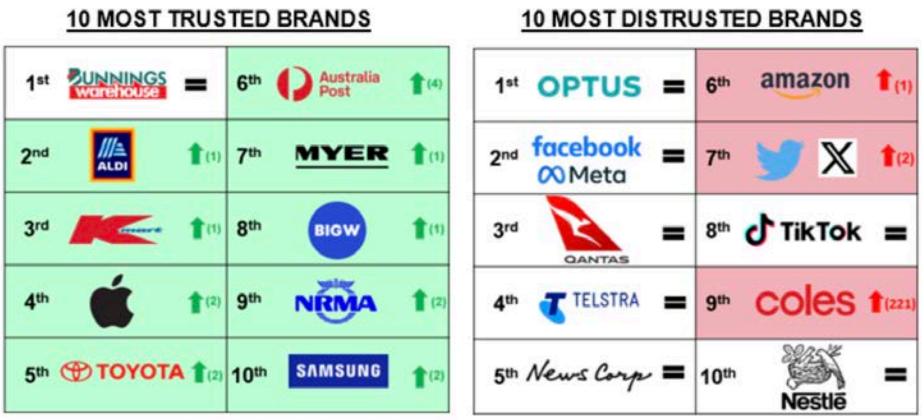

Figure 1: Australia’s 10 most trusted and 10 most distrusted brands in March 2024.

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[69] https://theconversation.com/yes-australias-big-supermarkets-have-been-price-gouging-but-fixing-the-problem-wont-be-easy-229602
[70] https://www.abc.net.au/news/2024-06-21/supermarket-prices-coles-woolworths-aldi-choice-federal-budget/103846562
[71] https://www.accc.gov.au/inquiries-and-consultations/supermarkets-inquiry-2024-25
[72] https://www.accc.gov.au/media-release/accc-takes-woolworths-and-coles-to-court-over-alleged-misleading-prices-dropped-and-down-down-claims#:~:text=The%20ACCC%20alleges%20that%20the,or%20'Down%20Down'%20program.
[73] https://www.roymorgan.com/findings/9472-risk-monitor-quartely-update-december-2023
[74] https://www.roymorgan.com/findings/bunnings-retains-spot-as-australias-most-trusted-brand-while-woolworths-and-coles-slide-down-the-rankings

The Roy Morgan data has shown for years Bunnings is highly trusted within retail[75], and has gone on to become the most trusted brand in Australia. Due to public scrutiny, supermarkets are no longer trusted, and Bunnings is now the most trusted brand in Australia. Although this is based on public perception, perception often becomes reality.

How can a company which offers everyday low prices, and will beat a competitor's price by 10%[76], not be trusted? Bunnings invests heavily in advertising spend, with their brand promise of the lowest price guaranteed or beat it by 10%. This value messaging is about building trust in the brand, and its promise of value. Bunnings is ranked in the top 20 of advertisers across the nation at 16th according to Nielsen in 2023[77].

FY 2023 Nielsen Advertiser Ranking

1. Harvey Norman
2. McDonald's Restaurants
3. Woolworths Supermarkets
4. Amazon.com
5. Reckitt Benckiser
6. Telstra Corporation
7. Stan Entertainment
8. Coles Supermarkets
9. KFC
10. Sportsbet
11. Optus
12. Chemist Warehouse
13. Google Australia
14. Hungry Jack's
15. Toyota Motor Corporation Australia
16. Bunnings Building Supplies
17. Walt Disney Studios Motion Pictures
18. Apple Computers
19. Aldi Stores
20. Samsung Electronics Aust
Source: Nielsen

Australian retailers spent $2.5b in FY23 on advertising, which is up 4% on year ago[78], therefore it is not out of the question to **estimate Bunnings is spending north of $100m a**

[75] https://www.roymorgan.com/findings/9082-roy-morgan-trusted-brand-annual-awards-2022
[76] https://www.bunnings.com.au/policies/price-policy?srsltid=AfmBOoqEDdZ55fyOOTOMsbFBJJTdo_K_xlE60Jf0BB68q2kWjDZ20PWR
[77] https://www.mediaweek.com.au/nielsen-ranks-biggest-spending-marketers-with-harvey-norman-and-maccas-on-top/
[78] https://www.mediaweek.com.au/nielsen-ranks-biggest-spending-marketers-with-harvey-norman-and-maccas-on-top/

year on advertising spend, which consistently carries this value and trust promise. The importance of brand equity should not be misunderstood. “It is difficult for competitors to communicate to satisfied brand users because they have little motivation to learn about alternatives”, and this is reinforced through consistent messaging[79] [80]. What complicates this picture of competitors though, is who are they? Given Mitre10 is not fully integrated like Bunnings with its business model due to Metcash wholesaling and some franchise stores, it is not able to achieve the same vertically integrated pricing structure, and thus is more expensive. Given the closest competitor lacks the buying power to compete on price, the question must be asked, what percentage of transactions require this 10% discount? There is no evidence in their annual report to this effect. Although the statement is not misleading, the context in which it emerges makes it insignificant or immaterial.

4.1.1 Key Insights and Recommendations:

- The DIY and Trade industry is significantly more concentrated than the supermarket industry, but it receives minimal press scrutiny compared to that of supermarkets.
- Through lack of competition or concentration of a supplier’s business with a single retailer (retailer power), could be why we see a lack of critical reviews of this retailer.
- Large retailers are heavy advertising spenders in Australia. Heavy advertising spend, helps deliver the key message of value and trust which underpins Bunnings advertisements.
- There appears to be a correlation between top advertising spend, and trusted brands. Research shows, this builds brand equity. With the scrutiny Coles and Woolworths have received since December, has removed both of them from trusted brands, and for Coles, now one of the most distrusted brands.
- Bunnings is able to use its high advertising spend to reinforce the value trust message, therefore it is imperative this is factual, which leads to the relevant questions below.

4.1.2. Key Questions:

- For the Senators to request- What was the advertising spend of Bunnings for the last 5 fiscal years? How does this compare to its closest competitor Mitre10?
- As Bunnings key advertising message is around price and value, with their key price policy as “*lowest prices.. we’ll beat it by 10%”*[81] – How often is this 10% activated in a year to customers? How does this compare over the last 5 years, and what is it as a % of total transactions? The objective of asking is to understand if this is a valid message conveyed through various promotional materials, or one that is said and not honoured.
- With the 10% lower price guarantee, does Bunnings fully fund this? Or does it seek reimbursement, partial funding, or rebates for suppliers?

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[79] Aaker, D. A. (1992). The Value of Brand Equity. *Journal of Business Strategy*, *13*(4), 27–32.

[80] M’zungu, S. D. M., Merrilees, B., & Miller, D. (2010). Brand management to protect brand equity: A conceptual model. *Journal of Brand Management*, *17*(8), 605–617.

[81] https://www.bunnings.com.au/policies/price-policy?srsltid=AfmBOoomPgIE_aJGwPGEZ2UCnJ7FbjevGCRQ0_nvHM_m03TzkDqSOU22

5. Big Box Retailer Market Power, Negotiations, and Supplier Engagement

5.1 Market Power – Factors Contributing to Market Power Explained

1. **Market Concentration:** A high concentration of market share among a few firms can lead to increased market power, such as Oligopolies, Duopolies, or Monopolies. When dominant firms control a significant portion of the market, they can influence prices and outputs more effectively[82]. Research has found, when companies in concentrated markets concentrate, this is largely for higher profits for those concentrating, than value for customers[83] [84] [85].
    - The concentration of markets within DIY and Trade is significant with Bunnings. As was discussed earlier, we have seen the rise of "category killers"[86], and this large box retailer has evolved to represent an "industry crusher". As it has used merger and acquisitions of other businesses and competitors to amass power beyond any other entity.
    - The previous discussion on timelines and acquisitions of the Bunnings Group, shows a clear strategy of dominance built over time through mergers and acquisitions. The acquisition of McEwans in 1993[87] [88], would not have been allowable today due to the massive concentration that occurred through this acquisition, and therefore increase in market power.
    - Metcash owned Mitre10 and associated hardware division has revenue increase by 2.7% to $3.5b, which is a 68% increase from FY20[89]. These numbers are a mix between wholesaling and some company owned stores. Within the latest annual report, the process of acquisitions to grow its footprint to 222 stores within the network, with investments in store upgrades. The full acquisition of Metcash of Total Tools Holdings from 85% to 100% in November 2023[90] is further evidence that mergers and acquisitions play a large role in the rise of big box retailers and how they are reinforcing their competitiveness through more categories, and less competitors.

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82 Grullon, G., Larkin, Y., & Michaely, R. (2019). Are U.S. Industries Becoming More Concentrated? *Review of Finance*, 23(4), 697–743

83 Carlton, D. W., & Perloff, J. M. (2015). *Modern industrial organization* (Fourth edition, Global edition.). Pearson.

84 Goolsbee, A., Levitt, S. D., & Syverson, C. (2020). *Microeconomics* (Third Edition). NY : Worth Publishers.

85 Shepherd, W. G. (1972). The Elements of Market Structure. *The Review of Economics and Statistics*, *54*(1),

86 Sampson, S. D. (2008). Category killers and big-box retailing: Their historical impact on retailing in the USA. *International Journal of Retail & Distribution Management*, *36*(1), 17–31.

87 https://www3.wesfarmers.com.au/who-we-are/our-history/bunnings-acquires-mcewans#:~:text=In%20January%201993%2C%20the%20bankrupt,store%20in%20every%20mainland%20state.

88 https://www.afr.com/politics/bunnings-builds-a-profitable-future-19930218-k5bp7

89 https://www.metcash.com/wp-content/uploads/2024/08/21068_Metcash_AR24_Web_V1.pdf#page=20

90 https://www.metcash.com/wp-content/uploads/2024/08/21068_Metcash_AR24_Web_V1.pdf#page=20

2. **Barriers to Entry:** Structural barriers such as high startup costs, economies of scale, prevent new competitors from entering the market, allowing existing firms to maintain and exercise market power[91].
    - This is evident with Bunnings growing from a $400m revenue business in the 90s to a $19b business in FY24. Through sheer scale, the barriers to entry are significant, and we can see this through the previous mentioned size difference of Bunnings being 443% larger than its next competitor of Mitre10, mentioned in an earlier section.
    - Due to the sheer scale and purchasing power of Bunnings, this also gives them significant power over their supplier base. The reliance of suppliers on Bunnings for viability, should not be underestimated. The testimony given by suppliers during the Greens led Senate Inquiry on Price Gouging[92], was damning in that growers had asymmetric information, and no guarantee on volumes purchased. This led them to be vulnerable, and price takers to Bunnings as the price setter.

3. **Product Differentiation:** Unique product features, brand loyalty, or perceived quality differences can reduce the price elasticity of demand, granting firms greater pricing power over consumers[93].
    - Bunnings is able to do this as a one stop shop for all of your DIY and trade needs. The acquisitions to buy credibility in other areas such as the purchase of Beaumont Tiles, to extend into areas of weakness, demonstrate they are moving into more categories.
    - The advertising effect of "value" messaging and building trust in "lowest prices", we can see resonates with Australians with Bunnings now the most trusted brand in Australia by Roy Morgan[94]. When we contextualise this, Bunnings does not have competitors which compete with them in size or reach. Therefore if independent hardware operators are cheaper, Bunnings will beat them by 10%. This puts significant pressure on smaller competitors, and their viability, as they lack the scale to absorb such price decreases. Again we highlight the "category" and "industry" killer capability, based on market size and power.

4. **Control Over Essential Inputs:** Firms that own or control scarce resources or essential inputs can exert significant influence over competitors and the market, enhancing their market power[95].
    - We see this where Bunnings have significant control over the supply chain in increasing areas. These increasing areas have been marked by their move into tools with the acquisition of Adelaide tools, then additionally Beaumont Tiles.

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[91] Shapiro, C. (2019). Protecting Competition in the American Economy: Merger Control, Tech Titans, Labor Markets. *Journal of Economic Perspectives*, 33(3), 69–93.
[92] https://nff.org.au/media-release/senate-inquiry-confirms-unconscionable-treatment-of-growers-by-big-supermarkets-and-bunnings/
[93] Belleflamme, P., & Peitz, M. (2015). *Industrial Organization: Markets and Strategies* (2nd ed.). Cambridge University Press.
[94] https://www.roymorgan.com/findings/roy-morgan-unveils-the-trusted-brand-award-winners-for-2024-across-all-categories
[95] Pepall, L., Richards, D., & Norman, G. (2016). *Industrial Organization: Contemporary Theory and Empirical Applications* (5th ed.). Wiley-Blackwell.

We are seeing Bunnings increase grocery offers within their stores in pet and cleaning, as they take on competition with supermarkets and specialty retailers in this area. The further move into store brands, means they will have greater control over the products which show up in their stores, as they will be able to determine price, quality, and volumes to contract manufacturers. Research has found, those who hold the greatest control over the supply chain, are those which hold the power[96]. This is the case with Bunnings.

5. **Pricing Above Marginal Cost:** Firms with market power can set prices higher than the marginal cost of production or cost of doing business (CODB), leading to higher profits at the expense of consumer surplus. This results in allocative inefficiency, as the price does not reflect the true cost of resources used[97].
    - Although we are not privy to the details of gross margin, and CODB, when we benchmark Bunnings EBIT versus that of other Australian retailers, and other international retailers, it is quite apparent, they are making significant EBIT above the Australian supermarkets, which are subject to a significant amount of scrutiny, Walmart in the US, which is a global and powerful retailer, and even its own Kmart business which is category killing The Warehouse in New Zealand[98].
    - Delivering EBIT of almost 12%, which is almost double Woolworths Supermarkets of 6.1%, is significant. When we go on to compare this ~12% to Kmart's 8.63%, which has competitors such as Big W in Australia and The Warehouse in NZ, which is delivering 0.94% EBIT, it looks quite evident a lack of competition, is resulting in higher prices delivering higher EBIT for the retailer.

	Walmart			Coles Supermarkets			WW Supermarkets		
	Jan-24	Jan-23	Jan-22	Jun-24	Jun-23	Jun-22	Jun-24	Jun-23	Jun-22
Revenue	648,125	611,289	572,754	39,042	36,746	34,624	50,741	48,047	45,461
Operating Income EBIT	27,012	20,428	25,942	2,018	1,765	1,715	3,110	2,865	2,444
Operating Margin EBIT	4.17%	3.34%	4.53%	5.17%	4.80%	4.95%	6.10%	6.00%	5.38%

	K-mart Group			The Warehouse			Bunnings		
	Jun-24	Jun-23	Jun-22	Mar-24	Mar-23	Mar-22	Jun-24	Jun-23	Jun-22
Revenue	11,107	10,635	9,129	1,892	1,892	1,727	18,968	18,539	17,754
Operating Income EBIT	958	769	505	18	72	76	2,251	2,230	2,204
Operating Margin EBIT	8.63%	7.23%	5.53%	0.94%	3.78%	4.39%	11.87%	12.03%	12.41%

5.1.1 Key Insights and Recommendations:

- Market concentration for DIY and Trade, is exceptionally high. This is a consequence of mergers and acquisitions of companies over time, but also acquisition of small

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[96] Cotterill, R. W. (1997). The food distribution system of the future: Convergence towards the US or UK model? Agribusiness, 13(2), 123–135.
[97] Tirole, J. (2017). *Economics for the Common Good*. Princeton University Press.
[98] https://www.thepost.co.nz/a/business/350434688/turning-around-warehouse-fortunes-vital-nation?lid=ucupwtwkby45&utm_source=newsletters&utm_medium=email&utm_campaign=the_post_digi_weekday_bulletin

independent retailers. Bunnings is able to use its size and scale, to move from a "category killer" to "industry-crusher", which we are seeing as small businesses, and some larger businesses are unable to compete, consistently removed from the market.

- Barriers to entry are significantly high in DIY and Trade, as Bunnings have huge purchasing power and access to capital and economies of scale. This is seen through the failed attempt of Masters backed by Woolworths and Lowes with an exit in 2017.
- The pure size difference of Bunnings with $19b turnover, and its next largest competitor Mitre10 of $3.5b means Bunnings is 443% larger than Mitre10. Mitre10 used to have 900 stores, of which it now has 300, with Bunnings growing to 513.
- The concentration of power and size, increases supplier reliance on a single retailer, which again increases barriers to entry, and dependency on suppliers to Bunnings. Evidence of poor treatment of suppliers by Bunnings was disclosed in the Price Gouging Senate Inquiry, led by the Greens in 2024.
- Bunnings is able to differentiate itself as a one stop shop for all DIY and Trade needs. This is a level of convenience that reduces shoppers search costs and travel time. This then allows them to easily add more categories, based on the pure size of their stores with minimal investment costs.
- Firms with market power can set prices significantly above marginal cost, or can reduce them temporarily to drive out competition. With the continued loss of small independent DIY and Trade operators, we appear to be seeing evidence of this in market.
- Bunnings EBIT% is 11.9%, versus 4.17% for Walmart (more scale), 6.1% for Woolworths (receiving significant scrutiny), and Coles at 5.17%, again under significant scrutiny. The very high EBIT% suggests either a well-run business, however in the absence of CODB% this is unclear, or simply monopoly profits.

5.1.1 Key Questions:

- The senate inquiry should ask to see, Bunnings CODB% over the last 5 years, and have this benchmarked against global retailers (also provided in this report). Competitive markets require companies to manage their CODB% and seek savings and efficiencies to remain competitive on price. Creeping CODB%, means shoppers are paying higher prices based on a climbing cost base. As Bunnings has scale, it should be able to manage this efficiently.

