

# ARA SUBMISSION

## SENATE COMMITTEE INQUIRY INTO 'BIG BOX' RETAILERS

### SEPTEMBER 2024

The Australian Retailers Association (ARA) welcomes the opportunity to provide a submission to the Senate Economics References Committee inquiry into 'big box' retailers.

The ARA is the oldest, largest and most diverse national retail body, representing a \$420 billion sector that employs 1.4 million Australians – making retail the largest private sector employer in the country. As Australia's peak retail body, representing more than 120,000 retail shop fronts and online stores, the ARA informs, advocates, educates, protects and unifies our independent, national and international retail community.

We represent the full spectrum of Australian retail, from our largest national and international retailers to our small and medium sized members, who make up 95% of our membership. Our members operate in all states and across all categories - from food to fashion, hairdressing to hardware, and everything in between.

While we welcome the opportunity to make a submission to the committee, the ARA is concerned about the unprecedented political scrutiny on our sector that continues to undermine confidence in some of Australia's most trusted retail brands - by calling into question the integrity of business decisions that serve a primary purpose of providing choice, convenience and value for money for consumers.

Despite economic headwinds, retailers have managed to keep more downward pressure on prices than other consumer-facing sectors, like insurance and energy. Decisions made by retailers to limit the impact of higher costs on their customers, have translated into prices on key retail segments growing slower than overall inflation.

Data from the Australian Bureau of Statistics (ABS) confirms that Trimmed Mean Inflation (TMI) rate averaged 4.4% in the 12 months to July 2024. Over the same period, the ABS reported inflation on food and non-alcoholic beverages at 4.1%, clothing and footwear at 0.9% and household furnishings and equipment at 0.2%. In comparison, inflation on insurance was 8.1%, inflation on fuel was 7.7% and inflation on electricity was 5.9%.

Data Series	12-month average	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24
<b>Trimmed Mean Inflation</b>	<b>4.4%</b>	5.6%	5.4%	5.3%	4.6%	4.0%	3.8%	3.9%	4.0%	4.1%	4.4%	4.1%	3.8%
<b>Segment Inflation (Retail)</b>													
- Food and non-alcoholic beverages	<b>4.1%</b>	4.4%	4.7%	5.3%	4.6%	4.0%	4.4%	3.6%	3.5%	3.8%	3.3%	3.3%	3.8%
- Clothing and footwear	<b>0.9%</b>	1.5%	-0.1%	-1.5%	-0.9%	-0.8%	0.4%	0.8%	0.3%	2.4%	2.8%	3.6%	1.9%
- Household furnishings and equipment	<b>0.2%</b>	4.0%	2.3%	0.4%	-0.3%	-0.3%	0.3%	-0.3%	0.1%	-0.8%	-1.1%	-1.1%	-0.9%
<b>Segment Inflation (Non-retail)</b>													
- Insurance and financial services	<b>8.1%</b>	8.8%	8.6%	8.6%	8.8%	8.2%	8.2%	8.4%	8.2%	8.2%	7.8%	6.4%	6.4%
- Automotive fuel	<b>7.7%</b>	13.9%	19.7%	8.6%	2.3%	5.3%	3.1%	4.1%	8.1%	7.4%	9.3%	6.6%	4.0%
- Electricity	<b>5.9%</b>	12.7%	18.0%	10.1%	10.7%	0.4%	0.8%	0.3%	5.2%	4.2%	6.5%	7.5%	-5.1%

Source: ABS Monthly Inflation | July 2024 [link]

Consumers expect that retailers continue to focus on what they can control to minimise the impact of higher costs. However, government also has an obligation to support these efforts by focusing on meaningful interventions that improve supply chain efficiencies, eliminate red tape and reduce costs imposed by governments that are passed onto consumers, fueling the current cost-of-living crisis.

## SCOPE

The terms of reference apply a subjective concept to define a 'big box' retailer and therefore to the scope of this inquiry. To clarify this scope, and inform this submission, the ARA has used two quantitative measures for a less subjective boundary around the terms of reference.

- The commonly accepted industry definition of 'big box' retailers, which is a business comprised mostly of large-format stores of more than 5,000 square metres total lettable area (TLA) per site; and
- The revenue threshold outlined in the Food and Grocery Code of Conduct, which is \$5 billion per annum in Australian sales. Given reference to the Code in the inquiry's terms, this is a reasonable threshold to apply.

We have therefore assumed that the scope of this inquiry includes those retailers with Australian revenues of >\$5 billion per annum - as noted in the Code - and an average TLA of >5,000 square metres per site. The ARA's comments outlined in this submission relate to the cohort of our members that meet these two thresholds, which is a relatively small number of retailers.

## CONTEXT

Large-format retailers are crucial to the Australian economy, making significant contributions to employment, economic activity and local communities across the country.

For consumers, these retailers offer competitive pricing, a wide product range and convenient one-stop shopping, which enhances affordability and accessibility. The retail sector, including those retailers targeted by this inquiry, is one of the country's largest employers, largest buyers of local produce and largest taxpayers.

While large-format retailers in Australia are innovative and agile in response to changing market forces, many are still impacted by the significant economic headwinds that have resulted in a concurrent slow-down in consumer spending and an increase in costs across fuel, energy, labour, rent and insurance.

