15 March 2011

Submission to the Senate Economics References Committee inquiry into….

'The impacts of supermarket price decisions on the dairy industry"

Prepared by Foodland Supermarkets South Australia.

Introduction

The Foodland supermarket group consists of 110 supermarkets across metropolitan and regional South Australia.

Our stores can vary from small supermarkets with 400 square metres trading area to larger stores which have an excess of 3,000 square metres in trading area and directly compete with Coles and Woolworths. There are a high proportion of Foodland stores in SA country areas.

We are the largest Independent supermarket group in South Australia and are supplied via the IGA distribution network and by multiple direct suppliers.

Our 28% market share in SA is proportionately higher than independent hold in other states and we strongly contribute to the state's economy by way of investment, employment, sponsorship and community support programmes.
The Foodland banner has now been operating for 49 years in South Australia.

The 110 Foodland stores are individually owned by 41 unit holders with several large multi store groups such as Drake Food markets, the Romeo Retail Group, Eudunda's and the Chapley family.

We are considered leaders in the local independent food sector.

Effect on the Dairy Industry from price discounting

Fresh milk is sourced by the producer direct from the Dairy Farmer and a contract price is paid.

We therefore support the concerns of the Dairy Industry that the discounting of private label milk will devalue this commodity in the longer terms and will ultimately affect farm gate prices paid to local Dairy Farmers.

We believe that the producer and the farmer will be the losers once the major chains seek to retender for business in order to recoup lost profit.

Discounting is bad news for a dairy industry that is already in difficult times.
Milk Producers need to maintain their volume to balance factory efficiencies and are therefore as reliant on private label volume from the chains as they are on the brands they own.
They will have no option but to put price pressure back on the farmer as their brands lose share and volume.

The discount war on milk has already impacted on branded product in February with the share of the category declining in SA from 38% to 32%.

We refer to the following quote by Dean Margetts, former senator for WA and a researcher on dairy industry issues.

‘The retail pricing pressures from retail grocery market concentration have had a direct knock on effect on prices upstream ,particularly for farmers to the point where some of them have found the situation unsustainable “Dean Margetts ,former senator for WA and a researcher on dairy industry issues.

Therefore discounting can in no way benefit our already struggling dairy farmers.

Effect on the Independent retailer and small business

We believe that the strategy behind Coles discounting the value of the milk category is twofold.

One is to gain market share and two is to grow the share of their private label brand. This will allow them to exercise more control of the supply chain.

The independents and the convenience sector will also be the losers from this strategy.

The larger independent supermarket owners have no option but to remain competitive in these circumstances and most will price match the major commodities such as milk, eggs and bread.

Independents and convenience stores have more to lose as their share of branded milk is higher in proportion to the chains and discounting can affect store profitability and ultimately their long term viability.

Smaller retailers rely more on milk and paper sales as they have a convenience shopper who spends less per trip than in a supermarket. Since the discounting commenced, the convenience channel has declined by 16.1 % in February against the previous 4 monthly trend.

It should be noted that independents employ more staff in a proportion to their sales than what the chains do. For example Woolworths and Coles only employ 53% of the grocery workforce versus their market share of 79%. Therefore there are proportionately more jobs in the Independent sector that may be affected.

If the Independent and small retail sector declines, then the Australian shopping public will be deprived of choice, local product range and convenience as is now the case in the UK where Tesco and Asda have decimated High Street retailers through similar strategies.

Effect on the Distributor

Discounting has a flow on effect on the milk distributors who deliver to Foodland, smaller independents and the route trade.

Their viability is affected by the loss of delivery volume in the convenience and route channels when volume shifts to the national chains. (Coles and Woolworths do not use distributors as they warehouse their milk)

There are 90 distributors in the National Foods network in SA alone and their volume has already declined by 16% in February due to volume shift to the supermarket channel.

Effect on the Community

The sponsorships and community support that both the independent retailers and the sales of branded milk provide to the community will be scaled back if branded sales decline.

The Pura brand for example is well known for its support of community via sponsorships as is the independent retail sector. Foodland retailers currently support over 600 community organisations in South Australia.

There is already evidence that customers are abandoning purchasing their branded milk from smaller retailers to purchase cheap private label milk from supermarkets.

Declining brand sales will affect sponsorships and the community.

Conclusion

In Australia the 80% collective share held by Coles and Woolworths is considered the highest in developed countries and therefore gives them a controlling influence on the supply chain.

Their discounting of milk will not allow farmers to recoup their rising costs and remain viable and it may open our market to imports and to prime dairy stock being sold to overseas interests.

The importation of UHT milk may increase at the expense of local fresh milk as it has in Europe.

Therefore Anti-competitive price discrimination legislation should be considered as is can be seen as a shield for the supplier to resist the demands of retailers with dominant market power.

Please take action to look after Australian farmers and locally owned independent retail businesses.

Yours sincerely,

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Foodland Supermarkets