
CHAPTER 3

MAIN CONTENTIONS

*...there are thousands of new and specialist retail businesses in Australia, right across urban and some strong regional areas, that are prospering. But in the free enterprise economy there is always an ebb and flow.*¹

3.1 The evidence revealed that the growth of the major chains over the last two decades has been at the direct expense of the independents, whose market share and profitability continues to decline.² The viability of the independent sector was said to be at risk, with the common theme being ‘inequality in the market place’.

3.2 This chapter clarifies the main contentions put forward by retailers, wholesalers, primary producers, consumers and other interested organisations.

Retailers

3.3 Small and independent retailers rely on wholesale volumes to compete with the major chains, although some are not convinced that a strong and competitive independent wholesale sector would, by itself, ensure their survival. For example, many shoppers from small country towns now choose to travel to nearby regional centres to buy their groceries from large, modern and well-stocked supermarkets. The viability of an assortment of small country stores is said to be at risk:

While out of town buying their groceries – human nature as it is – they tend to buy their meat, milk, bread, magazines, fruit and veg, shoes, hardware, chemist lines, et cetera, on the same trip. This means there is a real possibility of a domino effect through the whole town. Soon the town has a milk bar-cum-general store and a lot of houses for sale.³

3.4 Typical large supermarket stores have traditionally offered a mixed range of products, leaving room in the market for specialist retailers and for smaller stores. The independents are now concerned that the major chains are moving into smaller store formats as well as specialising in areas such as toys, office supplies, fast food, petrol, health, liquor, beauty aids, on-line shopping and pharmaceuticals:

This leaves very little room for the independent operator to move and the chains seem to be quite content for the smaller operator to disappear.⁴

1 Mr Roger Corbett, Chief Executive Officer, Woolworths, *Hansard*, Canberra, 12 July 1999, p 1097.

2 Australian Competition and Consumer Commission, Submission 191, p 18. Also, see Chapter 4 of this report.

3 Mr Ray Veal, Proprietor, Stratford Licensed Grocery, *Hansard*, Melbourne, 7 April 1999, p 100.

4 Mr Richard Dymond, Proprietor, Toodyay Supermarket, Additional Information (Sub 11A).

3.5 The independent sector called for the market share of the major chains to be immediately capped at 80 per cent, with divestiture back to 75 per cent over five years, effectively limiting the market share of any one operator to 25 per cent.

3.6 The major chains rejected the idea of a market cap, and argued that the market place is highly competitive, with consumers voting with their feet and benefitting more now than they ever did in the past:

We have the best of both worlds: a strong and very competitive major retail sector with 40 per cent of the market and 60 per cent shared by 2,400 banner retailers and over 20,000 small retailers. It could almost be argued that, if we had a blank sheet of paper, it would be hard to have a more ideal market. The Australian consumer is a winner. Australia is a winner.⁵

National Association of Retail Grocers of Australia (NARGA)

3.7 NARGA, which presented the core case for the independents, is concerned that the three major chains have doubled their share of the national retail grocery market over the past twenty years from 40 per cent to in excess of 80 per cent. NARGA believes that the chains' oligopoly is anti-competitive, unhealthy and destructive to small business.⁶

3.8 NARGA maintains that the ongoing decline in the market share of independent retailers is irrefutable proof that the independents cannot compete fairly in the market place. Factors such as the cost of capital, business risk, acquisition of stores, access to new sites and wholesale sales tax are said to give the major chains a significant degree of market advantage over the independents.⁷

3.9 NARGA claims that over 80 stores have been acquired by the major chains since January 1995.⁸ Through their acquisition strategies, the major chains are said to be 'picking the eyes' out of the independent sector.

3.10 NARGA maintains that the major chains are able to purchase on the best terms, not only on the grocery products they on-sell, but also in relation to peripheral business inputs such as electricity, telecommunications, financial services (EFTPOS and credit card charges), rent and insurance.⁹

3.11 NARGA cited the findings of the Reid Report,¹⁰ and argued that:

5 Mr Roger Corbett, Chief Executive Officer, Woolworths, *Hansard*, Canberra, 6 April 1999, p 6.

6 National Association of Retail Grocers of Australia, Submission 201, p 8.

7 National Association of Retail Grocers of Australia, Submission 201, p 11.

8 National Association of Retail Grocers of Australia, Submission 201, p 102.

9 National Association of Retail Grocers of Australia, Submission 201, pp 87-89.

10 House of Representatives Standing Committee on Industry, Science and Technology, *Finding a Balance Towards Fair Trading in Australia*, May 1997.