5.2 Market Power as Monopsony Power for Bunnings with Suppliers

Since Bunnings has few direct competitors with similar power, it should be considered that Bunnings has monopsony power. Monopsony power arises when market power of a buyer has significant control over a market and can influence the price and terms of exchange to their advantage. We will first discuss the nature of Monopsony Power, and then how this relates to Bunnings to provide context.

Relationship Between Monopsony Power and Market Power:

1. **Buyer Dominance:** Monopsony power is demonstrated as market power exercised by buyers. Monopolies can raise prices by restricting output, monopsonists can lower prices by limiting the quantity they purchase[99].
   - If there is only one buyer within a monopsony power framework, they can dictate the volumes required, and the prices paid. This includes restrictions of what is bought, with minimal consideration for the seller. During the price gouging senate inquiry, we heard from green life suppliers of abuse of market power with supply agreements with no volumes[100].

2. **Impact on Market Outcomes:** Monopsony power affects market equilibrium by distorting the supply side. Suppliers receive lower compensation than in competitive markets, which can lead to underproduction and allocative inefficiency[101].
   - The testimony provided during the inquiry by these suppliers was that they only had one buyer, and in order to remain viable they had to "smile to survive". If other buyers were available in the market, the price taking nature of these agreements would leave businesses not viable.

3. **Counterpart to Monopoly Power:** While monopoly power is well-understood as a source of market inefficiency on the selling side, monopsony power represents a mirror image on the buying side. Both forms of power lead to price distortions and welfare losses but operate through different mechanisms[102].
   - As there are no equal buyers of size and scale, this is entirely distorted when suppliers are reliant entirely on Bunnings. When we look further into the number of suppliers Bunnings has in the following section, it would be important for the senate inquiry to ask, how many of these suppliers have other buyers for their products, and to what proportion Bunnings sales represents of their entire business.

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99 Blair, R. D., & Harrison, J. L. (2010). *Monopsony in Law and Economics*. Cambridge University Press.
100 https://www.smh.com.au/business/companies/bunnings-grilled-at-supermarket-inquiry-for-squeezing-suppliers-and-shelving-boss-20240415-p5fjzy.html
101 Manning, A. (2003). *Monopsony in Motion: Imperfect Competition in Labor Markets*. Princeton University Press.
102 Dobson, P. W., Waterson, M., & Chu, A. (2001). The Welfare Consequences of the Exercise of Buyer Power. *OECD Economic Studies*, 2001(1), 151–192.

4. **Bilateral Market Power:** In some markets, both sellers and buyers have significant market power, leading to bilateral monopolies or oligopolies. The final market outcome in such cases depends on the relative bargaining strengths of the parties involved[103].
   - Bunnings does work with some large suppliers, and therefore monopsony power is not present in all supplier arrangements. However, the concentration of DIY and Trade that Bunnings enjoys, could and would reshape the way in which other dominant suppliers deal with other buyers. This can then reshape markets into ones of mutually beneficial arrangements of higher profits.

5. **Policy Implications:** Recognising monopsony power as a form of market power highlights the need for regulatory interventions not just against monopolistic sellers but also against powerful buyers. Antitrust laws and tighter regulations are often necessary to prevent abuse of monopsony power[104].

6. **Consumer Welfare Loss:** The combination of higher prices and restrictive practices with suppliers and volume, leads to a net loss in consumer welfare. Consumers pay more for less, and resources are not allocated in the most efficient manner, negatively impacting economic efficiency and growth[105].

5.2.1 Key Insights and Recommendations:

- Monopsony buyer power is present with Bunnings and its suppliers. Some suppliers have only one buyer, which is Bunnings, so they are heavily reliant on this relationship for viability, therefore buyer dominance as monopsony power is present. There is a higher chance of abuse of power when this is present.
- Monopsony power impacts market equilibrium by distorting the supply side with lower compensation than competitive markets and allocative inefficiency.
- Due to no other buyers being similar in size, and thus Bunnings having significant power, it holds significant buyer power over its suppliers.
- Monopsony buyer power should be included in considerations of market power with existing suppliers before M&A applications are approved for new businesses. Monopsony buyer power has significant implications on abuse of market power, by nature of the asymmetric power relationship. This can be understood through the reliance of suppliers on a single entity, and if it is currently occurring with some suppliers, or at increasing levels, then it is likely this strategy could extend to the acquiring entity, which strengthens power further.

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[103] Blair, R. D., & Harrison, J. L. (2010). *Monopsony in Law and Economics*. Cambridge University Press.
[104] Naidu, S., Posner, E. A., & Weyl, E. G. (2018). Antitrust Remedies for Labor Market Power. *Harvard Law Review*, 132(2), 536–601.
[105] Pindyck, R. S., & Rubinfeld, D. L. (2018). *Microeconomics* (9th ed.). Pearson.

5.3 Market Power – Through New Categories, Loyalty Data, Store Brands, Ethical Sourcing and Exclusive Brands.

5.3 - Bunnings in New Categories

As Bunnings move into more categories, Pet appears to be the next frontier. We have seen Woolworths acquire Pet Stock to compete in the premium pet space[106]. Bunnings has decided to launch within its stores with 700 of its own brands, which could potentially wipe out many more of the family pet stores which currently compete in this space[107]. Pets are already allowed in stores. We are also seeing pet ownership replace that of having children, given the high cost of having them, so pet care is the new baby care category, as we see declining birth rates. It is highly recommended that moves into new categories within its stores, which then start competing with new retailers due to its sheer size should be notified to the regulator, prior to commencing. This is due to considerable risk to competition through the size and power of this retailer to kill other retailers, leaving it in a dominant position to then raise prices, once competition has disappeared.

5.3 -

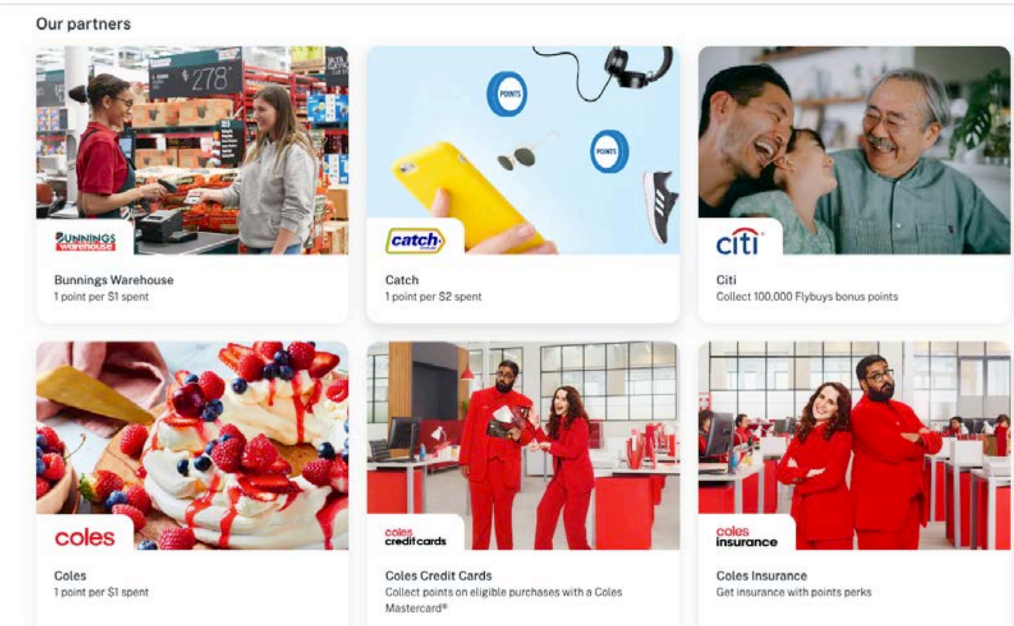
Bunnings Use of Loyalty Data

What adds another layer of complexity here, is Wesfarmers ownership of Flybuys, which provides it household data and consumption across many retailers and services[108]. When Wesfarmers divested Coles, it retained 50% ownership of Flybuys, though a joint venture[109]. With an appointment of a specific CEO for this company, their focus was to double spending on data analytics, digital and loyalty[110]. In 2021 Flybuys had started to be offered at Bunnings and Officeworks, and also stating it would gain access to $5.5b of purchases across 120m

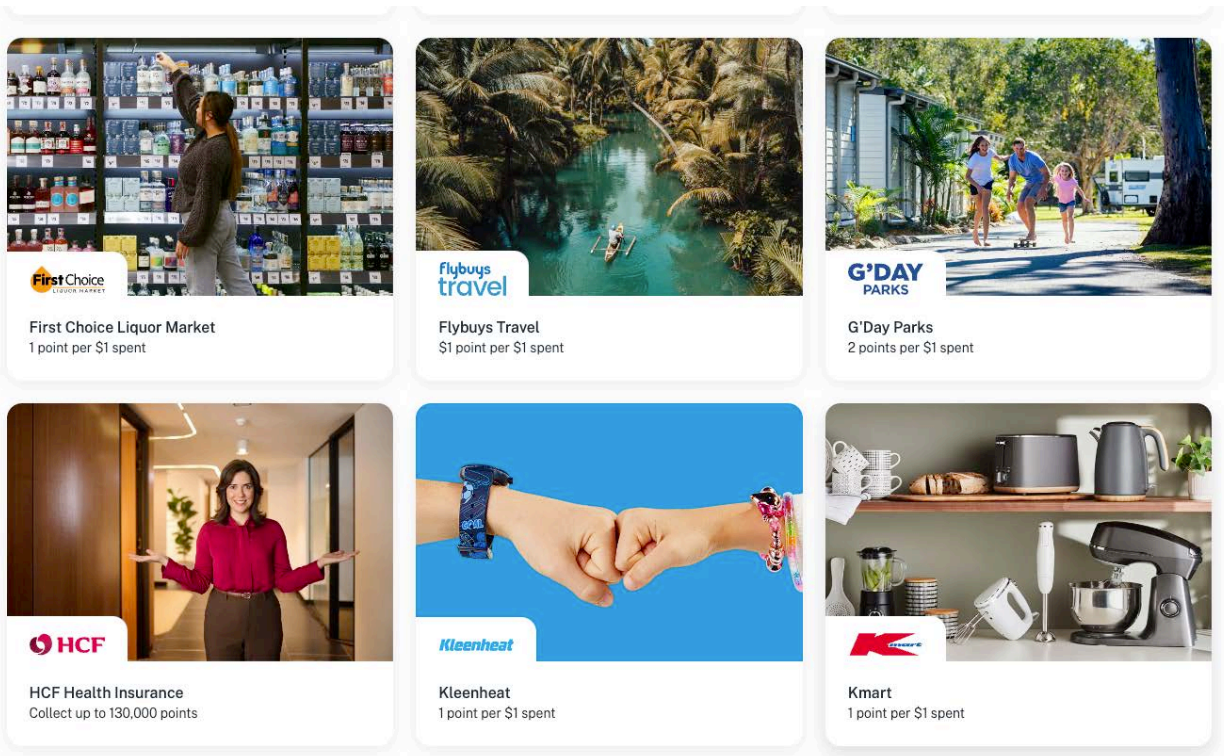
[106] https://www.afr.com/companies/retail/accc-gives-nod-to-woolworths-pets-deal-with-asset-sales-in-tow-20231214-p5erfb
[107] https://www.dailymail.co.uk/news/article-11896699/First-look-Bunnings-massive-expansion-pet-products.html
[108] https://www.afr.com/companies/retail/flybuys-unpacks-new-data-division-20200924-p55yxp
[109] https://www.afr.com/companies/retail/wesfarmers-coles-pump-16m-into-flybuys-20190903-p52nlq
[110] https://www.afr.com/companies/retail/wesfarmers-coles-pump-16m-into-flybuys-20190903-p52nlq

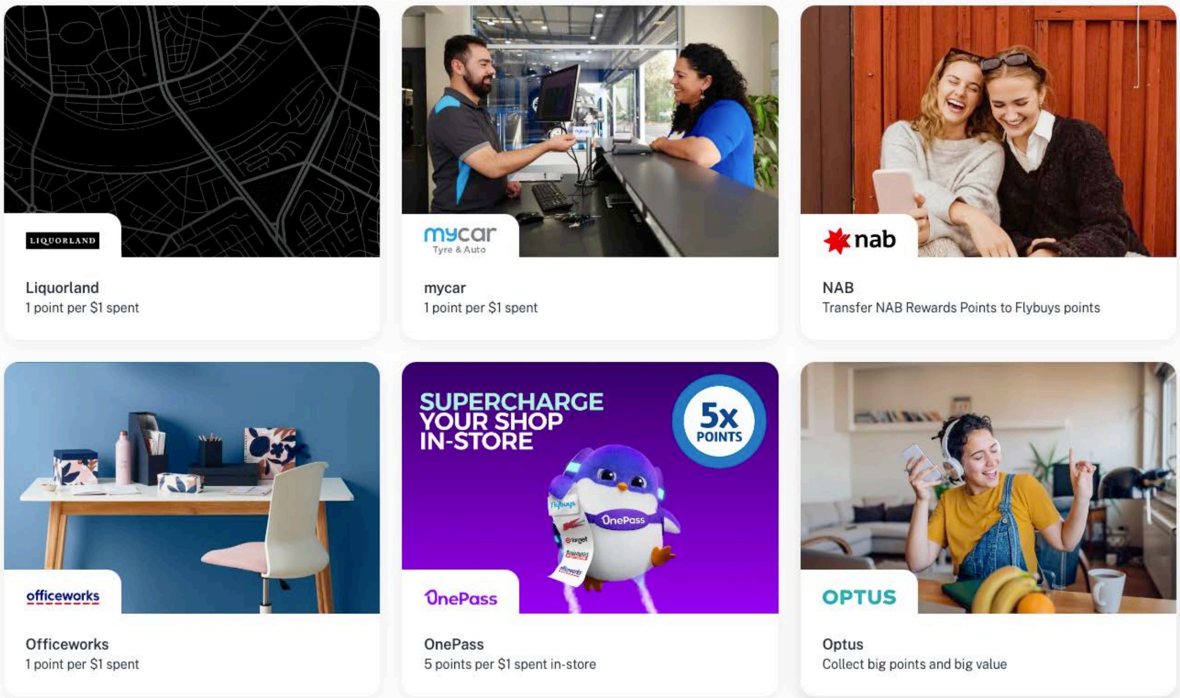
transactions through its partners every month[111]. This is a huge number of transactions across a large number of retailers, and channels. The value of loyalty schemes is often very high, there was speculation in 2018, that Qantas Rewards was worth $5.5b which was half of the capital value of the national airline[112]. The ability to track, understand purchasing habits, to therefore the predict ranging, assortments, pricing and overall national demand is highly valuable. Unfortunately, Australia unlike the EU, has much more relaxed data privacy laws. EU residents can object to the processing of personal data for direct marketing, including profiling (how you shop)[113], however Australia has very few protections. The Flybuys database is very valuable and could allow Wesfarmers to decide with ease which new categories it could enter and the types of items which care the most popular, the prices and how shoppers shop for these items across channels. It is highly recommended the nature in which Bunnings uses data and can access the full Flybuys database is understood. It is also recommended that Australia revise its data privacy laws in line with the EU[114].

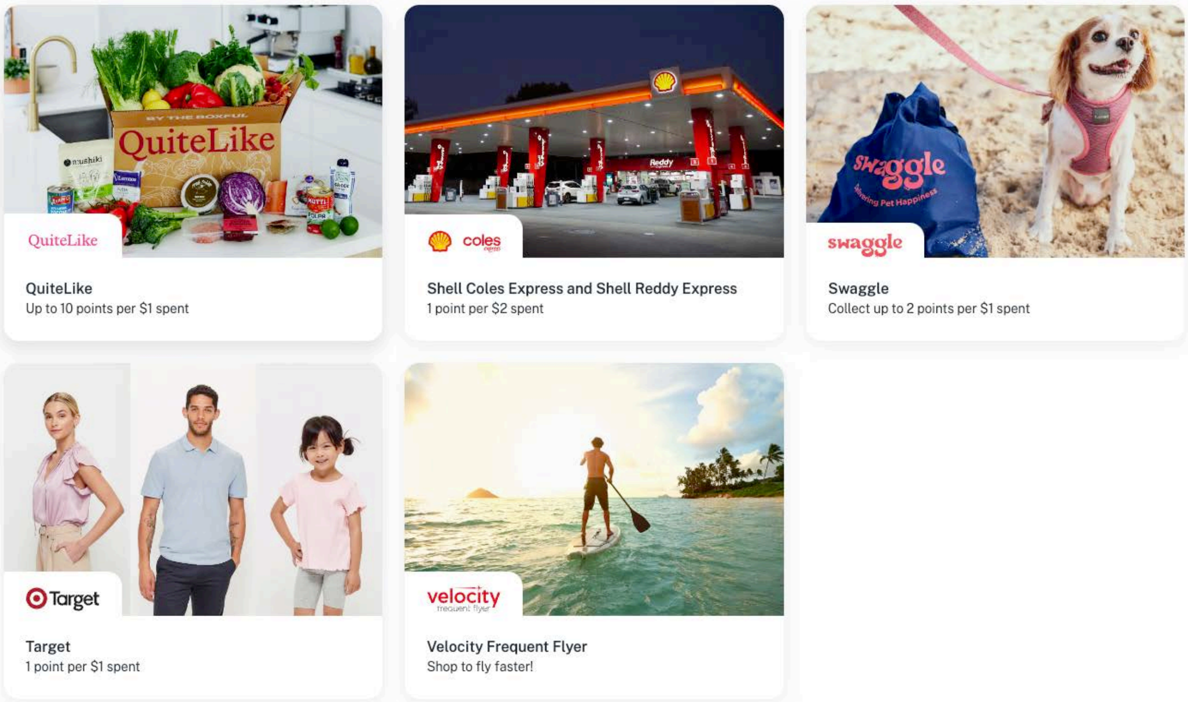
Data is the new currency of power, the use of this is largely unregulated, but also monetised. The transparency of data to customers is lagging in Australia compared to the EU. It is recommended that the regulators look to have data companies of this nature separate to retailers, with transparency of use and collection made available to customers, and their ability to opt out and erase should they wish to. This would make Australia more in line with European data privacy and protection laws[115]. **Flybuys partners detailed below:**



[111] https://www.afr.com/companies/retail/flybuys-inks-deal-with-bunnings-officeworks-20211109-p597as
[112] https://www.afr.com/companies/retail/wesfarmers-embraces-the-age-of-big-data-swaps-physical-stores-for-digital-assets-20180327-h0y00u
[113] Greenleaf, G. (2019). "Global Data Privacy Laws 2019: 132 National Laws and Many Bills". *Privacy Laws & Business International Report*, 157, 14–18
[114] Waters, N. (2020). "Comparing the GDPR and Australia's Privacy Act". *Information & Communications Technology Law*, 29(3), 325–348. Taylor & Francis Online
[115] Voigt, P., & Von dem Bussche, A. (2021). *The EU General Data Protection Regulation (GDPR): A Practical Guide*. Springer., Lynskey, O. (2019). The GDPR and Vague Terms: Consent, Accountability, and Fairness. *Modern Law Review*, 82(5), 761–781.


