



Master Grocers Australia Ltd

Trading as:
MGA Independent Retailers

Submission to Standing Committee on Industry, Innovation.

Science and Resources on the Impact of global internet
based businesses on local Australian business.

Submission Paper

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Submission by Master Grocers Australia to the Standing Committee on Industry, Innovation, Science and Resources on the impact of global internet businesses on local Australian businesses

Introduction

MGA is making this submission in response to the Inquiry by the Industry, Innovation, Science and Resources Committee (the Committee) as to how the retail industry will cope with changes that may result from future on line shopping. In particular, how small businesses will cope with new forms of competition, whether they are embracing changes in technology and how internet shopping will affect employment. The Committee is also seeking comments regarding the role of Government about on-line trading. MGA has taken these reference terms into account in making this submission and will endeavour to respond to these issues.

Master Grocers Australia (MGA) is a National Employer Industry Association representing the owners and operators of independently owned Grocery and Liquor Supermarkets in all States and Territories of Australia trading under brand names, such as, Farmer Jacks (WA), Foodland (SA), FoodWorks, Friendly Grocers, IGA and SPAR, and they range in size from small, to medium and large businesses.

Independently owned and operated Supermarkets play a major role in the retail industry and make a substantial contribution to the communities in which they trade. In Australia there are 2,100 independently owned branded supermarkets employing over 115,000 full time, part time and casual staff, representing \$14 billion in retail sales. Many MGA members are small family businesses, employing 25 or fewer staff.

MGA understands that astute competitive strategies are an important part of successful business acumen, and we welcome opportunities for independent retailers to compete vigorously with all retail market participants. However, MGA submits that in any competitive environment it is essential for there to be an understanding of how to cope with new and changing opportunities and understands that whenever new ideas present themselves there can often be problems and uncertainties associated their acceptance.



Small independent grocery businesses have faced many challenges over the last few years. Many small retailers continue to struggle in the face of increasing competition from bigger rivals, and coupled with increasing wages and penalties, they tend to become resistant to deal with change. It is no secret that many small businesses have had to fight to grow and maintain their businesses in the face many hurdles, and while they are fully aware of the need to face new challenges, the difficulties of business survival have made the vast majority of small retailers very hesitant to look too far into the future.

However, we all know that times are changing as new technology increases, and we see younger people ready to grasp new ideas with enthusiasm, so retailers need to embrace change and look to the future. Reluctance to move forward rapidly into an evolving 21st century will undoubtedly have to be overcome, because at some time in the future businesses will have no choice but to conquer any fear or hesitancy they may have in regard to dealing with the impact of online shopping on the retail industry.

MGA thanks the Honourable Michelle Landry MP for the opportunity to comment on this important issue of considering how global internet competition will affect the the Australian economy and the employment levels and conditions of those in the small business retail sector. Our submission will focus on the independent grocery sector.

MGA Responses to questions raised by the Committee

Question 1. How has/will the existing retail industry cope with the changes to the sectors landscape brought about by the existence of global online retail business?

It is important to note the size of many small to medium retail businesses in Australia. They range from sole traders to ‘larger’ businesses of over a hundred employees, although these businesses are still considered as ‘small.’ Some of them have already ventured into offering on line services and some have been relatively successful but the vast majority seem to be very hesitant to take on the challenge. They may be hesitant for various reasons, such as lack of knowledge, the costs involved, the area in which their store is located and their current ‘comfort zone’ where they are enjoying relative prosperity and where the prospect of change, or the immediate need to change, may seem remote and unnecessary.



However, it is really a question of facing reality and recognising that there is a need to at least make preparations to think about what the future might hold, because unless change is embraced then businesses will be eventually, and perhaps inevitably, be left behind. Five years ago the Retail Traders Association of WA, Mr. Wayne Spencer said that in Perth, in approximately 70% of households, both partners worked¹ and the need for convenience, and other factors such as available trading hours, meant that there is not always the opportunity to visit shops. He said, “There are two ways to deal with on line- you become an online specialist working out of a warehouse or you drive people into your store , clicks to bricks. It’s your choice but it’s a choice you have to make.”² It is true that the number of families where both parents work has increased. People are ‘time poor’ and being able to use ‘on line’ shopping is increasingly a matter of convenience.