Retail businesses are balancing this challenging economic landscape against the need to maintain downward pressure on prices, respond to changing consumer demands in terms of choice and convenience, and provide safe retail environments for their teams, their customers and the community at large.

## RESPONSE

The ARA makes the following observations in response the inquiry's terms of reference, through the lens of the quantitative definition of retailers that operate large-format stores with an average GLA of >5,000 per meters per site, and annual revenues in Australia of >\$5 billion.

In response to the underlying proposition of this inquiry, that further measures should be considered to regulate a retailers' dealings with their customers and suppliers, the ARA takes the principles-based approach that less regulation is better than more, but that any regulation must be fit-for-purpose and address a demonstrated need.

### Market behaviour

Retailers aim to strike the optimal balance between the interests of suppliers and the interests of consumers.

- Maintaining robust trade partnerships is a cornerstone of our members' commitment to ensuring optimal outcomes for both customers and suppliers.
- Like all businesses, large-format retailers must navigate a complex regulatory environment that shapes their dealings with suppliers - adhering to competition laws that prevent anti-competitive behaviour in commercial relationships, and consumer protection laws that safeguard consumer rights.
- Unlike some other businesses though, large-format retailers have additional expectations placed upon them by the market to maintain their social license to operate, meaning they need to be sensitive to any behaviour that could adversely impact their standing in the Australian community.
- To meet these standards and expectations, retailers conduct business with integrity while also applying commercial acumen in their dealings with suppliers. These two concepts are not mutually exclusive; and it is not true to say that commercially-minded dealings cannot also be conducted in a respectful, ethical manner. Good retailers seek optimal outcomes for their customers in a way that provides mutual benefit to suppliers, who are also beneficiaries of positive engagement with consumers on choice, convenience and price.
- Maintaining a strong reputation is crucial in this dynamic – fostering trust and loyalty amongst customers and supply chain partners alike. Corporate reputation and brand equity are key assets for retailers that would be a consideration in strategic and operational decisions made by the organisation. Any proposition that retailers would act in a way that has the potential to create reputational risk, fails to recognise the premium that retail brands place on striking the optimal balance between the interests of consumers, suppliers and employees.

### Price setting

External factors have stronger influence on prices than retailer behaviour.

- Pricing strategies in the retail sector are complex and heavily influenced by external factors, including higher costs across fuel, energy and labour. These cost inputs all affect how much a retailer pays for goods coming into their business and how much they pay to run their operations.
- Despite higher costs, large-format retailers have been able to limit adverse impacts on consumers by leveraging their economies of scale and purchasing power to secure favourable terms from suppliers, for the benefit of their customers. The proposition that consumers would somehow be better-off without these economies of scale is counter intuitive.
- Of the five key components that shape a retailer's pricing strategy, three of the largest cost drivers are determined by suppliers, as outlined below.
  - The supplier's costs of procuring or producing goods.
  - The supplier's operational costs.
  - The supplier's sell price, inclusive of the supplier's profit margin.
  - The retailer's operational costs, tax and interest obligations.
  - The retailer's net profit.
- While retailers have invested heavily in innovative solutions to minimise their own operating costs, they do not have the same influence in containing cost increases along their supply chain.

- As such, they continue to accept reasonable requests for cost increases from their suppliers. Had suppliers been required to incur all increases, retailers would not have been required to pass on higher costs as higher prices and the current cost-of-living pressures impacting Australian households would be less pronounced.

### **Regulatory intervention**

The Emerson review recommended a mandatory Food and Grocery Code of Conduct, with no change in the nature of the businesses covered by the Code.

- Australian retailers operate within a comprehensive regulatory framework, including the *Competition and Consumer Act 2010 (Cth)* and standards under Australian Consumer Law, which impose obligations regarding interactions with customers, suppliers and competitors.
- Within this regime, the ARA acknowledges the Final Report of the Food and Grocery Code of Conduct Review published in July 2024, and the Exposure Draft of the updated Code published recently, which will come into effect from April 2025. In particular, we note the primary recommendation for the Code to become mandatory for food and grocery retailers with Australian revenues >\$5 billion per annum.
- In handing down his report, we also note that Dr Craig Emerson recommended “that the Code continue to apply to supermarkets as conventionally understood as places for regular grocery shopping.” While we acknowledge a range of views amongst industry participants about the expansion of the Code, to include other types of retailers, the ARA is supportive of Dr Emerson’s recommendation that the Code should not be expanded to include retailers not currently covered.

### **Acquisition and use of land**

Large-format retailers typically need larger landholdings to deliver benefits for consumers and communities.

- Large-format retailers have a profound impact on local economies and consumer experiences through their land acquisition practices. Their presence stimulates competition by attracting other businesses to the area, which can lead to improved prices and choice for consumers.
- Further, these investments often drive upgrades in local infrastructure - such as better roads, improved public transport and enhanced amenity - which benefit the entire community. These developments can also influence local markets, resulting in favourable more terms to other retail tenancies and a positive contribution to surrounding areas.
- In some instances, particularly Greenfield sites, these benefits for consumers and communities cannot be secured without the acquisition of large parcels of land. While this is not a new trend, delays in planning approvals, extended lead-times on supplies and labour shortages mean that these parcels sit vacant for longer, increasing the prominence of vacant land.

---

Thank you again for the opportunity to provide comments to the Senate Economics References Committee inquiry into big box retailers. Any queries in relation to this submission can be directed to our policy team at [REDACTED]