First Choice Liquor Market
First Choice Liquor Market
1 point per $1 spent
Flybuys travel
Flybuys Travel
$1 point per $1 spent
G'DAY PARKS
G'Day Parks
2 points per $1 spent
HCF
HCF Health Insurance
Collect up to 130,000 points
Kleenheat
Kleenheat
1 point per $1 spent
Kmart
1 point per $1 spent


LIQUORLAND
Liquorland
1 point per $1 spent
mycar Tyre & Auto
mycar
1 point per $1 spent
nab
NAB
Transfer NAB Rewards Points to Flybuys points
officeworks
Officeworks
1 point per $1 spent
SUPERCHARGE YOUR SHOP IN-STORE
5x POINTS
OnePass
OnePass
5 points per $1 spent in-store
OPTUS
Optus
Collect big points and big value



5.3 - Market Power Evidence from Own-Brand

Private label, also known as stores brands, or own brands, and sometimes exclusive brands, are brands which are owned and controlled by retailers[116]. For simplification, we will herein after refer to them as own-brand. Own-brand growth strategies are often employed by retailers to generate higher margins, and often to drive store loyalty as a point of difference[117]. In a grocery setting, the often carry the name of the retailer such as Coles or Woolworths, and in Kmart they carry their store brand Anko. An emerging challenge with own-brands is when shoppers believe they are purchasing a brand, however it is in fact a phantom brand[118]. They are often disguised as a standard or national brand and have often come at the cost of smaller suppliers due to limited shelf space[119].

Directly from Bunnings FY24 investor report they state:

> “During the year, Bunnings identified new opportunities to expand its addressable market. This included launching expanded cleaning and outdoor ranges and new own-brand products, such as the Citeco safety equipment range, and introducing steel frames to its frame and truss offering[120].”

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[116] Kumar, N., Steenkamp, J. E. M. (2007). Private Label Strategy: How to Meet the Store Brand Challenge. United Kingdom: Harvard Business School Press.
[117] Kumar, N., Steenkamp, J. E. M. (2007). Private Label Strategy: How to Meet the Store Brand Challenge. United Kingdom: Harvard Business School Press.
[118] https://www.9news.com.au/national/phantom-brands-finding-their-way-onto-aussie-supermarket-shelves/a9c6eb8d-7ae4-4db7-9991-4f6e753ba241
[119] https://www.theguardian.com/business/2024/sep/25/phantom-brands-seasonal-discounts-and-shrinkflation-the-pricing-tricks-used-by-australian-supermarkets
[120] https://www.wesfarmers.com.au/docs/default-source/asx-announcements/2024-annual-report-(including-appendix-4e).pdf?sfvrsn=1ab4e5bb_0 page 28

Bunnings have elected to run an own-brand program which utilises a “phantom brand” [121] [122] approach, called Citeco. Rather than having “Bunnings” as the brand on their own-brand product, they choose to create a brand which appears to be independent of them. When this is done in a retailer which sells supplier brands, then introduces its own (dual stocker), this is grey territory on competition. The reason for this, is due to the retailer playing the dual role of customer and competitor[123]. The retailer has access to commercially sensitive information about the suppliers’ commercials, sales history, new product pipeline, then at its discretion can use this to replace that product with one it has greater control over through a store brand agreement. It is recommended that all store brands or exclusive brands, show transparency that they are in fact under such agreement, country of origin for transparency (as is the case within supermarkets), and accessible information on suppliers for adequate supply chain transparency to the regulator to ensure ethical sourcing, and that modern slavey is not present.

The Citeco brand, has no identifying manufacturer links that is it a Bunnings store-brand product online or instore. This can be misleading for customers. As can be seen in the image below, it is unclear Bunnings owns this brand, and it is also unclear the country of origin of this item. Whereas Coles talks to the registered trademark of Coles and the country of origin being Australia, so shoppers are informed of where this item comes from and choose to support this country of origin, or not.

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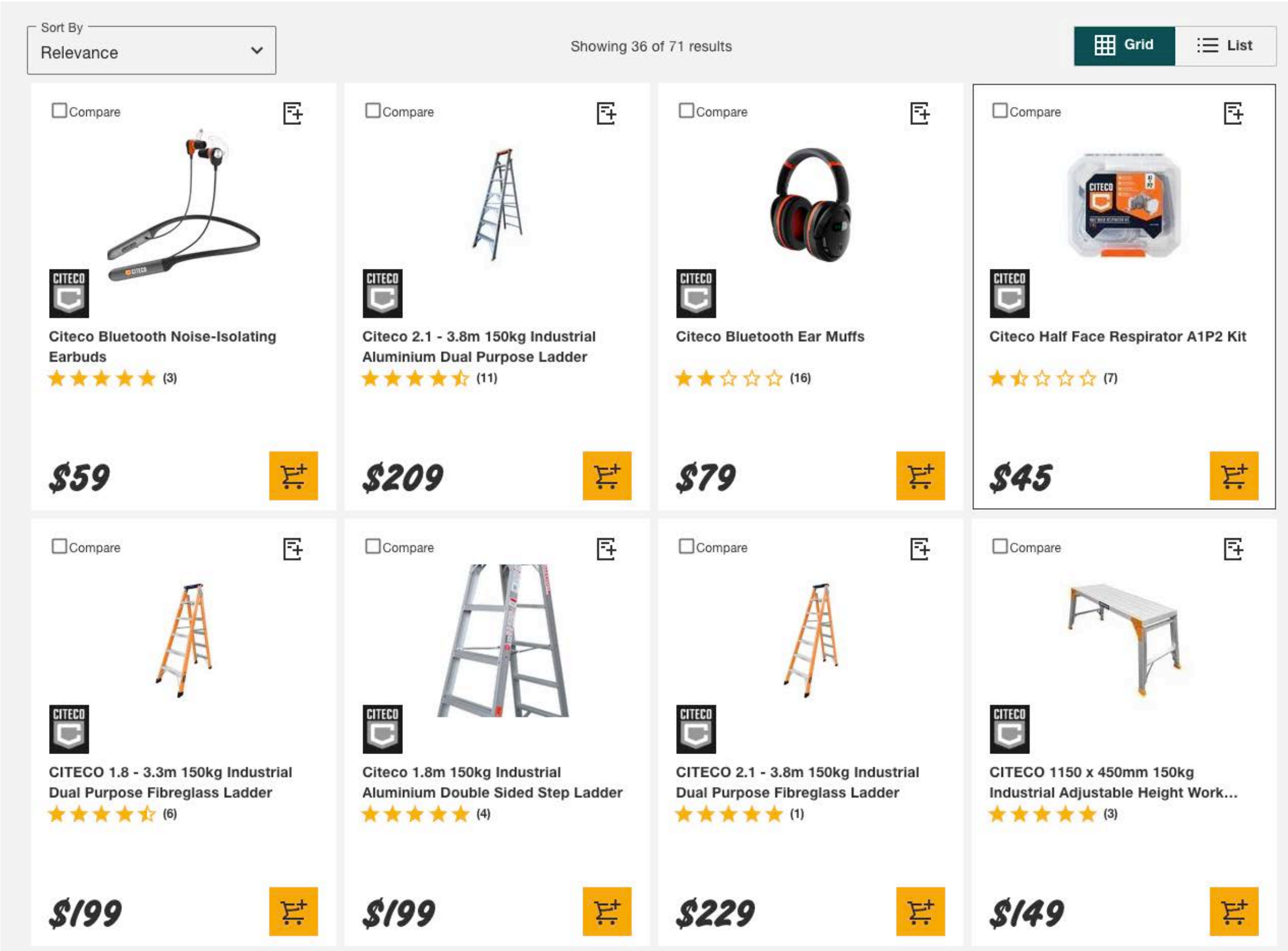
[121] https://theconversation.com/phantom-brands-haunting-our-supermarket-shelves-as-home-brand-in-disguise-67774

[122] https://www.marketingweek.com/where-next-for-tescos-venture-brands/

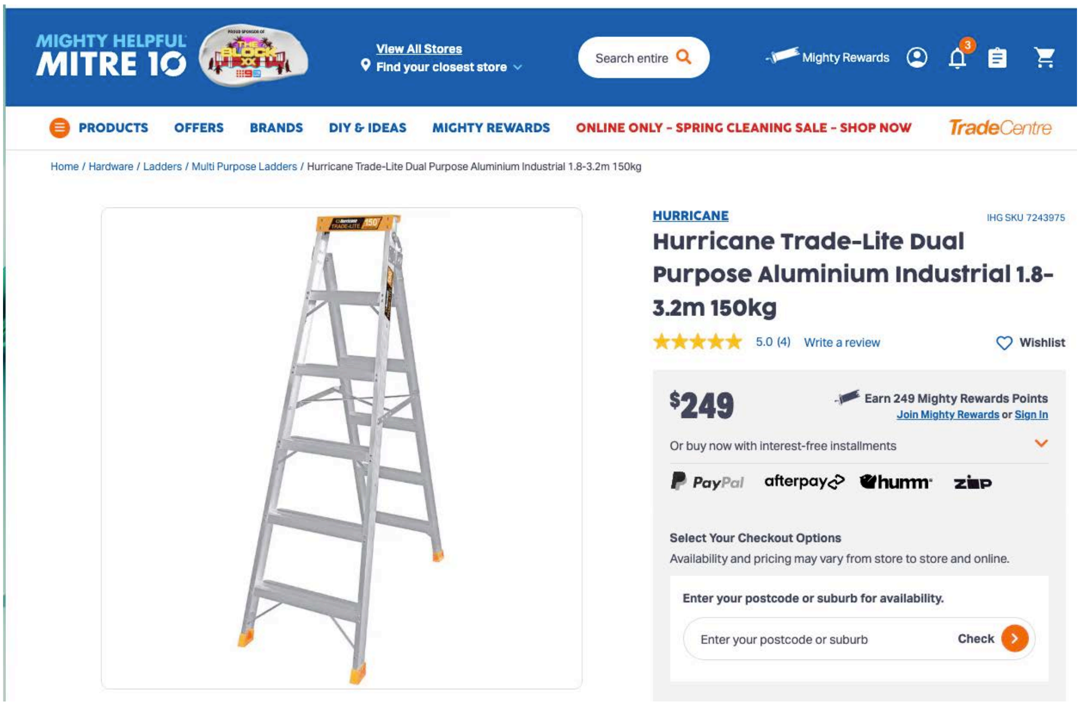
[123] Tarziján, J. (2004). Strategic Effects of Private Labels and Horizontal Integration. *The International Review of Retail, Distribution and Consumer Research*, *14*(3), 321–335.

As can be seen by a search enquiry, there are many Cietco products, showing a small portion of the 71 results in this brand.

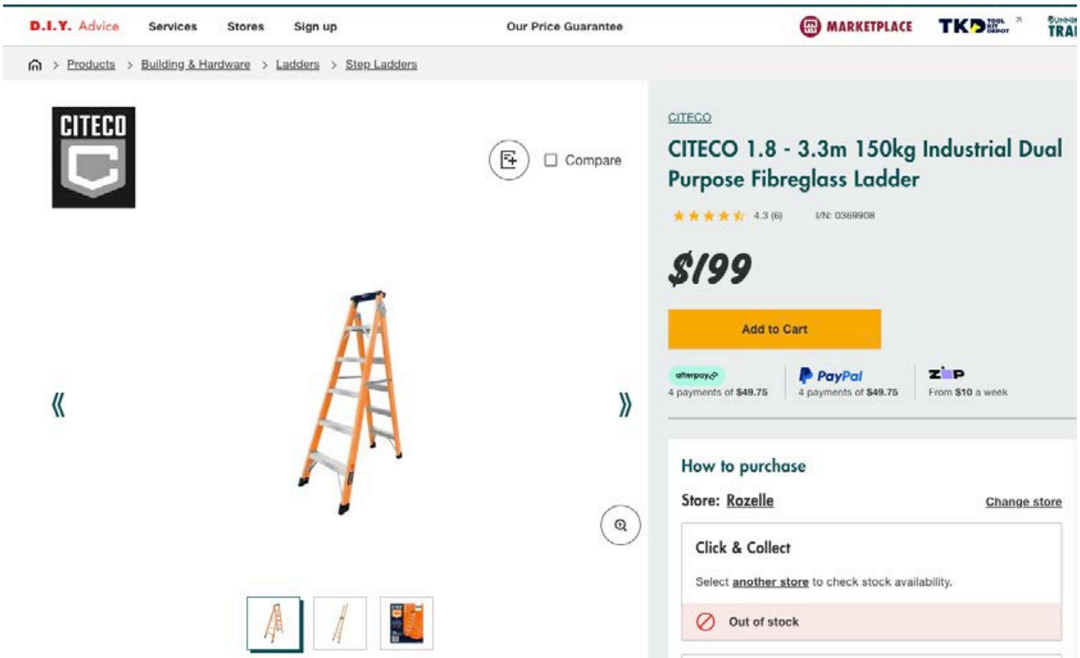


Let's compare Citeco own-brand and Mitre10 branded product.

Mitre10[124]



Bunnings – Citeco[125]



The difference between the two products is a cost savings of 20%, which is a material savings for a shopper to purchase an unknown brand. Store-brands find more success in markets

[124] https://www.mitre10.com.au/hurricane-trade-lite-dual-purpose-aluminium-industrial-1-8-3-2m-150kg-7243975?region_id=000020&gad_source=1&gclid=Cj0KCQjwsoe5BhDiARIsAOXVoUvufv2OfZZX5O8OKCBB-RxdzBk6pqOn_TDSl2q_r2dJ75wSl92i8TEaAujPEALw_wcB&gclsrc=aw.ds retrieved 31/10/24.
[125] https://www.bunnings.com.au/citeco-1-8-3-3m-150kg-industrial-dual-purpose-fibreglass-ladder_p0369908 retrieved 31/10/24

where the retailer has greater control over the supply chain[126]. This is seen within grocery markets in the UK, Western Europe, however not in the US, as national brands supply what is largely a regional retailer customer base. Store-brand success is also determined by their ability to generate volume, which then flows through to volume breaks and efficiencies for the manufacturer to achieve the lowest cost. In the US with grocery store-brands, smaller regional chains cannot achieve this[127]. However, for Bunnings given their market leadership position, and increasing store count, they are able to achieve this. Store-brands were originally introduced as cheaper alternatives to national brands[128], however overtime they have evolved into a three-tier strategy where they occupy value, mainstream, and premium areas within categories[129]. As store-brands grow, we can expect to see more tiers appear within store, and the reduction in brands, and competition from brands within store.

With store-brands being sourced from overseas manufacturers, Wesfarmers discloses the number of locations they work, with, and broadly the countries they source from across all of the brands within the Wesfarmers Group. Own-brand countries are listed in alphabetical order, not by volume.

What is not quite clear about the tables below, is Bunnings have referred to these locations as "Number of own-brand supplier sourcing locations". It is important for the senate to understand, is if this is the total number of suppliers, they use for their own brand programs or is this in fact an office in different locations, which then works with many own-brand manufacturers.

5.3 Market Power - Ethical Sourcing

FY24 Wesfarmers Modern Slavery Disclosures:

Sourcing locations of own brand goods			
Number of own-brand supplier sourcing locations [1]	**2024**	**2023**	**2022 [2]**
Bunnings Group	22	23	20
Kmart Group	10	20	17
Officeworks	12	13	9

126 Rubio, N., & Yagüe, M. J. (2008). Store brand management and channel dependence: A model from the manufacturer's perspective. *Journal of Brand Management*, *15*(4), 272–290.
127 Steenkamp, J.-B. E. M. (2024). What is holding private label back in the United States and in emerging markets? *Journal of Retailing*, *100*(1), 56–69.
128 Kumar, N., Steenkamp, J. E. M. (2007). Private Label Strategy: How to Meet the Store Brand Challenge. United Kingdom: Harvard Business School Press.
129 Gielens, K., Dekimpe, M. G., Mukherjee, A., & Tuli, K. (2022). The future of private-label markets: A global convergence approach. *International Journal of Research in Marketing*,

	2024	2023	2022
Top ten own-brand supplier sourcing locations [1]	Australia	Australia	Australia
	Bangladesh	Bangladesh	Bangladesh
	China (inc HK and Taiwan)	China (inc HK and Taiwan)	China (inc HK and Taiwan)
	India	Germany	Europe (not incl. UK)
	Indonesia	India	India
	Pakistan	Indonesia	Indonesia
	Saudi Arabia	Qatar	Pakistan
	Sweden	Republic of Korea	Qatar
	United States	Switzerland	United States & Canada
	Vietnam	United States	Vietnam

[1] This metric is determined using aggregated procurement spend on own-brand goods-for-resale products. Sourcing locations are sorted alphabetically.