Although the growth of online shopping continues to expand in some areas of retail there has not been significant growth in the independent retail sector. Larger retailers have taken on the challenge of online shopping. Stores like Coles and Woolworths have been offering online services for some time and this type of service appears to be flourishing for these larger retailers. MGA has addressed the issue of whether our members are contemplating on line shopping services at present or in the near future. Our members have indicated that they are aware of the growth of on- line shopping in various sectors of the industry and that it is a factor that needs to be watched as a growing form of business enterprise. However, there is a tendency generally to “wait and see”, and maybe consider such a venture at some time in the future.

There is a view that generally Australians do still like to see where their foods are coming from and when they buy in stores they can make a greater informed choice. Customers like to browse over what they want to put on their dinner plates. It seems many customers still enjoy the “personal contact” that is associated with going to the local supermarket at the weekend- as if it is almost a traditional approach to making purchases. This approach is reciprocated by the

¹ ABC News reported by Louise Merrilees 23 March 2012 comment by Director Mr Wayne Spencer Retail Traders Assn Perth WA.

² Ibid



retailers who generally enjoy offering the customer service that they rank highly in their businesses. They see this aspect of personal contact as an important part of their retail business.

This may not be the same view when considering other aspects of retail, other than grocery shopping, such as purchasing clothing. As customers know in the clothing area of retail they can always still exercise a choice to return these types of goods, which is not quite the same with grocery shopping. It raises the point that selling on line grocery products may therefore have a justifiable slower 'up take' than other forms of retail. Nevertheless, even if the 'up take' is slower the damage overall to the supermarket retail industry could still be severe over time, even if only a few take up the opportunity. The grocery supermarket industry is worth approximately \$15 billion in sales and at present less than 1% is on line , but that could be 10% in 5 year' s time.

When our retailers were asked the question will you consider establishing online retailing in your store the general view is, "Yes, sometime, but not in the immediate future and maybe not even for several years." The problem is that a period of prolonged procrastination may not be a viable option. So how do get our retailers to invest? If they want to be part of the industry in the future they have no choice but to face up to what the future holds. MGA wants to assist them to achieve success and for them to remain as a vital part of the industry and we hope to be able to assist them.

What are the consequences for small businesses in terms of new competition and access to digital platforms. What is the uptake by smaller retailers?

Small to medium businesses are no strangers to competition in the retail supermarket world. They have spent years fighting for the right to fair competition and are well aware of the dangers associated with the appearance of new retailers, such as Aldi, Costco, Kaufland and of course. Amazon which was recently launched in Australia. Not all of these are focussed on grocery products but nevertheless they send a message that the digital age is here and is signalling its future significant impact.

MGA retailers have struggled for years against the sudden appearances of their larger rivals building next door to them or opening up in a nearby shopping centre, so they are no strangers to the competitive dangers that they face. The other issue for many small shops has of course



been the gradual deregulation of trading hours. Small businesses play a major part in our economy and their contribution has been immense. There is no reason why the attraction of the small local shop cannot be retained but there is a need to face the giant impact of the digital world. Can both be sustained side by side? Only time will tell but perhaps there is room for a small store to embrace on line retailing and yet retain the personal side of the business as well. This will be a matter for greater consideration and perhaps a need to show retailers that there are advantages for them in investing in new technologies.

The barriers that face a retailer in adapting to new innovative digital platforms include cost, wages and having the expertise required to establish and control the digital platform needed to set up the system and maintain it.

Although our members place cost as a high factor that needs to be considered in setting up an online service it seems that the need for the expertise required as an ongoing concern outweighed fear of the initial cost. Running a supermarket does not require great computer skills or intricate knowledge of digital platforms, that can be left to those with the necessary skills. However, skills and expertise come at a cost and perhaps providing training for retailers in what is needed for them to comprehend and maintain new systems on exactly what is required. The importance of education in this developing world of technology is vital. 40 to 50 years ago if an individual did not start learning basic computer skills it was time to just leave the workforce, because now there is little or no form of employment for any person without such skills. As technology advances so must the individual be willing to learn. It does not seem that retailers are unwilling to learn but they are concerned about the cost of the learning process.