[2] In 2022 sourcing locations included regional groupings such as Europe and North America.

3 Industrial and Safety count of sourcing locations has been revised to 33 for FY23

Ethical Sourcing for Modern Slavery:

Ethical sourcing program - monitoring data

	2024		2023		2022	
	Bunnings Group	Kmart Group	Bunnings Group	Kmart Group	Bunnings Group	Kmart Group
Suppliers						
Number of suppliers [4]	6,467	3,993	7,752	4,384	6,151	5,438
Number of suppliers in the ethical sourcing program	924	938	816	1,151	666	1,207
% of suppliers in the ethical sourcing	*43.2%*	*64.7%*	*75.0%*	*63.2%*	*70.7%*	*64.5%*
% of suppliers in the ethical sourcing	*14.3%*	*23.5%*	*10.5%*	*26.3%*	*10.8%*	*22.2%*
% of suppliers monitored	*6.2%*	*15.2%*	*7.9%*	*16.6%*	*7.7%*	*14.3%*

Wesfarmers provides disclosures on ethical sourcing, however the numbers presented are factual, but do not adequately convey key messages. Additional calculations to the report have been added in red to show, that although there are a high proportion of ethical sourcing suppliers being monitored, as a total percentage of suppliers, it is very low. This is much lower than that of Kmart, which shows a lack of oversight of the existing supply chain, and a huge issue of potential for modern slavery within Bunnings supply chain, which is going unchecked.

For example, 6.2% of suppliers to Bunnings were monitored for ethical sourcing which monitors for modern slavery. This is less than half that of Kmart, which is also not very high. Ensuring modern slavey is not present and ethical sourcing practices in place, is why it is recommended the senate inquiry request for the review, how many own brand suppliers, what countries they are in, and then confidentially their ethical sourcing and modern slavey controls. As there is a high level of exploitation of workers in developing nations, it is therefore important that Wesfarmers, given its size leads corporate responsibility and ethical sourcing. The current numbers provided, do not show leadership they could.

It is highly recommended that greater transparency of the supply chain and suppliers supplying Bunnings is made available to regulators, so that it can be independently reviewed on whether or to how much modern slavey is present within sourcing, and how ethical the supply chain is. If modern slavery, and high environmental damage is occurring for a cheap ladder or hammer, the Australian public should be allowed to know through country-of-origin labelling, as well as transparency of images of suppliers and their locations to make informed choices.

Based on the figures from the most recent annual report, auditing of suppliers is extremely low, which presents significant risk. It is therefore recommended that auditing of all suppliers by an independent third party is required to ensure modern slavery and high destruction to the environment is not occurring, rather than self-reporting which is currently present.

5.3 - Market Power Evidence from National Brands Exclusively

Bunnings have gained significant market share and power over time. So much so that in 2008 it entered into an exclusive agreement with power tool brand Ryobi to exclusively sell their power tools[130]. This was approved by ACCC[131] at the time, based on other brands being available. What is more interesting is that Ryobi entered into such an agreement with Home Depot in 2000 in the US market, which allowed it 8 years to test and learn whether such a deal could be mutually beneficial. This deal is still in place 24 years later and was extended to the Australian market 8 years later, with yet another dominant leader, Bunnings. A move such as this, makes the partnering retailer a destination for this trusted brand.

The impact of a well-known brand, only being available at another well-known retailer brand, when executed well, can have material consequences on competition. At the time of this deal, significant consolidation was happening within hardware and DIY industry. Woolworths has considered acquiring Mitre10, however the business structure was too challenging to navigate. It then went on to create Masters in 2009, as previously mentioned in section 3.

5.3.1 Key Insights and Recommendations:

- Given the sheer size and scale of Bunnings and the ease in which it can include new categories at a low cost to entry, but consequently have a material impact on competition, is it recommended that it should seek approval by the regulator to compete in a new category or industry. The purpose of this is their ability to invest in lower than viable pricing for long periods of time, which consequently can easily kill off competition, and then be able to raise prices. This could substantially lessen competition in more industries through market power.
- Bunnings 50% ownership stake in Flybuys gives it significant data knowledge and power across a large proportion of Australian shoppers, on their everyday purchases. The transparency and ways in which they use this as part of their joint venture is not clear in their financial reports.
- It is recommended a separate senate inquiry, which seeks to understand more about these programs. This includes, but not limited to data collection, loyalty rewards programs, how this information is used, stored, shared, sold, and the nature of which decisions are made from it. If the data source is as extensive as Flybuys, it does allow the use of market power to occur, if not properly regulated.

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[130] https://www.afr.com/companies/bunnings-powers-ahead-with-exclusive-ryobi-deal-20080922-j8ycj
[131] https://www.accc.gov.au/media-release/accc-allows-exclusive-supply-arrangement-between-techtronic-bunnings

- As these schemes often track shoppers across the nation, Australia has outdated privacy laws which do not capture the extent in which this data can be used, monetized, and potentially abused. It is therefore recommended Australia consider some of the more recent provisions in the EU for adequate protections.
- There are significant implications of amassing such a large database of shopper habits, and the impact this has on current and future competition. Smaller competitors do not have access to this level of insights, which puts them in a severely diminished competitive position.
- Own-brands can be viewed as another form of retailers’ exercising their power over the supply chain. Although it is common practice for this to occur in supermarkets, this is often with greater transparency such as details of Coles Brand, Woolworths Brand, and clear contact details of them on back of pack. Bunnings uses a phantom brand strategy when it comes to its store-brand program, which could be highly misleading for shoppers. It is highly recommended that Bunnings is required to disclose on pack if they are own-brand, and the country of origin it was sourced from, for greater transparency for its customers.
- Due to the high nature of suppliers to Bunnings at 6,467 in the last financial year, FY24, the current self-reporting of ethical sourcing evidence of no modern slavery is not transparent. It is recommended, that Bunnings disclose the number of own-brand suppliers, and where they are per nation to the regulator. It is also recommended a third party provide auditing that is globally reputable, with adequate transparency for shoppers to make decisions on what goods they purchase, and whether this has come at the cost of a nations environment or slave labour to produce.
- It is also recommended country-of-origin labelling, as well as transparency of images of suppliers and their locations to make informed choices.

5.4 Market Power - Evidence Through Financials

There are multiple measures of financial performance which will be reviewed. These are EBIT (earnings before interest), ROE (return on equity) or ROFE (return on funds employed) or ROIC (return on invested capital).

The importance of understanding the key differences to how each of these financial metrics are calculated and used.

The formulas for each are detailed below:

Return on Equity (ROE)

Definition: Return on Equity (ROE) is a financial ratio that measures the profitability of a company in relation to its shareholders' equity. It represents the amount of net income returned as a percentage of shareholders' equity, indicating how effectively management is using the equity invested by shareholders to generate profits[132].

Formula:

$$\text{ROE} = \frac{\text{Net Income}}{\text{Shareholders' Equity}}$$

Interpretation: A higher ROE means that the company is more efficient at generating profit relative to the equity capital it has. ROE is widely used to compare profitability among companies in the same industry, as it reflects how well a company uses its equity base to grow its profits[133].

This measure is popularly used when benchmarking standards across banking and financial services, technology companies and consumer goods companies[134].

Return on Invested Capital (ROIC)

Definition: Return on Invested Capital (ROIC) is a measure of how well a company generates returns on the capital invested in its business, including both equity and debt. It considers the company's overall capital efficiency, including equity[135].

Formula:

$$\text{ROIC} = \frac{\text{Net Operating Profit After Tax (NOPAT)}}{\text{Invested Capital (Debt + Equity)}}$$

[132] Ross, S., Westerfield, R., & Jaffe, J. (2010). *Corporate Finance*. McGraw-Hill Education.
[133] Brigham, E. F., & Ehrhardt, M. C. (2013). *Financial Management: Theory and Practice*. South-Western Cengage Learning.
[134] Demers, E., & Lev, B. (2001). A Rude Awakening: Internet Shakeout in 2000. *Review of Accounting Studies*, 6(2-3), 331–359.
[135] Damodaran, A. (2012). *Investment Valuation: Tools and Techniques for Determining the Value of Any Asset*. Wiley Finance.

Interpretation: ROIC shows how well a company is using all its capital (debt and equity) to generate profits. A ROIC higher than the company's cost of capital suggests that it is creating value, while a lower ROIC indicates that it may be destroying value[136].

This is often used in capital intensive industries such as utilities, energy, manufacturing and healthcare, to measure the efficiency of the spend[137]. As retailing is moving towards a high level of investment with instore technology, this calculation is also used[138].

Return on Funds Employed (ROFE)

Definition: Return on Funds Employed (ROFE) is a financial ratio that measures the return generated by a company on the total funds (or assets) employed in its business. It is similar to ROIC but focuses more narrowly on the operational funds (assets) employed, often excluding short-term liabilities[139].

Formula:

$$\text{ROFE} = \frac{\text{Operating Profit}}{\text{Average Total Funds Employed}}$$

Interpretation: ROFE is used to assess how effectively a company utilizes the funds at its disposal to generate operating profit. It is a good indicator of operational efficiency, particularly in capital-intensive industries[140].

Industries which favour this as a measure, are those associated with retail, telecommunications and transport and logistics. This assists in understanding working capital, how efficiently those funds are being used, and by nature of some requiring a high level of capital infrastructure such as telecommunications[141] [142]. The ability to monitor cost management and returns. With greater spend on logistics and automation, we are seeing a rise in this as a fair measure for retailing[143].

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[136] Koller, T., Goedhart, M., & Wessels, D. (2020). *Valuation: Measuring and Managing the Value of Companies*. Wiley.
[137] Allayanis, G., & Weston, J. P. (2001). The use of foreign currency derivatives and firm market value. *Review of Financial Studies*, 14(1), 243–276.
[138] Roberts, M. R., & Sufi, A. (2009). Control rights and capital structure: An empirical investigation. *Journal of Finance*, 64(4), 1657–1695
[139] Atrill, P., & McLaney, E. (2018). *Accounting and Finance for Non-Specialists*. Pearson.
[140] Walsh, C. (2011). *Key Management Ratios: Master the Management Metrics That Drive and Control Your Business*. FT Press.
[141] Doukas, J. A., Kim, C., & Pantzalis, C. (2010). Arbitrage risk and stock mispricing. *Journal of Financial and Quantitative Analysis*, 45(4), 907–934
[142] Ganesan, S., George, M., Jap, S., Palmatier, R. W., & Weitz, B. (2009). Supply chain management and retailer performance: Emerging trends, issues, and implications for research and practice. *Journal of Retailing*
[143] Tsao, Y.-C., & Chen, Y.-J. (2012). Return on investment of logistics automation in warehousing system. *International Journal of Physical Distribution & Logistics Management*, 42(9), 863–882.

Key Differences:

- **ROE** focuses solely on the returns to shareholders by measuring profit against equity.
- **ROIC** takes a broader view, measuring returns on all invested capital, including both debt and equity.
- **ROFE** centers on the return generated by operating profits relative to the total funds (or assets) employed, giving insight into the efficiency of asset utilization.

In this industry, and to understand the context of how Bunnings has grown significantly, the relied upon measure across all markets is return on capital. This sector should focus therefore on return on invested capital. This is due to the firm’s ability to borrow large sums of money, and be able to get a higher level of return on it through its operations than the interest payable to the banks.

In the context of Bunnings, and what will be discussed more comprehensively in John Dahlsen’s reflections on this, is that it is delivering almost 70% return in this capacity, against retailers such as Woolworths Australia or NZ Supermarkets, at 32% and 2.8%.

	WW Supermarkets			WWNZ			Bunnings		
	Jun-24	*Jun-23*	*Jun-22*	*Jun-23*	*Jun-23*	*Jun-22*	*Jun-24*	*Jun-23*	*Jun-22*
Revenue	50,741	48,047	45,461	8,166	7,912	7,563	18,968	18,539	17,754
Operating Income EBIT	3,110	2,865	2,444	108	249	316	2,251	2,230	2,204
Operating Margin EBIT	6.10%	6.00%	5.38%	1.32%	3.15%	4.18%	11.87%	12.03%	12.41%
Funds Employed	9,883	9,647	10,117	3,415	4,745	4,635	3,254	3,410	2,854
ROIC	**32.2%**	**29.0%**	**24.9%**	**2.8%**	**5.2%**	**7.0%**	**69.2%**	**65.4%**	**77.2%**

It is therefore strongly recommended that based on the described ways in which capital return can be measured, that the senate and regulator consider all measures detailed above with particular attention to ROIC within a retailing context to understand if there is adequate competition, minimal misuse of market power, fair pricing, as these are all impacted by varying degrees of ROIC.

5.5 Market Power – Evidence on Pricing

Through the end of 2023 and through 2024, the cost-of-living crisis has resulted in several inquiries previously mentioned. There have been interim measures to track pricing for transparency, such as $1.1m provided to Choice to help track grocery baskets across the country and retailers. A recent study from the US, found that when the US stopped tracking pricing which monitored and enforced illegal fictitious pricing practices, on the premise competition should stop this, saw an increase in conduct, and free markets were not able to regulate Fifty years ago, the FTC stopped tracking pricing, assuming adequate competition should regulate a market and prevent poor conduct[144], however it was found this has not taken place, and simply helped companies which engage in this practice to profiteer to a higher

[144] Staelin, R., Urbany, J. E., & Ngwe, D. (2023). Competition and the Regulation of Fictitious Pricing. *Journal of Marketing*, *87*(6), 826–846.

proportion. These findings suggest regulation is necessary ongoing to ensure adequate pricing is not misleading or deceptive across major industries.

It is recommended an ombudsman be set up to monitor and track pricing and price setting practices across the DIY and Trade industries to account for this.

5.6 Market Power – New Sites and Acquisitions

In 2008 Mitre10 was reported to have 520 stores, of which it has 300 stores now. The article also goes onto note that Bunnings was conscious of the challenges within its competition and for prime sites and was making “big offers”[145] to its competitors to secure these prime sites in tough trading conditions. In the 1990s we have seen Mitre10 stores shrink from 900 nationally to 300, while we have seen the inverse occur with Bunnings.

This therefore raises the question given site number growth by Bunnings and loss by its competitor – how many sites has Bunnings purchased from previous hardware banners? Although the test of competition often happens at a larger aggregated level such as national, competition for DIY and Trade often occurs locally. Therefore, rather than compete with competitors, for Bunnings to simply acquire them on a site-by-site basis, leads to creeping acquisitions over time, which has assisted it in securing prime sites, as well as removing competition.

5.4.1 Key Insights and Recommendations

- When analyzing market power through financials, the ROIC or return on invested capital for Bunnings, which is a preferred measure of efficiency of capital employed, sits at a very high amount of 69.2%. When this is compared to Woolworths who is a very successful and capital efficient retailer, their value is 32%. This is over double the return. These returns are not normal, and indicate short comings within the supply chain, or a lack of competition, that drives such returns.
- It is recommended an ombudsman be set up to monitor and track pricing and price setting practices across the DIY and Trade industries to ensure abuse of market power is not occurring.
- It has become clear through press articles, that Bunnings have managed to buy competitor sites such as those of Mitre10, to convert them into Bunnings. This is removing competition by town/regional creeping acquisitions. Although this practice is not illegal, by nature of buying up competitors over time, has resulted in Mitre10 dropping from 900 stores in the 1990s to 300 today. It is recommended the senate inquiry request history of all purchases of prior sties which were owned by a competitor over the last 30 years. It is also recommended that Bunnings provide proof that they did not create a monopoly in this location through this acquisition, and that adequate competition in DIY and Trade remained in these areas.

[145] https://www.afr.com/companies/bunnings-powers-ahead-with-exclusive-ryobi-deal-20080922-j8ycj

6 Groceries Sold at Big Box Retailers – Relationship to the Grocery Code of Conduct and Other Code

The price gouging senate inquiry provided strong recommendation and evidence that all sellers of groceries should be included in the Food and Grocery Code of Conduct. These recommendations were not accepted by the Labour led government. It is strongly recommended that this decision be reviewed and that big box retailers also have their own code of conduct created which is mandatory with its own commissioner or ombudsman to oversee it.

Further, given the nature of competition within the Foodservice industry, during and post-Covid we have seen major changes, at an estimated value of $18b[146]. A major acquisition of PFD by Woolworths Group[147] in 2020 for $552m for 65% share, which is one of the largest Foodservice Wholesaler, then the copycat strategy of Metcash buying Superior Foods for $412.3m for 100% stake in February 2024[148], this raises questions on whether these wholesalers should either be included in the big box code of conduct, or the Food and Grocery Code of Conduct, or both based on merchandise. They warehouse and deliver from their large warehouses to big box retailers' huge amounts of food, and groceries to cafes, restaurants, quick service restaurants, airlines, and other key out of home resellers. A code which governs either under the food and grocery or big box code, should also occur. We continue to see concentration across adjacent industries.

If a retailer sells groceries, it should be governed by the food and grocery code of conduct, if that business has buying power over several or more stores. Given the nature of how big box retailers work, it is also recommended based on what has been discussed so far, that a separate big box retailer code be created, as the nature of "category killing" or "industry crushing" with minimal competitors, requires further nuance within its written code.