There is a need to promote continuing interest of future opportunities if industries are going to move with the times and that means educating small employers about the need to embrace new ideas and systems, because unless they do then the larger retailers will take over.

Whether the Government could play a role in assisting small businesses to move into the area of new technology usage and be more adventurous is a recommendation. Government funding for programs to learn about the procedure for setting up a digital platform or how to deliver on line products would be invaluable to small businesses. Perhaps making grants available to offer



assistance to employers to venture into this area of technology could be considered. It this helps to build our economy then such programs could prove to be a great contribution to our country's future prosperity.

What are the impacts on employment including employment levels and conditions?

Only a few years ago there were queues of customers lining up at the registers in supermarkets waiting to be served at the checkouts. Now there are often more customers waiting to get to a self- service checkout in supermarkets than the human serviced checkout mainly because its allegedly quicker. Although this is still a far cry from an online service, it reflects a change in attitude. Yet the majority of small to medium businesses still do not have self- serve checkouts. This is still a step too far for many of them. The reason is undoubtedly the cost of their installation and the personal service that the smaller supermarkets like to offer to their customers.

There is no doubt that in terms of labour it is cheaper to have a machine do the job of providing the calculation of the price of goods in a self- serve checkout and this does have an effect on the number of employees required in a store. If there is an increased move towards online shopping then it is inevitable that the numbers of employees in supermarkets will decrease. They will simply not be needed in the same number that exist currently.

However, online goods still have to be delivered to the warehouse or store that receives the orders and initially they would be sorted by humans. That could mean a reduction in staff numbers but in time they could be eliminated or reduced in number as greater automation is introduced, Although exact statistics cannot at this stage be supplied it would appear that a lesser number of people would be required over time and that could mean job losses, but perhaps not if a store could combine both face to face shopping and on line services.

Apart from checking of orders and packing them there is no direct customer service required for on line purchases, goods are paid for at the time of ordering so no personal exchange of money is required and packing could eventually become automated and that just leaves delivery. As multiple delivery of orders can be made by one or two persons employment levels will inevitably drop. In the long run the cost to the retailer will be a maximum outlay but the eventual cost maybe much cheaper than might initially be envisaged.



The future and the role of Government

The role of Government is to ensure that high levels of employment are maintained but as we move forward with digital platforms such as internet shopping the employment landscape will change as businesses adopt new techniques. MGA recognises that we are living in a changing era. Australians have a greater insight into global markets than ever before. The corner shops and the country stores will remain as icons of an Australian way of life but the future will catch up with the rest, and sooner or later it will be time to offer online services, at least in part. The Committee is undoubtedly aware of the inevitability of change.

As an industry organisation MGA is in a position, with Government support, to assist our retailers to embrace change. They simply cannot bury their heads in the sand, because trying to avoid facing the inevitable is simply unrealistic, our members must realise that a behemoth like Amazon may not be a threat to grocery retailing – yet. But it will be in time. Whether that is 5 , or even 10 years away it will happen and small retailers need to be ready.

Australia needs to be prepared for such change. MGA submits that Government support with programmes that would assist the industry to understand future opportunities on how to establish digital platforms and learn the value of implementing on- line services in the retail supermarket industry could prove invaluable.

Conclusion

MGA members are hardworking, enthusiastic retailers who want to grow their businesses. When they are faced with new challenges they have shown their resilience and have been willing to do whatever it takes to survive. Our members must face the fact that the world is changing, and technology development is moving at a rapid pace. They cannot afford to be left behind and the only way forward is to learn more about what lies ahead. Government support to embrace change would be welcomed and would help to grow our important independent supermarket industry sector.

MGA thanks the Committee for the opportunity to make this brief submission.



Jos de Bruin

CEO Master Grocers Australia

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