6.1.1 Groceries in Big Box Retailing Key Insights and Recommendations:

- Where groceries are sold, it is highly recommended that the Food and Grocery Code of Conduct be applied to these retailers. Particularly on unit pricing visibility and fair treatment of suppliers.
- A separate code of conduct is recommended for big box retailers, by nature of their ability to be "category killers", driving out direct competition. Or in the case of Bunnings "industry-crushers", whereby they can easily enter a category at a low price, drive out competition, then enjoy a monopoly and profits which go with it. We have seen this monopoly status occur for DIY with the purchase of "Hardwarehouse" in 2001 (BBC Hardware), which has given Bunnings a very high EBIT% compared to its very successful peers.

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[146] https://www.afr.com/companies/retail/woolworths-buys-552m-stake-in-pfd-food-services-20200819-p55n7x
[147] https://www.afr.com/companies/retail/woolworths-buys-552m-stake-in-pfd-food-services-20200819-p55n7x
[148] https://insideretail.com.au/business/metcash-enters-into-558-5-million-acquisition-agreements-202402

7 Competition Law and Anti-Trust Considerations

High levels of market power have emerged since the turn of the century, as we see globalisation of firms and globalisation of supply chains and purchasing. This rise in concentration and emergence of retailers with significant power is tackled in different countries and regions through competition law and anti-trust considerations. It is important from a context perspective, that these are discussed, so that lessons can be taken on how to adequately address the challenges in Australia based on international precedent.

7.1 Market Power and Monopsony Power in Retailing

- **Market Power:** In retailing, market power refers to a retailer's ability to influence prices, product availability, and market conditions to its advantage, often at the expense of consumers and competitors. This allows dominant retailers to set higher prices, reduce product variety, or impose unfavourable terms on suppliers and consumers[149].

- **Monopsony Power:** Monopsony power is the retailer's ability as a dominant buyer to dictate terms to suppliers, such as pricing and contractual conditions. This can lead to lower prices paid to suppliers, squeezing their margins and potentially leading to reduced investment in quality and innovation[150].

As large retailers, supermarkets, and dominant online platforms, often possess both significant market power over consumers and monopsony power over suppliers. The dual position can lead to practices that harm competition, suppress supplier margins, and limit consumer choice. It is important to note that Bunnings is expanding its online marketplace, to include more goods which are not warehoused or purchased by them, and therefore expanding their offer substantially, with minimal discussion or attention to this in the press. This represents further challenges for competition and further barriers to entry.

7.2 Key Considerations for Competition Law and Antitrust Policy in Retailing:

1. **Full Market Analysis**
    - **Beyond Price Effects:** Antitrust analysis should consider non-price factors such as product quality, innovation, variety, and consumer choice, which are crucial in retail markets[151].
    - **Dynamic Competition:** Recognizing the dynamic and rapidly evolving nature of retail markets, including technological advancements, and changing consumer behaviours, is essential for effective antitrust enforcement, as well as vertical integration of the supply chain beyond stores and locations. Additionally considering acquisition or mergers within other categories, where dominance can emerge as a differentiating factor.

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[149] Inderst, R., & Wey, C. (2007). Buyer Power and Supplier Incentives. *European Economic Review*, 51(3), 647–667.
[150] OECD. (2019). *Monopsony and Buyer Power*. Organisation for Economic Co-operation and Development.
[151] Hovenkamp, H. (2020). Is Antitrust's Consumer Welfare Principle Imperiled? *Journal of Corporation Law*, 45(3), 65–86.

2. **Addressing Monopsony Power**
    - **Supplier Welfare:** Competition law should account for the welfare of suppliers, especially small and medium-sized enterprises (SMEs), which may be disproportionately affected by the buyer power of large retailers[152].
    - **Fair Trading Practices:** Implementing regulations that promote fair trading practices between retailers and suppliers can mitigate the negative impacts of monopsony power. This includes enforcing timely payments and preventing unilateral changes to contract terms. This can be effectively addressed through a code of conduct. What is important to note in this context, is that the Food and Grocery Code of Conduct should cover retailers which sell these items, but a Big Box Retailer Code of Conduct should also be developed to govern the conduct between retailer and suppliers outside of Food and Grocery, particularly within DIY and Trade, as there are few competitors and evidence of monopsony power. Therefore an ombudsman or commissioner should be appointed as part of the code.

3. **Regulating Digital Platforms**
    - **Platform Neutrality:** Ensuring that digital retail platforms do not unfairly prioritize their own products over those of third-party sellers is a key concern[153]. This covers Amazon, but also the emerging market place that resides on Bunnings website.
    - **Data Access and Portability:** Policies addressing data control and promoting data portability can reduce entry barriers and enhance competition in digital retail markets. This includes regulations on how platforms collect and use consumer and seller data. Transparency on how this is used, and a consumer ability to access the data collected on them, how this is used, and the ability to opt out, should they wish to do so. Issues in relation to extensive data collection have been noted[154]. Challenges in online tracking and behavioural advertising have emerged[155]. There are also challenges noted with instore tracking[156], data security breaches[157], and third party sharing[158]. As Wesfarmers owns half of Flybuys with Coles[159], this provides it with significant information on Australian shopper habits across its existing retail formats, as well as everyday basic needs such as food. The senate

[152] OECD. (2019). *Monopsony and Buyer Power*. Organisation for Economic Co-operation and Development.
[153] Cremer, J., de Montjoye, Y.-A., & Schweitzer, H. (2019). *Competition Policy for the Digital Era*. European Commission.
[154] Martin, K. D., & Murphy, P. E. (2017). The role of data privacy in marketing. *Journal of the Academy of Marketing Science*, 45(2), 135–155.
[155] Degli Esposti, S. (2019). When big data meets dataveillance: The hidden side of analytics. *Surveillance & Society*, 12(2), 209–225.
[156] Introna, L. D., & Wood, D. (2020). Pervasive surveillance: The rise of body-worn cameras and facial recognition systems. *European Journal of Information Systems*, 29(4), 380–397.
[157] Shackelford, S. J., Raymond, A. H., & Van Syke, C. (2020). Cybersecurity governance for the Internet of Things: Enhancing privacy and security in the retail sector. *Minnesota Journal of Law, Science & Technology*, 21(1), 1–56.
[158] Shackelford, S. J., Raymond, A. H., & Van Syke, C. (2020). Cybersecurity governance for the Internet of Things: Enhancing privacy and security in the retail sector. *Minnesota Journal of Law, Science & Technology*, 21(1), 1–56.
[159] https://www.wesfarmers.com.au/our-businesses/other-businesses

inquiry should request create information and transparency on this, how this data is used, and consider whether data of this nature collected, should be held by third parties which are subject to tighter regulation on ethical conduct. The lack of transparency currently, and integrated nature of this data does not provide adequate protection from consumer harm or exploitation.

4. **Merger Control and Remedies**
    - **Stricter Merger Scrutiny:** Applying rigorous standards when evaluating retail mergers, including potential monopsony effects on suppliers, is recommended[160]. Also the ability to be able to retrospectively review mergers, with a wider time period for review, to ensure that competition has not been substantially lessened, particularly in the cases of either creeping acquisitions of stores and small competitors, or large mergers, which fundamentally change an industry and allow for "category killing" or "industry killing" to become further entrenched, as we have seen with Bunnings.
    - **Behavioural and Structural Remedies:** When anticompetitive concerns are identified, appropriate remedies—such as divestitures, restrictions on certain business practices, or requirements for fair dealing—should be enforced to maintain market competitiveness. This should be done through the code of conduct, and overseen by a dedicated commissioner or ombudsman.

7.3 Policy Implications and Recommendations

1. **Enhancing Antitrust Enforcement**
    - **Legal Reforms:** Updating antitrust laws to explicitly address monopsony power and its effects on suppliers can improve enforcement outcomes. This includes revising legal standards to consider harm to suppliers and overall market health.
    - **Guidelines for Digital Markets:** Developing specific guidelines for competition in digital retail markets can help regulators address unique challenges posed by these platforms, such as data monopolization and algorithmic pricing.

2. **Promoting Fair Trading Practices**
    - **Codes of Conduct:** Implementing codes of conduct for retailer-supplier relationships, such as the Groceries Supply Code of Practice in the UK, can promote fairness and transparency[161].
    - **Dispute Resolution Mechanisms:** Establishing effective mechanisms for suppliers to report unfair practices and seek redress without fear of retaliation is crucial.

3. **International Cooperation**
    - **Cross-Border Enforcement:** As many large retailers operate globally, international cooperation among competition authorities is essential to address

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[160] Macfarlane, L. (2018). "The Tesco-Booker Merger: Implications for Competition and Consumers." *Competition Law Journal*, 17(1), 45–58.
[161] Competition Commission. (2009). *The Groceries (Supply Chain Practices) Market Investigation Order*. UK Competition Commission.

anti-competitive practices effectively. Sharing information and coordinating enforcement actions can enhance the efficacy of antitrust policies.

4. International Examples of Effective Regulation

- **Sainsbury and Asda Merger UK 2019 –** In 2019, the UK's Competition and Markets Authority (CMA) blocked the proposed £12 billion merger between two of the country's largest supermarket chains, J Sainsbury plc and Asda Group Ltd (owned by Walmart Inc.)[162]. The CMA concluded that the merger would lead to a substantial lessening of competition in the retail sector, resulting in higher prices, reduced quality, and less choice for consumers. The merger was expected to create the largest supermarket chain in the UK, surpassing Tesco plc[163]. Concerns were raised over national and local competition. This case is important as we must acknowledge that Bunnings largely has significant power nationally, and locally it is often competing in a pure monopoly with no competition nearby.
- **European Commission’s Antitrust Cases Against Amazon (2020-2022) -** The European Commission initiated antitrust proceedings against Amazon for using non-public data from independent sellers to benefit its own retail business and for preferential treatment of its own products and services. Amazon was accused of systematically using sensitive data from third-party sellers to compete against them. In November 2020[164], the European Commission sent a Statement of Objections to Amazon regarding the use of seller data. In December 2022[165], Amazon agreed to make significant changes to its business practices to address the Commission's concerns, avoiding formal fines[166].
- **Germany’s Federal Cartel Office Proceedings Against Amazon (2019-2022) -** The Bundeskartellamt (Federal Cartel Office) in Germany conducted investigations into Amazon's terms of business with third-party sellers on its marketplace platform[167]. Amazon was suspected of exploiting its dominant position by imposing unfair terms on sellers, including liability provisions, withdrawal rights, and lack of transparency. The platform's control over access to consumers placed sellers in a dependent position where it had monopsony power. In July 2019, Amazon agreed to amend its terms of service globally in response to the investigation, however new proceedings were launched in 2022[168] [169].

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[162] Dobson, P. W. (2019). "UK Supermarket Merger Blocked: Sainsbury’s/Asda and the CMA." *Journal of European Competition Law & Practice*, 10(6), 353–357.
[163] *Final Report on the Anticipated Merger between J Sainsbury plc and Asda Group Ltd* (CMA, 2019).
[164] European Commission Press Release (2020). "Antitrust: Commission sends Statement of Objections to Amazon for the use of non-public independent seller data.
[165] European Commission Press Release (2022). "Antitrust: Commission accepts commitments by Amazon.
[166] Ezrachi, A., & Stucke, M. E. (2021). "The 2020 EU Amazon Investigation and the Unfair Trading Practices Directive: Complementary Approaches to Protecting the Weaker Party?" *European Competition Journal*, 17(1), 103–123.
[167] Bundeskartellamt Press Release (2019). "Bundeskartellamt obtains far-reaching improvements in the terms of business for sellers on Amazon's online marketplaces."
[168] Bundeskartellamt Press Release (2022). "Proceedings against Amazon based on new rules for large digital companies."
[169] Podszun, R. (2019). "Platform Regulation in Germany: The Story of Facebook and Amazon." *Journal of European Competition Law & Practice*, 10(8), 465–468.

- **Investigation into Tesco's Supplier Practices in the UK (2020) -** The Groceries Code Adjudicator (GCA) investigated Tesco plc for delayed payments to suppliers, violating the Groceries Supply Code of Practice[170]. It is important to note, the UK has had a Grocery Code of Conduct since 2010. Tesco was found to have significantly delayed payments to suppliers, impacting their cash flow and operations, under unfair trading practices, and abuse of market power as they are in a dominant position compared to many of their suppliers. The outcome required they had to substantially change their payment practices and improve transparency with suppliers[171].

7.4 Defining Abuse of Market Dominance Across Markets

The Scope of the Notion of Abuse of Dominance and thus market power in the EU and US systems, is shown below. It is recommended that Australia consider how it can utilise the best from both systems to create the best outcomes for Australian consumer welfare and competition[172] :

	EU	US
Exploitative and/or exclusionary?	Both	Exclusionary
Dominance as a prerequisite?	Yes	No
Causal link between market power and practice?	No	No
Effects (established or presumed) required?	Yes	Yes
Benchmark of effects	Equally efficient rivals	Consumer welfare
Bright-line rules or case-by-case assessment?	Both	Both
Defences available?	Yes	Yes

The big box retail sector presents unique challenges for competition law and antitrust policy due to the significant market and monopsony power held by large retailers. Recent academic considerations emphasises the need for updated legal frameworks and enforcement strategies that address both consumer and supplier welfare. By incorporating these insights, policymakers can promote a more competitive and equitable retail market, benefiting consumers, suppliers, and the overall economy.

7.1.1 Key Insights and Recommendations:

- For competition law reform, and regulation of the big box industry, the onus of proof that abuse of market power and monopsony power is not present when a firm of

[170] Groceries Code Adjudicator (2020). "Investigation into Tesco plc."
[171] MacCulloch, A. (2020). "Regulating Retailer-Supplier Relationships: The Tesco Compliance Case." *Journal of European Competition Law & Practice*, 11(4), 223–230.
[172] Ibáñez Colomo, P. (2023). What is an abuse of a dominant position? Deconstructing the prohibition and categorizing practices. In P. Akman, O. Brook, & K. Stylianou (Eds.), *Research Handbook on Abuse of Dominance and Monopolization* (pp. 81–100). Edward Elgar Publishing.

significant size and power wishes to acquire another firm or expand into new areas should occur.

- Within competition law and anti-trust policy in retailing it is strongly recommended antitrust consideration should include effects beyond price, such as quality, innovation, variety and consumer choice. If variety and consumer choice are dramatically reduced, this should represent a red flag.
- Dynamic Competition is changing, and the attempts of vertical integration by large entities to strengthen their dominance position further, should be considered as it could dramatically change market structures and future competition.
- The issues of monopsony buyer power should be addressed adequately in the code of conduct, after consultation with suppliers who currently exist under this agreement. It is important these suppliers are not disclosed specifically to Bunnings, as fear of retribution will mean they are unable to speak freely.
- Regulation of data platforms, privacy and consumer protection should be considered within competition law, as not to abuse this through market power.
- A separate inquiry into the use of data, privacy, and use of customer data should occur. Then considerations of EU protection policies to be highly considered for reform of this growing area of high value and importance.

Part Two

A Reflection on Bunnings: Success, and Competition Implications

By John Dahlsen

8. The Reflective Case on the Success of Bunnings, and Implications

8.1 Competition Consideration and Context:

1. **Bunnings purchased McEwans** - a hardware competitor for $48m in 1993[173] [174] and BBC, and it received a great lift when McEwans exited the market and acquired the BBC chain from Howard Smith. BBC had a much higher trade mix than Bunnings, so Bunnings was able to increase its trade market significantly. The exits of both McEwans and BBC have removed the only significant competitors and reduced customer choice.
   Today, Bunnings would be able to acquire McEwan’s or BBC. Bunnings' management acknowledges the massive benefits and opportunity to grow through these acquisitions. The acquisitions also materially strengthened Bunnings' power over suppliers and reduced supplier options.
2. **The Failure of Masters** - Bunnings is likely to be free of any competitor threats from new entrants, whether domestic or international.
   Masters’ strategy was flawed, relying too heavily on the US big box retailer Lowes. Lowes was kicked along with the brilliant strategic help of Jack Shewmaker. Jack was a former co-founder of Walmart, and with his help, Lowes became a significant competitor to Home Depot. Woolworths' slavish adoption of the Lowe strategy by Masters was easily outmanoeuvred by Bunnings, but nevertheless, it made a number of strategic errors.
   Master’s failure would have significantly relieved Bunnings, but it was not in the best interests of customers or suppliers.
3. **Competition in Australia -** Bunnings is unlikely ever to have a significant competitor in Australia. The Mitre10 franchised and partly owned model has difficulty competing. Unlike Bunnings, it is not an integrated model, and the supply chain, by comparison, has blockages and cost inputs that inevitably flow out of that model.
   The only independents of any size are Bowens and Dahlsens. Dahlsens is 95% plus trade, spread across the eastern states whereas Bowens, concentrating on the Melbourne metropolitan market, has more DIY products. The ACCC would not allow Bunnings to acquire either of these groups. However, should any of them fail, Bunnings would achieve a powerful position in the trade sector, including roof truss and wall frame manufacturing.
4. **Lack of Industry Scrutiny** - The public and the ACCC should be far more concerned about Bunnings's dominance in its sector than with Coles and Woolworths in the supermarket sector. Coles and Woolworths with about 67% market share with three vigorous competitors: Aldi, Costco and Metcash, and Amazon is a huge future threat.
   Unlike the Supermarket sector, Bunnings does not have anywhere near the same threat of direct delivery from fulfilment centres to customers’ homes. The future market structure of supermarkets is more likely to change significantly than in the DIY and Trade Sector. Further, suppliers have a much smaller choice in the DIY and Trade market.
5. **Bunnings the Most Trusted Brand** – Bunnings’ brand and reputation are strong. According to recent Roy Morgan surveys, it is the top brand and has been near the top for some years. This is not surprising as it is consistent and powerful. The 10% beat has

[173] https://www3.wesfarmers.com.au/who-we-are/our-history/bunnings-acquires-mcewans#:~:text=In%20January%201993%2C%20the%20bankrupt,store%20in%20every%20mainland%20state.
[174] https://www.afr.com/politics/bunnings-builds-a-profitable-future-19930218-k5bp7

convinced customers that it is the cheapest, and if you find an alternative, Bunnings will beat it. Huge sums are spent on National television and major sporting events pushing this. Customers have a high regard for Bunnings, which will inhibit any change by customers. Customers can only see the present, not the long term. Their purchases are immediate, and tomorrow does not matter. The reality is that Bunnings pricing is all over the place, and many products achieve extremely high margins because they are insensitive to price.

6. **No Competition = Complacency**- Bunnings biggest threat is internal complacency, a lack of competition or customer pressure to do more. Despite suppliers having fewer choices, there is probably a sense of complacency with that relationship or a certain degree of mutual dependency. For some suppliers, it will not suit others.

8.2 The Essence of Bunnings Big Box Retailer Strategy

1. **Large Box Format** - The boxes are so structured that individual merchandise categories within the boxes can readily flex by growing or contracting to meet market conditions.
   Many of the box sizes offer significant growth opportunities because, wisely, they are initially oversized to cope with growth in many markets.
2. **Flexing Space for Categories** - Bunnings strategy is to continually review individual categories' growth and space demands and reallocate space, including new categories. This is a dynamic activity, and the ability to flex is a competitive advantage that few can match. Bunnings has a large amount of space, and flexing this for new categories is much easier than say with traditional supermarkets.
3. **One Stop Convenience** - Shoppers appreciate the convenience of acquiring products in a diverse range of categories in one place and on one visit.
   Visits often stimulate customers to make unintended purchases to improve their homes. Bunnings is good at showing new products and new home ideas that customers may not be aware of. Suppliers support these new product innovations because Bunnings is the best place in Australia to reveal new products and ideas. This is often heavily subsidised by suppliers.
   This means that Bunnings has a more significant opportunity to disrupt. With its massive buying power and the strength of its balance sheet, profits, and cash flow, the chance to disrupt the market and competitors is again a competitive advantage.
4. **Disruption Strategy** - Bunnings strategy to disrupt has been its game for many years, and at the moment, it is disrupting the trade, commercial market, roof trusses, and wall frames. Recently, Bunnings entered the home care pet market and is revitalising its auto category. Who knows what next, but many potential categories are open to Bunnings to disrupt e.g. funeral caskets and accessories. Given the scale of Bunnings, new categories to disrupt, can have significantly lower prices than its competitors can, which will incrementally cost them little. Bunnings can add a category to improve the customer experience and increase the basket size with more items in it, with lower attached costs.
5. **Cost to Independents** - Independents who trade in a limited number of categories have great difficulty coping with this disruption because it invariably applies to the whole or a significant part of their business, putting them at a significant competitive disadvantage. Independents have to rely on the depth of their product range, salespeople's specialised knowledge, skills, and location to add an extra dimension or benefit for the customer to compete with Bunnings.

When the issue of independents' survival is discussed, Bunnings, out of self-interest, emphasises that this is where the future of independents lies and that there is no significant competitive structural issue of concern. The reality is that Bunnings has been able to contain and reduce and will continue to reduce the market share of independents and many but not all category specialists.

6. **Scale -** The sheer scale of Bunnings' operations means that unlike the independents and, to a lesser extent, the specialists, Bunnings is more able to fractionalise its fixed costs with sales growth, as explained in the economics information elsewhere in this paper.

8.3 Bunnings Financial Success

The following table sets out some of the key metrics in measuring the success of retailers. This will establish why Bunnings is so successful.

1. **The Criticality of ROIC on Financial Performance -** The critical metric in the table below is the return on invested capital (ROIC). Why? Both equity and debt provide the funds management to run the business, so management performance is measured as a percentage return on these funds that indicates to the degree of success or otherwise.

   Some use Return on Equity, particularly shareholders and their advisers, as a good measure of performance. However, the equity component is usually established by a board, and for management, it does not matter where the funds come from, equity or debt. The mix of funding sources is determined by the board and the board applies such factors as:
   - The forecast cash flow of the business.
   - The flexibility of debt in that it is much more readily expanded or contracted.
   - Interest is deductible.
   - Characteristics of the sector e.g. mining being very different to retail.
   - The attitude to risk.

   The higher the debt, the higher the risk because of the obligations to comply with the terms of the debt instrument, including the basis of repayment, whereas equity is, in effect, a sunk capital contribution that cannot readily be repaid. Whilst dividends on equity can be flexed, it is cumbersome to return equity to shareholders. The table 2 below demonstrates 90% debt and 10% equity or the converse, can show staggering returns on the debt component because it is tax deductible. Conversely, if you have 90% equity and 10% debt, this enhances profits, and so as dividends are an after-tax payment (but subject to a franking credit), they are not as attractive.

   Further, different sectors of the economy, because of the cashflow dynamics of that sector, often have standards about the equity-debt mix. The table below assumes a 7% interest cost of debt, showing the volatility of ROE based on the equity-debt mix.

ROE Example - Investment and Debt			
Profit pre Tax	$1,000,000	Profit Post Tax	$700,000
		Interest	7%
		Tax	30%
Revenue	$10,000,000		
	Debt	Equity	
Scenario	0%	100%	7.00%
	10%	90%	7.23%
	20%	80%	7.53%
	30%	70%	7.90%
	40%	60%	8.40%
	50%	50%	9.10%
	60%	40%	10.15%
	70%	30%	11.90%
	80%	20%	15.40%
	90%	10%	25.90%
	99%	1%	214.90%

Table 2: ROIC Example - *The above table demonstrates the difficulties in comparing performance with return on equity when depending on the amount of debt the ROE can be anything between 7% and 215%.*

3. **ROIC for Performance** - ROIC is better than ROE in measuring performance, they key drivers summarised below:
    a. The assets used in the business being asset turn,
    b. The times asset turns against sales.

    On the other side of the equation is the profit margin measured as a percentage of sales. So, the asset turnover multiplied by the profit margin gives you the return on ROIC before paying interest and tax eliminating sales on both sides of the equation it results in:

$$\frac{Profit\ Margin\ Percentage}{Equity + Debt\ x\ 100}$$

The danger of just focusing only on the profit margin on sales (GM% or EBIT%), such as in the ACCC's current analysis of the supermarket sector, fails to consider the capital invested, or the asset turn required to produce ROIC or Return on Net Investment (RONI).

5. **ROIC Compared** - Coles and Woolworths have a relatively low ROIC of around 9%, which is less attractive with companies like Bunnings and Reece.
    Coles and Woolworths depend on asset turn, it’s a vital ingredient of working capital of debtors plus stockless creditors, usually measured as a percentage of sales. They require high stock turn to gain returns based on their retailer margin. Bunnings, on the other hand, because of its high gross margins, is not so dependent on driving volume.
6. My analysis of this as far as Coles and Woolworths is concerned is set out in the appendix. Bunnings is the star financial performer because it produces an excess of 60% of ROIC compared to its counterparts in the US, which is X% for Lowes and Y% for Home Depot.

Bunnings' return is outstanding by both Australian and International standards, and the returns are reflected in incredibly strong cashflows, which makes Bunnings a fearsome competitor in the Trade / DIY market more so than Woolworths and Coles.

Bunnings has such huge margins that it can easily disrupt almost any sector and certainly has massive fire power when dealing with any category specialists or independent retailers. In determining the market power of Bunnings, it is not just its market share or the market share in the various categories, which means that the price low, either a bit above or below costs, will have little financial effect on Bunnings return. Given that when deep discounting on price, you increase your volume materially, the reality is that Bunnings may not impact its profits because of the gross profit dollars earned on the discounting. In other words, you have to be very careful about percentages. ***Percentages can lead to misunderstanding of the company's returns and financial strength.*** This is precisely what is happening the supermarket sector inquiry and conversely why Bunnings is a far greater threat to competitors with the state of competition in the trade DIY market. What this also means that Bunnings can move into non-core or adjacent activities as it has with roof truss manufacturing steel trusses and frames. Bunnings is not a manufacturer, yet it can disrupt this sector with virtually no impact on profit overall either expanding its offering to existing customers or develop new ones.

7. **The Cost of Doing Business (CODB) -** It is all the costs outside of COGS. A material cost of any business is (CODB) but the extent to which it is a fixed cost, the more stores you have, the better you are to hold that cost in absolute terms (and not grow as a percentage), and so fractionalised that cost over all of the stores. Independents and smaller chains do not have the advantage of spreading head office fixed costs. Due to size, they miss out on volume savings that big chains achieve with suppliers. This is a very significant advantage.

   Take, for example, national advertising. Adding a new store does not increase advertising costs or other similar costs. The bigger chains are more able to cope with deflation because the degree of deflation will be different on a store-specific basis. Therefore, it is easier for the chains to solve this problem by coping with the stores' difficulties. This applies to a whole range of other costs.

8. **Competition Law** - Does not fully take into account the above kinds of benefits (market power) when making decisions based on market share. Specifically, Section 46 is weak in that it focuses on the state of competition without addressing the issues of individual competitors. *See paper available on request on Section 46 by John Dahlsen.*

   The paper demonstrates the acute differences in the competitors' profit dynamics and futures. There is a certain inevitability about Bunnings's growth, increasing its share of the footprint and market, which, given the state of current Competition Law, it is unstoppable.

8.4 Capital Employed

1. **Comparing Industry Retailers** - We can have a high gross profit percentage or margin but because of high capital employed (equity and debt), return on capital is low, and the converse applies. So, at the end of the day as to whether a retailer is taking advantage of power and position in the market depends upon its return on funds employed. This is one area where percentages do apply.
2. **Equity and Debt** - A retailer needs funds (both equity and debt) to run the business. Without an adequate return on these funds, the retailer would be capital constrained. Retailers want to maintain high credit ratings as this influence’s availability and cost of funding - so again another virtuous circle. The more profitable and lower risk a company is, the lower its cost of debt which, in effect, drives up profitability. This kind of virtuous circle has a significant impact on ROI.
3. **Debt Providers** - As retailers will either grow or perish, it is vital that they provide a healthy return to their equity and debt providers. Debt providers can be very fickle and demanding. Banks play a vital role in providing debt capital and where it is best employed, with an appropriate balance between risk and return. They are obligated to their shareholders. Banks charge interest as a percentage but this is an outcome of their analysis of risk and reward. The risk is the probability of default an historical calculation. Due to the banks influence of APRA and others, they want a balanced portfolio so they will alter the interest rate from time to time to make shifts in their portfolio. Banks are replacing relationship managers with technology and boxes, which is a major issue.
4. **Risk** - The mix of equity and debt is a question of how much risk a company wants to take, and funders will accept. Shareholders want growing dividends and value. The large institutional Shareholders and the Analysts are constantly reviewing performance. If they do not perform the shares will be sold and the proceeds go to other corporates with supply and demand influencing the price and movement of money for shares so there is intense competition for Shareholders.
5. **Benchmarking Bunnings to Other Retailers - Table 3** - Below, as a division of Wesfarmers, not all information is available. However, what is available is sufficient in understanding that the Bunnings balance sheet and profitability is extraordinarily strong. In the 23/24 results Bunnings discloses that it’s ROIC is 69.2%. This is an exceptional return; no other Australian retailer has anywhere near this, with be very few internationally. Woolworths at its peak managed to get into the 40-50% range but that has deteriorated significantly to 7.63%.

Profit Statement:

	COLES	WOOLWORTHS	REECE ($000's)	REECE ($000's)	BUNNINGS ($m)	HOME DEPOT	LOWES ($m)	WALMART ($m)
Sales	$40.5 b	$64 b	9,104,772	8,839,572	18,968	152,669	97,059	648,125
- (Cost of Sales)	(74%)	(73.3%)	-71%	-72%	Unavailable	-67%	-67%	-76%
- CODB	(21.4%)	(18%)	-18%	-18%	Unavailable	-17%	-21%	-20%
= GROSS PROFIT %	26%	26.7%	29%	28%	Unavailable	33%	33%	24%
EBITDA	8.3%	8.7%	11.10%	10.80%	16.80%	16.00%	13.70%	4.20%
EBIT	4.6%	4.7%	7.50%	7.40%	12.50%	14.20%	11.90%	Unavailable
PBT	3.6%	3.1%	6.50%	6.40%	11.90%	13.10%	10.50%	3.40%
PAT	2.6%	2.5%	4.60%	4.40%	0.00%	9.90%	8.00%	2.40%
NET WORKING CAPITAL / SALES								
Debtor Days	5 days	6 days	55	55	Unavailable	8	0	5
Stock Days	28 days	29 days	84	87	Unavailable	75	95	41
Stockturn	13 times	13 times	4	4	Unavailable	5	4	9
Creditors (-) Days	(42) days	(47) days	-68	-68	Unavailable	36	49	42
(NET WORKING CAPITAL / SALES)	(3.7%)	(4.5%)	18%	19%	Unavailable	0%	-16%	0%
PLANT & EQUIPMENT / SALES	**COLES**	**WOOLWORTHS**	**REECE ($000's)**	**REECE ($000's)**	**BUNNINGS ($m)**	**HOME DEPOT**	**LOWES ($m)**	**WALMART ($m)**
Amount	$4,985	$8,881	909,369	786,922	Unavailable	26,154	17,653	110,810
Percentage	12.3%	13.8%	10%	9%	Unavailable	17%	18%	17%
Return on Assets	5.91%	4.8%	5.90%	5.60%	Unavailable	19.80%	18.50%	6.10%
Operating Margin	3.93%	3.6%	7.50%	7.40%	16.80%	16.00%	13.70%	4.20%
ROIC	**9%**	**7.63%**	**7.60%**	**7.30%**	**69.20%**	**36.70%**	**36.40%**	**15.00%**
Payout Ratio	84.7%	74.8%	39.68%.	41.70%	Unavailable	58.40%	36.60%	41.20%
Dividend Yield	4.15%	2.98%	1.00%	1.40%	Unavailable	2.80%	1.60%	1.00%
Price Earnings	20.57x	27.2x	41.1x	40.1x	Unavailable	27.7x	22.6x	41.65x
TAX PAID	**423 m**	**693 m**	**170,410**	**180,232**	**Unavailable**	**4,781**	**2,449**	**6,337**

Table 3: Big Retailers, Financial Compared.

6. **EBITDA** – Bunnings EBITDA is 16.8%, by implication the asset turn is around 4 times sales. This is not completely accurate as we should be using GP% not EBITDA for ROIC. Bunnings have a very high EBITDA and by implication predictably a very high GP%. Trade and DIY products as compared with supermarket products by their nature have a much lower stockturn and the supply chain is not as sophisticated. With Bunnings this will be partly complicated by its import program.
7. **Bunnings vs International Competitors -** By comparing Bunnings with Home Depot and Lowes it is 69.2%, versus 36.7%, and 36.4% respectively. ***Bunnings performance in ROIC is almost twice their international peers***. Bunnings is likely to be the best performer worldwide in their sector.
8. **Bunnings Monopoly-** Due to very high concentration of the DIY and Trade Industry, it appears Bunnings has or almost completed a monopoly. As Bunnings continues to

increase its market share and dominance and weaken its competitors, the results will improve with monopoly derived profits. These returns will generate huge cashflow and with the return on investment it can achieve on its activities, there is no end to what it can fund. And at 69.2% investment is almost like an expense. So, the payback is 1.4 years on any investment it makes assuming it can maintain the same ratios.

9. **Wesfarmers Needs Bunnings** - Bunnings is a huge contributor to Wesfarmers results. It represents around 56% of the total group’s profit before tax but in terms of ROIC and cashflow, it would contribute more than the 56%. Bunnings improved its ROIC from went from 65.4% in 2023 to 69.2% in 2024. Kmart is also a strong performer in the discount store market, with improved ROIC from 47.0% in 2023 to 65.7% in 2024. Kmart has been able to achieve this with more competition than Bunnings. By contrast, Officeworks ROIC is only 18.7%.

Balance Sheet:

			2024	2023	2024	2023	2024	2024
ASSETS	COLES	WOOLWORTHS	REECE ($000’s)	REECE ($000’s)	BUNNINGS ($m)	HOME DEPOT ($m)	LOWES ($m)	WALMART ($m)
INVENTORIES								
Amount	$2,323	$3,698	$1,496,348	$1,504,892		$20,976	$16,894	$54,892
Percentage	19.7%	15.29%	21.10%	21.70%	#DIV/0!	27.40%	40.40%	21.70%
DEBTORS								
Amount	$605	$1,016	$1,369,302	$1,338,414		$3,328	$ -	$8,796
Percentage	5.13%	4.2%	19.30%	19.30%	#DIV/0!	4.30%	0.00%	3.50%
PLANT & EQUIPMENT								
Amount	$4,985	$8,881	$909,369	$786,922		$26,154	$17,653	$110,810
Percentage	42%	36.73%	12.80%	11.40%	#DIV/0!	34.20%	42.20%	43.90%
INTANGIBLES								
Amount	$2,035	$5,693	$1,983,219	$2,022,888		$8,455	$ -	$28,113
Percentage	17.2%	23.45%	28.00%	29.20%	#DIV/0!	11.00%	0.00%	11.10%
OTHER								
Amount	$1,837	$4,893	$ -	$ -		$5,973	$1,787	$17,010
Percentage	15.59%	20.23%	0.00%	0.00%	#DIV/0!	7.80%	4.30%	6.70%
TOTAL								
Amount	$11,785	$24,181	$7,094,869	$6,924,286		$76,530	$41,795	$252,399
Percentage	100%	100%	100.00%	100.00%	#DIV/0!	100.00%	100.00%	100.00%
LIABILITIES	COLES	WOOLWORTHS	REECE ($000’s)	REECE ($000’s)	BUNNINGS ($m)	HOME DEPOT ($m)	LOWES ($m)	WALMART ($m)
CREDITORS								
Amount	($4,434)	($7,623)	$1,204,395	$1,179,405		$10,037	$8,704	$56,812
Percentage	37.62%	31.5%	37.50%	35.80%	#DIV/0!	13.10%	15.30%	22.50%
OTHER								
Amount	$2,877	$6,704	$837,094	$732,917		$2,783	$4,376	$14,692
Percentage	24.4%	27.7%	26.10%	22.20%	#DIV/0!	3.60%	7.70%	5.80%
BORROWINGS								
Amount	$1,118	$3,289	$859,322	$1,097,490		$43,000	$35,384	$37,000
Percentage	9.4%	13.6%	26.80%	33.30%	#DIV/0!	56.20%	62.20%	14.70%
EQUITY								
Amount	$3,356	$6,505	$1,246,918	$1,246,918		$1,044		$90,349
Percentage	28.48%	27.1%	38.80%	37.80%	#DIV/0!	1.40%	0.00%	35.80%
TOTAL								
Amount	**$11,785**	**$24,181**	**$3,210,726**	**$3,298,862**		**$76,530**	**$56,845**	**$252,399**
Percentage	**100%**	**100%**	100.00%	100.00%	#DIV/0!	100.00%	100.00%	100.00%

Table 4: Balance Sheet, Competitors Compared

8.5 Bunnings Supplier Agreements:

1. **Suppliers** - Bunnings deals with a vast number of suppliers.
   - International suppliers who might manufacture in Australia or offshore and import into Australia. Sometimes, there will be licensing arrangements to manufacture or distribute different brands.
   - Australian suppliers who manufacture in Australia or offshore and distribute into Australia.
   - State suppliers for such products as timber from a local mill.
   - Smaller suppliers like nurseries who might sell into some stores.

   Most products are imported, whether directed by Bunnings or others, with incredibly low cost, and the margins are high. Both Bunnings and Reece have been importing for years and their sources and supply chain have become very sophisticated extremely difficult to replicate. The margin on stock could be as high as a 100%. Reece have significant buying power, combining the buying power in Australia and the US would be profound.
2. **Data** - Bunnings has a significant amount of data, unlike its suppliers, and this asymmetric power through data, has material impacts in negotiations. This data can profoundly impact product selection and range, which no other retailer in Australia can match. In retail this information is valuable with many suppliers to Coles and Woolworths paying vast sums for access to this information.
3. **Negotiations** - The leverage over suppliers is exercised not just on pricing but other issues. Bunnings can negotiate substantial discounts on the pricing of a product for new stores. Another example is that Bunnings expects a great deal of ranging support and often requires a supplier to maintain the range and replace stock that is not working with product that is. For new product into the market, Bunnings will be expecting huge support to launch that product in Australia. Bunnings can negotiate exclusivity and quasi exclusivity that is unattractive pricing for independents.
4. **Suppliers Knowledge** – Suppliers have significant knowledge of the competition in each of the store’s market, so Bunnings is able with that information to localise and price that range to meet a competitor. Sometimes Bunnings expects the product to be quasi consignment otherwise not paid for until signed. If a product is not successful Bunnings has no qualms in requiring supplier to either take back the stock or discount it to ridiculous amounts.

8.6 Bunnings Technology

1. **Scale** - Bunnings can spend huge sums on technology which can be fractionalised and spread across many stores. This is an extraordinary competitive advantage that others simply cannot replicate. Bunnings is digitised with a massive databank of information. All of the advances currently taking place with AI, Bunnings has manifold advantages. This is beyond the capacity of the independents and specialists. It can use technology to:
   - Remove cost.
   - Improve cash flow with the faster movement of stock.
   - Assortment and pricing by stores and shoppers.
   - Streamline the supply chain with suppliers to fast-track stock movements.
   - There is a great opportunity to ensure that the higher-volume parts of the range are more price-competitive than those with low volumes, e.g., small to large sizes.

Bunnings can optimise the return on investment in stock and space by combining volume and margin.

- Supplier dependent on Bunnings heavily invest in data exchange to assist the above. This often involves giving information about the competitors.

2. **International Sharing-** Bunnings is a member of an international group of similar big box retailers worldwide which share information for an advantage. Bunnings success came from copying Home Depot in the US, copying proven strategies which have worked in the US. Independents are disadvantaged by this collaboration and sharing, to their viability and livelihood.

8.7 Product and People Complexity

1. **High Assortment** - By comparison with supermarkets, assortment is varied and more complex. Many products require help from salespeople to understand the product, its use and the alternatives. Sales staff require much more product knowledge and training. Experienced staff are scarce, and Bunnings has used retired builders etc as salespeople because of their knowledge and experience.
2. **Skilled Talent -** There is a finite resource of people required for staffing the big boxes and this makes it difficult for new entrants in accumulating sufficient staff with the appropriate skill and knowledge. It would be extraordinary difficult to compete with Bunnings on this.
   Conversely, what this means is that there are niches in the market where products are very complex and require high degree of qualified staff to facilitate sales. It is difficult for Bunnings to replicate this situation and that is a part of the market where an independent or specialist will survive independently of the growth and power of Bunnings. Notable examples are batteries, specialised tools but there are not many that Bunnings is not able to encompass in its big boxes.
3. **Staff Flexing -** A high proportion of sales - 50%+ is done on many weekends. Bunnings scales up its staff on weekends with minimum staffing on low transacting weekdays. Bunnings is able to take advantage of this need for flexible staffing and tailor staffing arrangements that suit both Bunnings and its staff member. Offering less work hours to staff because of the concentration of sales on the weekend, at higher rates, which is very attractive for staff.

8.8 Pricing and Margin

1. **Data** - Bunning technology is digital-based, and a considerable data bank containing vast amounts of data enables it to establish where it can extract gross profit dollars and, on the other hand, gain more gross profit dollars through volume. Bunnings claims to have invested a considerable amount in scrapping competitors' websites in all markets to ensure it is the most competitive. The reality is that most retailers do this, and it is nowhere near the cost that Bunnings is implying. The scrapping aims to minimise gross profit loss by only discounting where necessary.
2. **Price Strategy -** Bunnings has an everyday low-price strategy; however, it maximises mix of high margin and only low margin products where necessary. The small concessions it makes on the “beat it by 10%” discount on comparable product pale into insignificance if the discount is applied to that product right across the state or, preferably, Australia. We do not know how much this slogan costs or the ease of making claims. It will be interesting

to know the kind of products where the 10% has been given. Where it is being beaten by price, Bunnings will seek support from suppliers to get further buying support to justify the discount. Suppliers must meet Bunnings expectations with pricing where the competition gets close to its pricing. They use threats to pressure suppliers, so they must cooperate.

3. **Gross Margin %** - Every item within a range will have different price sensitivity, so the ranges are priced accordingly. Again, this is all about margin protection, not consistently pricing for customers.
   We must remember that pricing or a percentage margin is only one side of the equation. With volume at a lower price, it can mean a higher return on investment in stock. One item at a margin of 50% is not as good as three items at 20%. Thus, there is a danger in merely focusing on percentages and not from the gross profit dollars. I have called this the tyranny of percentages, and brilliant merchants understand this interaction without having to calculate.
   Again, Bunnings has the technology and data to manage this interaction to its advantage. Because of the lack of choice, there is no need to adopt low or consistent pricing daily.

8.9 Expanding Footprint and Market Share

1. **Scale and Economies** – Play a vital role in profitability. Small increases in market share by adding even one box are very beneficial in that Bunnings' fractionalise fixed costs. Growth is critical for Bunnings to increase its market share. The larger the business's size or scale, measured in the number of stores, the more profitable it is to add stores and increase footprint.
2. **Cannibalisation** - Whilst adding some stores can cannibalise sales of neighbouring stores, this would be less concerning than the incremental economics of a Bunnings store. Each new store erodes the volume and market share of existing players in the same market. Sometimes, this is so profound that existing players become an uneconomic.
3. **Competition with Dahlsens** -The Dahlsen experience is very salutary. Bunnings advised Dahlsens that it wanted to put stores into three of its markets: Sale, Traralgon, and Horsham. All these stores were profitable, achieving returns of about the same as those of Lowes and Home Depot. The entry of Bunnings, given our experience in Bairnsdale, meant profitable stores would be turned into loss-makers. We thus sold two stores - Horsham and Sale to Bunnings and exited Traralgon at a loss. This experience will be similar to many other independents across Australia. The difficulty for exiting a business with any stores remaining after a closedown or sale is that the loss of market share in sales volume and with the same constant fixed cost results in a substantial loss. Only over time can you adjust the fixed costs downwards, but with some, this is not possible. This is the inverse of a growth in sales. The ACCC could not complain about these Dahlsens transactions because our alternative was to close Sale and Horsham, which would have incurred considerable costs. Dahlsens made the mistake of assuming that Bunnings would not enter markets with a population of less than 100,000 then 50,000, but alas, Bunnings downsized its box to suit a smaller market. Dahlsens twin trade and DIY boxes where serverly impacted. The "beat it by 10%" works very well in these smaller markets. The important message for this is that Bunnings could enter into much smaller markets with a further downsized box, further annihilating more independents. Coles and Woolworths have done this.

8.10 Bunnings Growth

1. **Aggressive Growth** - Bunnings pursues growth wherever it can, at the expense of other competitors. This reduces choice for suppliers (upstream), and customers (downstream). Under Competition Law the most relevant section in dealing with this is Section 46 but this section is mainly about the state of competition not about the effect on individual customers.
2. **Divestiture -** We must be careful about giving the ACCC and the Courts the power to breakup entities. In this discussion the more important issue is the grounds upon which divestment can be examined and the appropriate protection by the courts.
   The debate should be about the pre-conditions for divestment. Whilst some aspects of competition law can be improved by strengthening Section 46 and its effect on competitors, the better way forward is to have a mandatory code of conduct.
   Whilst codes of conduct have their limitations because of the fact they are about behaviours and behaviours and subjective and change. Provided there is a review period of perhaps three years, mandatory codes are better than the reliance upon divestiture powers. In any event, divestiture powers should only be used in extreme circumstances where mandatory Codes of Conduct fail. Further, the competitive issues in each sector are vastly different, and codes of conduct should be sector specific. On the one hand, overarching codes might appeal to policymakers. They will be less effective because they don't relate to the specific anticompetitive issues that are specific in the individual sectors.
   Quote Adam Smith
   > *"The Man of System is apt to be very wise in his conceit; and is often so enamoured with the supposed beauty of his own ideal plan of government, that he cannot suffer the smallest deviation from any part of it. He goes on to establish it completely, and in all its parts, without any regard either to the great interests, or to the strong prejudices which may oppose it. He seems to imagine that he can arrange the different members of a great society with as much ease as the hand arranges the different pieces upon a chessboard. He does not consider that in the great chessboard of human society; every single piece has a principle of its own, altogether different from that which the legislature might choose to impress upon it."*

3. **Grocery Code of Conduct** - Bunnings should not be bound by supermarket code of conduct only. There should be a specific code for Bunnings as the "industry crusher" of DIY and Trade. Given Bunnings is far more powerful than Coles and Woolworths, the nature of the codes will be very different. The footprint strategy has been worked well for them. It is now redefining earlier formats.
4. **Evolving Offer** - The growing footprint and the unique combination of categories make it difficult for others to compete, which will only worsen.

8.11 The Potential Cost of No Change to Competition Law and No Mandatory Code of Conduct

1. **Monopolistic Conduct** - Bunnings will continue to grow and increase its market share footprint and eco-system (higher services, product information, renovation plans and a massive website for products, pricing and build information) faster than the independents. The eco-system will only increase. It does not matter how you define a monopoly, but

Bunnings can operate monopolistically, this power in the marketplace will only increase. It has no significant competitor unlike Coles and Woolworths. Greater profits can be derived from a monopoly over an oligopoly.

2. **Dependency** - There has been minimal focus or discussion by customers over Bunnings, as there are few competitors to compare them to. At some stage, the reduced choice for customers will have a long-term Suppliers will become even more dependent upon Bunnings, so the power and balance between Bunnings and suppliers will only widen. Given Bunnings position in the marketplace, it is likely that Bunnings will capture most of these benefits.
3. **Scrutiny** - There are acute problems, and it takes a long time to introduce any material changes to Competition Law because if you reform it, it will affect every sector, and every sector will want to get involved. The marketplace is ignorant about the state of competition except for suppliers and independents, what is needed is an Inquiry by the ACCC, similar to the Supermarket Inquiry, where more facts can be established. Even without an Inquiry, there is sufficient, if not overwhelming, information in the marketplace that gives rise to a need for a mandatory Code of Conduct now. It is interesting that Bunnings's failure of its Chief Executive Officer to attend the Supermarket Inquiry and address the issues about nursery products has stimulated some to worry about the Bunnings category. The CEO does not want to open this up to cross examination.
4. **Specific Code** - Whilst I strongly argue that there should be separate codes for Supermarkets and the DIY and Trade Industry, there are many commonalities, and they could be negotiated in tandem because that will satisfy the ACCC in terms of the limited categories that exist in both. A mandatory code would be effective, particularly if you appoint an ombudsman to supervise. Then revise the issues of whether Competition Law should be changed to strengthen Section 46 and introduce a breakup power not only as a lever to enforce the code but if code even if obeyed but ineffective in containing the Bunnings model.

8.12 Market Disruption

1. **Power to Disrupt and Conquer**- Some political parties want the right to break up Coles and Woolworths; the issues are similar but more critical for Bunnings. Bunnings power to disrupt is profound. Bunnings is reinvigorating its trade offer and expanding its presence in roof truss manufacturing. It has built huge capital-intensive robotic plants in Melbourne and Sydney and is proposing the same in Brisbane, Adelaide, and Perth. This is vertical integration into its supply chain, and greater control over the supply chain.

   Roof truss and trade market, has low volume turnover. Bunnings decision to move into this area will impact the few existing operators, with huge losses and exists. Bunnings, unlike all the other players, can absorb the losses and continue running at a loss without materially affecting its profit statement on the balance sheet, until this category comes back to more moderate volumes. By then they can lift prices, as there will be no competition.

   Markets turn into monopolies if they go unregulated. Policymakers should intervene. Bunnings appears to be underquoting jobs at less than cost, that needs to be addressed by the regulator. The overriding concern is that Bunnings can effectively do this in many of its categories. It can do this because if it only disrupts one or two categories at a time, then its profit statement and balance sheet will not be materially affected. So, the Bunnings monopoly will only increase.

2. **Assets Beyond Stores**- Break up powers are suitable as a lever to threaten the players with enforcing mandatory Codes of Conduct, but enforcing the power to disrupt is complex and has profound difficulties in execution if your objective is to help the customer.
   The public perceives that the stores, as a principal place of contact, are the players' only significant asset. This huge distribution centres have materially enhanced the players' growth and efficiency. These distribution centres with robotics are very expensive, but critical to operating efficiency. The investment in these DCs would be one of the highest capex of the players. A huge amount of Bunnings capital is invested in DC’s combined with great increases in the power of automation and artificial intelligence. Bunnings having a high level of imports, there must be some receiving centre in Australia for goods to be consolidated and then delivered to stores.
3. **Break Ups** - We have powerful and integrated supply chains crucial to operating the formats, but there is no other way. Stores could not cope with direct to store delivery. Developing distribution centres takes a time and money. Acquiring land could takes years, so substitute distribution is almost impossible with a breakup. For breakups, you must be clear about your objectives. Is it to give consumers more choices and lower prices to help the suppliers or a combination? Any form of breakup will lead to a significant capital investment, so it is inevitable that returns may fall. Given the limitations of breakups and their questionable power and benefit to consumers, the other option is a robust mandatory code of conduct dealing with current issues.

8.13 Addressing Challenges

1. **No Change** - There are no signs of any competitors entering the market that will change the situation. The Master’s failure, by a very successful and profitable company will cause caution to others on entry. The reality is that there is likely to be no fundamental shift in the market structure that will do anything other than strengthen Bunnings, unless there are further measures. Bunnings continues to build broad and deep moats, making crossing difficult for anyone. So, it is essential to understand the current situation and project what the future might look like. This is in stark contrast to Coles and Woolworths.
2. **The Market is an Emerging Monopoly -** Bunnings does not have to worry about a strong and fierce competitor. If you are analysing individual markets, you will find that in some, Bunnings would have a monopoly position no matter how you define that word. Bunnings can manipulate its pricing where competition is the most and the converse where it is not. The “beat it by 10%” campaign is a classic example of the ills of flexible pricing with someone with a dominant market share. In other words, it only must flex on some products in some markets sometimes.
3. **Pricing for Trade -** Bunnings should have a pricing schedule that recognises volume and is consistent across the state. The size of a builder's purchase, often tens of thousands of dollars, the risk of discriminatory pricing is much more significant because of the temptation to lower the margin so that there is little or no gross profit left. Because of the limited number of reasonable-size transactions or builders, Bunnings is disrupting its market by winning contracts on shallow margins. This exacerbates the situation because Bunnings is buying better than the independents. This mainly happens with roof trusses and wall frames. Bunnings has invested heavily in huge, automated plants in Melbourne

and Sydney and more to come in Brisbane and possibly Perth and Adelaide, so making losses on individual contracts with builders does not matter. Independence cannot cope with this. This is consistent with the disrupted tactics that Bunnings has adopted, particularly in new categories.

8.14 The Case of Market Power for Regulation

1. **Substantiating Power** - They key questions, to substantiate competition and power are:
    a. What is the meaning of market power?
    b. How is power defined?

    Power is multidimensional and multifaceted. You can differentiate between its existence and its exercise. Do we have to assume that power is exercised? Are there reasons why it should or should not be exercised? Is it relevant that the power is not exercised?
2. **Where Power is Derived From:**
    a. Power must be considered in the context of competition dynamics. It can increase, contract, and change over time.
    b. The Courts have made statements on this, to the effect that you can assume that competitors will be fierce in the pursuit or maintenance of market share, which conceptually means that competitors are weakened.
    c. Competition Law frequently uses the word "substantial," or substantially lessoning and as you would expect, there is a great deal of debate about this, which can vary by sector and in submarkets.

    There is the issue of future increases in market power arising from the strength and trends of competitors. The law is unclear on prospective power, but behaviours can be a good indication of the future. So, it is essential to distinguish between structural and behavioural aspects. Courts are uncomfortable about the latter, and the evidence-based information. Their requirement for evidence is sometimes difficult to establish and prove.
3. The various market structures make the lessening of competition easier to establish, but this can be very difficult with marginal cases.
    a. The Act has not created any regulations to clarify these issues, as happens with some legislation, so it has been left to the Courts to interpret these words, and sometimes Australian Courts refer to overseas precedents.
4. Bunnings has substantially lessened competition. There are non-quantifiable or behavioural aspects that strengthens Bunnings monopoly and, over time, weaken all competitors. The barriers to entry are increasing, and moats around their business are becoming broader and more profound, far more than exists in any other Trade and DIY market in the world and in other sector in Australia.
5. **Key insights from Competition Law in Australia:**
    a. Market power is an economic concept, and barriers to entry are essential[175].
    b. As to the existence and or the exercise of power[176].

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[175] Svetiev, Y., & Corones, S. G. (Stephen G.). (2023). *Corones’ competition law in Australia* (Eighth edition.). Thomson Reuters Professional Australia Limited. Page 141
[176] Svetiev, Y., & Corones, S. G. (Stephen G.). (2023). *Corones’ competition law in Australia* (Eighth edition.). Thomson Reuters Professional Australia Limited. Page 119-120.

c. As to the relationship between structure and behaviour[177].
d. As to multiple markets[178].
e. There should be no difficulty with the geographic definition of the market[179].
f. As to dominance in the market where, when no prudent person would enter that market[180].
g. As to the financial strength or excess profits being part of market power[181]. In the Boral Case, the Court says financial strength is not market power. I disagree[182].
h. The supply chain is a critical part of competitive advantage and should not be ignored[183].
i. As to the notion of freedom from competition inherent in the definition of market power[184].

6. Bunnings has and will continue to argue that Bunnings consists of a whole series of category markets where the competitors and customers in each market are very different. This can be easily refuted by looking at baskets, where each basket has a various array of products.
7. Bunnings is ignoring the ecosystem and claiming that each category is a market in which competitors should be analysed and that the other services in the supply chain are irrelevant. Bunnings has a sophisticated supply system, data analytics, including the ease of importing to their large DCs, where independents cannot replicate this. Whilst Metcash has DCs for distribution to stores, this is very expensive because it deals with many independents, and Metcash owned units takes out, a sizable amount for the distribution cost. It is very expensive where stores are branded and use catalogues and promotions.
8. We should assume that Bunnings will be vigorously arguing that it is not dominant, and, in the event, this is part of its public positioning. There is a clear role for specialist’s chains and independents and Bunnings is not destroying or weakening them. We need to articulate this in our submission also remembering that there is also a public relations issue here as well.

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[177] Svetiev, Y., & Corones, S. G. (Stephen G.). (2023). *Corones’ competition law in Australia* (Eighth edition.). Thomson Reuters Professional Australia Limited. Page 204
[178] Svetiev, Y., & Corones, S. G. (Stephen G.). (2023). *Corones’ competition law in Australia* (Eighth edition.). Thomson Reuters Professional Australia Limited. Page 83
[179] Svetiev, Y., & Corones, S. G. (Stephen G.). (2023). *Corones’ competition law in Australia* (Eighth edition.). Thomson Reuters Professional Australia Limited. Pages, 57, 77 and 83.
[180] Svetiev, Y., & Corones, S. G. (Stephen G.). (2023). *Corones’ competition law in Australia* (Eighth edition.). Thomson Reuters Professional Australia Limited. Page 391.
[181] Svetiev, Y., & Corones, S. G. (Stephen G.). (2023). *Corones’ competition law in Australia* (Eighth edition.). Thomson Reuters Professional Australia Limited. Page 49.
[182] Svetiev, Y., & Corones, S. G. (Stephen G.). (2023). *Corones’ competition law in Australia* (Eighth edition.). Thomson Reuters Professional Australia Limited. Page 144.
[183] Svetiev, Y., & Corones, S. G. (Stephen G.). (2023). *Corones’ competition law in Australia* (Eighth edition.). Thomson Reuters Professional Australia Limited. Page 63.
[184] Svetiev, Y., & Corones, S. G. (Stephen G.). (2023). *Corones’ competition law in Australia* (Eighth edition.). Thomson Reuters Professional Australia Limited. Page 59.

Part Three

A Summary of Key Challenges, and Recommendations to Address

By John Dahlsen and Lisa Asher

9. Key Insights and Recommendations Summarised

2.1.1 Definitions - Key Insights and Recommendation:

- Bunnings has redefined "category killers", as it has now emerged as an "industry crushers", and continues to expand its sphere of dominance into new business areas. Greater reform of competition law is required.

2.1.2 Definitions - Key Questions:

- How can Australia's competition law adequately capture and provide direction for creeping acquisitions, which do not materially appear to impact competition at the time, but result in major structural changes by nature of their acquisition by a powerful player?
- How can revised competition law allow for learnings from the past 30 years, where we have seen substantially lessening of competition directly and indirectly through category creep and store acquisition creep? The cumulative effects have created a dominant retailer.

3.1.1 The Evolution of Bunnings - Key Insights and Recommendation:

- Market failure for DIY and Trade is present in Australia, due to inadequate competition policy, which has allowed Bunnings to acquire its competitors, and build out its business into more channels and more industries through acquisitions, where it dominates all other retailers from pure scale and size.
- The barriers to entry are increasing, and ability to succeed in this market, continue to be dramatically reduced, as Bunnings continues an aggressive store expansion strategy with store growth at 36% in the last 4 years, and it is moving into more categories to extend its reach and dominance.
- Bunnings appears to have a great hold over Australia's access to products for affordable shelter, by their level of market concentration, compared to the hold Coles and Woolworths have over our access to food. Food and shelter are "basic necessities" for welfare, and therefore closer scrutiny of these industries is required.
- Adequate competition policy which separates DIY and Hardware from Trade is necessary. Given the size of Bunnings, the onus of proof that should it chose to move into new channels or categories, it would need to demonstrate it would not substantially lessen competition.

3.1.2 The Evolution of Bunnings - Key Questions:

- Why has Bunnings been allowed to concentrate to the point of driving out substantial competition across DIY, hardware, and trade?
- Why is trade not separate as a channel like other slightly more competitive markets such as the US?

4.1.1 Benchmarking DIY & Trade to Supermarkets - Key Insights, Recommendations:

- The DIY and Trade industry is significantly more concentrated than the supermarket industry, but it receives minimal press scrutiny compared to that of supermarkets.
- Through lack of competition or concentration of a supplier's business with a single retailer (retailer power), could be why we see a lack of critical reviews of this retailer.

- Large retailers are heavy advertising spenders in Australia. Heavy advertising spend, helps deliver the key message of value and trust which underpins Bunnings advertisements.
- There appears to be a correlation between top advertising spend, and trusted brands. Research shows, this builds brand equity. With the scrutiny Coles and Woolworths have received since December has removed both of them from trusted brands, and for Coles, now one of the most distrusted brands.
- Bunnings is able to use its high advertising spend to reinforce the value trust message, therefore it is imperative this is factual, which leads to the relevant questions below.

4.1.2. Benchmarking DIY & Trade to Supermarkets - Key Questions:

- For the Senators to request- What was the advertising spend of Bunnings for the last 5 fiscal years? How does this compare to its closest competitor Mitre10?
- As Bunnings key advertising message is around price and value, with their key price policy as "*lowest prices.. we'll beat it by 10%*"[185] – How often is this 10% activated in a year to customers? How does this compare over the last 5 years, and what is it as a % of total transactions? The objective of asking is to understand if this is a valid message conveyed through various promotional materials, or one that is said and not honoured.
- With the 10% lower price guarantee, does Bunnings fully fund this? Or does it seek reimbursement, partial funding, or rebates for suppliers?

5.1.1 Factors Contributing to Market Power - Key Insights and Recommendations:

- Market concentration for DIY and Trade, is exceptionally high. This is a consequence of mergers and acquisitions of companies over time, but also acquisition of small independent retailers. Bunnings is able to use its size and scale, to move from a "category killer" to "industry-crusher", which we are seeing as small businesses, and some larger businesses are unable to compete, consistently removed from the market.
- Barriers to entry are significantly high in DIY and Trade, as Bunnings have huge purchasing power and access to capital and economies of scale. This is seen through the failed attempt of Masters backed by Woolworths and Lowes with an exit in 2017.
- The pure size difference of Bunnings with $19b turnover, and its next largest competitor Mitre10 of $3.5b means Bunnings is 443% larger than Mitre10. Mitre10 used to have 900 stores, of which it now has 300, with Bunnings growing to 513.
- The concentration of power and size, increases supplier reliance on a single retailer, which again increases barriers to entry, and dependency on suppliers to Bunnings. Evidence of poor treatment of suppliers by Bunnings was disclosed in the Price Gouging Senate Inquiry, led by the Greens in 2024.
- Bunnings is able to differentiate itself as a one stop shop for all DIY and Trade needs. This is a level of convenience that reduces shoppers search costs and travel time. This then allows them to easily add more categories, based on the pure size of their stores with minimal investment costs.
- Firms with market power can set prices significantly above marginal cost, or can reduce them temporarily to drive out competition. With the continued loss of small

[185] https://www.bunnings.com.au/policies/price-policy?srsltid=AfmBOoomPglE_aJGwPGEZ2UCnJ7FbjevGCRQ0_nvHM_m03TzkDqSOU22

independent DIY and Trade operators, we appear to be seeing evidence of this in market.

- Bunnings EBIT% is 11.9%, versus 4.17% for Walmart (more scale), 6.1% for Woolworths (receiving significant scrutiny), and Coles at 5.17%, again under significant scrutiny. The very high EBIT% suggests either a well-run business, however in the absence of CODB% this is unclear, or simply monopoly profits.

5.1.2 Factors Contributing to Market Power and Key Questions:

- The senate inquiry should ask to see, Bunnings CODB% over the last 5 years, and have this benchmarked against global retailers (also provided in this report). Competitive markets require companies to manage their CODB% and seek savings and efficiencies to remain competitive on price. Creeping CODB%, means shoppers are paying higher prices based on a climbing cost base. As Bunnings has scale, it should be able to manage this efficiently.

5.3.1 Market Power as Monopsony Power, Key Insights and Recommendations:

- Monopsony buyer power is present with Bunnings and its suppliers. Some suppliers have only one buyer, which is Bunnings, so they are heavily reliant on this relationship for viability, therefore buyer dominance as monopsony power is present. There is a higher chance of abuse of power when this is present.
- Monopsony power impacts market equilibrium by distorting the supply side with lower compensation than competitive markets and allocative inefficiency.
- Due to no other buyers being similar in size, and thus Bunnings having significant power, it holds significant buyer power over its suppliers.
- Monopsony buyer power should be included in considerations of market power with existing suppliers before M&A applications are approved for new businesses. Monopsony buyer power has significant implications on abuse of market power, by nature of the asymmetric power relationship. This can be understood through the reliance of suppliers on a single entity, and if it is currently occurring with some suppliers, or at increasing levels, then it is likely this strategy could extend to the acquiring entity, which strengthens power further.

5.3.1 Market Power Through New Categories, Loyalty Data, Own-Brand, Ethical Sourcing, National Brand Exclusivity, Key Insights and Recommendations:

- Given the sheer size and scale of Bunnings and the ease in which it can include new categories at a low cost to entry, but consequently have a material impact on competition, is it recommended that it should seek approval by the regulator to compete in a new category or industry. The purpose of this is their ability to invest in lower than viable pricing for long periods of time, which consequently can easily kill off competition, and then be able to raise prices. This could substantially lessen competition in more industries through market power.
- Bunnings 50% ownership stake in Flybuys gives it significant data knowledge and power across a large proportion of Australian shoppers, on their everyday purchases. The transparency and ways in which they use this as part of their joint venture is not clear in their financial reports.
- There are significant implications of amassing such a large database of shopper habits, and the impact this has on current and future competition. Smaller competitors

do not have access to this level of insights, which puts them in a severely diminished competitive position.

- It is recommended a separate senate inquiry, which seeks to understand more about these programs. This includes, but not limited to data collection, loyalty rewards programs, how this information is used, stored, shared, sold, and the nature of which decisions are made from it. If the data source is as extensive as Flybuys, it does allow the use of market power to occur, if not properly regulated.
- As these schemes often track shoppers across the nation, Australia has outdated privacy laws which do not capture the extent in which this data can be used, monetized, and potentially abused. It is therefore recommended Australia consider some of the more recent provisions in the EU for adequate protections.
- Own-brands can be viewed as another form of retailers’ exercising their power over the supply chain. Although it is common practice for this to occur in supermarkets, this is often with greater transparency such as details of Coles Brand, Woolworths Brand, and clear contact details of them on back of pack. Bunnings uses a phantom brand strategy when it comes to its store-brand program, which could be highly misleading for shoppers. It is highly recommended that Bunnings is required to disclose on pack if they are own-brand, and the country of origin it was sourced from, for greater transparency for its customers.
- Due to the high nature of suppliers to Bunnings at 6,467 in the last financial year, FY24, the current self-reporting of ethical sourcing evidence of no modern slavery is not transparent. It is recommended, that Bunnings disclose the number of own-brand suppliers, and where they are per nation to the regulator. It is also recommended a third party provide auditing that is globally reputable, with adequate transparency for shoppers to make decisions on what goods they purchase, and whether this has come at the cost of a nations environment or slave labour to produce.
- It is also recommended country-of-origin labelling, as well as transparency of images of suppliers and their locations to make informed choices.

5.4.1 Market Power Evidence Through Financials Key Insights and Recommendations

- When analyzing market power through financials, the ROIC or return on invested capital for Bunnings, which is a preferred measure of efficiency of capital employed, sits at a very high amount of 69.2%. When this is compared to Woolworths who is a very successful and capital efficient retailer, their value is 32%. This is over double the return. These returns are not normal, and indicate short comings within the supply chain, or a lack of competition, that drives such returns.
- It is recommended an ombudsman be set up to monitor and track pricing and price setting practices across the DIY and Trade industries to ensure abuse of market power is not occurring.
- It has become clear through press articles, that Bunnings have managed to buy competitor sites such as those of Mitre10, to convert them into Bunnings. This is removing competition by town/regional creeping acquisitions. Although this practice is not illegal, by nature of buying up competitors over time, has resulted in Mitre10 dropping from 900 stores in the 1990s to 300 today. It is recommended the senate inquiry request history of all purchases of prior sties which were owned by a competitor over the last 30 years. It is also recommended that Bunnings provide proof that they

did not create a monopoly in this location through this acquisition, and that adequate competition in DIY and Trade remained in these areas.

6.1.1 Groceries in Big Box Retailing Key Insights and Recommendations:

- Where groceries are sold, it is highly recommended that the food and grocery code of conduct be applied to these retailers. Particularly on unit pricing visibility and fair treatment of suppliers.
- A separate code of conduct is recommended for big box retailers, by nature of their ability to be "category killers", driving out direct competition. Or in the case of Bunnings "industry-crushers", whereby they can easily enter a category at a low price, drive out competition, then enjoy a monopoly and profits which go with it. We have seen this monopoly status occur for DIY with the purchase of "Hardwarehouse" in 2001 (BBC Hardware), which has given Bunnings a very high EBIT% compared to its very successful peers.

7.1.1 Competition Law and Anti-Trust, Key Insights and Recommendations:

- For competition law reform, and regulation of the big box industry, the onus of proof that abuse of market power and monopsony power is not present when a firm of significant size and power wishes to acquire another firm or expand into new areas should occur.
- Within competition law and anti-trust policy in retailing it is strongly recommended antitrust consideration should include effects beyond price, such as quality, innovation, variety and consumer choice. If variety and consumer choice are dramatically reduced, this should represent a red flag.
- Dynamic Competition is changing, and the attempts of vertical integration by large entities to strengthen their dominance position further, should be considered as it could dramatically change market structures and future competition.
- The issues of monopsony buyer power should be addressed adequately in the code of conduct, after consultation with suppliers who currently exist under this agreement. It is important these suppliers are not disclosed specifically to Bunnings, as fear of retribution will mean they are unable to speak freely.
- Regulation of data platforms, privacy and consumer protection should be considered within competition law, as not to abuse this through market power.
- A separate inquiry into the use of data, privacy, and use of customer data should occur. Then considerations of EU protection policies to be highly considered for reform of this growing area of high value and importance.