There needs to be a recognition that the Australian commercial environment is no longer conducive to fair competition because of high levels of concentration in many industries – including retailing. It is naïve to expect small business to survive unrestrained ‘competition’ without some form of protection from the worst excesses of the exercise of economic power.¹¹

3.12 NARGA’s main recommendations are:

1. The retail grocery market share of the major chains be capped at 80 per cent with a mandatory reduction to 75 per cent within five years, with each major chain controlling no more than 25 per cent of the total retail grocery market.
2. The introduction of legislation providing stiff penalties for abuse of market power, divestiture powers and criminal sanctions where appropriate.
3. Mandatory economic and social impact statements for all new shopping centres and significant retail developments.
4. A moratorium on the implementation of National Competition Policy (NCP), including the deregulation of shop trading hours, pending the outcomes of this inquiry, that of the Senate Committee inquiry into the Social and Economic Effects of the NCP, and the Productivity Commission inquiry into NCP and its impact on regional Australia.
5. The establishment of a new national watchdog to monitor the market share of the major chains with mandatory bi-annual public reports on retail grocery prices and anti-competitive behaviour.
6. A requirement to disclose to the Australian Competition and Consumer Commission (ACCC) manufacturers’ trading terms and conditions on a confidential basis to ensure transparent and fair pricing policies (with six-month reviews).
7. The appointment of small business representatives to all government, semi-government and statutory authorities impacting on small business, including the National Competition Council (NCC) and the ACCC.¹²

Other independent retailers

3.13 Mr Alan Jones, Chief Executive Officer of the Master Grocers Association of Victoria (MGAV), argued that a market cap will enhance competition, and referred the Committee to past events in the Victorian town of Kerang:

11 National Association of Retail Grocers of Australia, Submission 201, p 10.

12 National Association of Retail Grocers of Australia, Submission 201, p 13.

Ten years ago there were three independent supermarkets and a number of individual specialty stores. Safeway bought some land up there and developed a site and now there is one other independent supermarket and most of the smaller stores have closed. I would submit that that is in actual fact a shrinking competition – there is less choice for the consumer. Where we could have gone to three different stores that were operating under different banners with different specials, different level of service, different level of décor et cetera, now we are down to basically one of two choices.¹³

3.14 The Small Retailers Association of South Australia (SA Small Retailers) feel that governments have done little, until recently, to encourage a fair balance in the market place. It believes that, as a result, there is ‘unparalleled market domination and declining competition’. It believes that small business is being ‘slowly but very surely destroyed’:¹⁴

Further to that, in our submission we have alleged that essentially the process we have in Australia now in the retail industry is a predatory process. It is one where even the best may not survive by the very processes that go on where they are in fact being targeted for market growth by one of three major retailers. That is a major concern to us because in some cases people will be taken out of business whether they want to be or not, simply because they recognise that they may have no choice, even though they might be trading well.¹⁵

3.15 Mr Barry Hall, owner of Hope Valley Foodland, told the Committee that there is a clear trend towards decline:

Twenty years ago the South Australian independent sector had over 50 per cent of the market share. That has now come down to something like 30 per cent. Over that time it has consistently shown that the sell price to the consumers of groceries has been four or five per cent below the eastern seaboard. To my mind, all of the manufacturing locations are basically on the eastern seaboard and therefore you have got a freight component to get that product to South Australia. So why is it that we sell at a cheaper price? I believe it is simply our competition. Our strength in the independent industry ensures that competition stays at a level that the consumer will benefit from. That is being eroded now substantially...¹⁶

3.16 The market share of the independent sector is lowest in Queensland.¹⁷ Mr Ian Baldock, Executive Director of the Queensland Retail Traders and Shopkeepers

13 *Hansard*, Melbourne, 7 April 1999, pp 89-90.

14 Small Retailers Association of South Australia, Submission 215, p 1.

15 Mr John Brownsea, Executive Director, Small Retailers Association, *Hansard*, Adelaide, 8 April 1999, p 176.

16 *Hansard*, Adelaide, 8 April 1999, pp 215-216.

17 Australian Bureau of Statistics, Retail Trade Special Data Service, *Joint Select Committee on the Retail Sector – Market Share Report*, Table 4, Measure 1.

Association (QRTSA), is particularly concerned about the effect this is having on the sustainability of rural communities:

It is the independent sector, the independent retailer that is in there servicing that community, supporting that community. But because of what is happening in other areas throughout Australia the ability of that operator to be able to buy correctly, to be able to service that community, is under threat, and if the people in that community do not perceive that they are getting good value from that independent operator, they will drive somewhere else a hundred kilometres away to another centre where perhaps there is a major retailer, and take their business with them, which is a threat to the economic ability of that town to sustain itself.¹⁸

3.17 The Retail Traders Association of Tasmania (RTAT) is concerned with the expansion of the major chains into areas such as newsagents, florists, petrol, bakers, butchers, liquor, pharmacies, electrical, hardware and photolabs. In particular, Mr Paul Morgan, a pharmacist from Hobart, is concerned about health issues. His colleague Mr Tony Steven, Executive Director of the RTAT, said:

For example, there are serious implications if supermarkets were to start selling products usually reserved for pharmacies. There are concerns involving safety, expertise and even personalised service. It is more likely that a local, caring chemist will know more about the medical background of his or her customers than an attendant at a high-turnover supermarket.¹⁹

3.18 Adding to these concerns, Dubbo pharmacist, Mr John Manny, told the Committee of the difficulty in attracting pharmacists to the bush:

You will also find that doctors do not like moving into a rural area if there is not a pharmacist to back them up. It is a very big problem and one that I am sure you in your political field are very much aware of. For example, in the small settlement of Tottenham, which claims to be in the dead centre of New South Wales, the doctor there often calls me when he is in trouble. He cannot get supplies with ease. He is in a position where people who would normally supply him with his emergency medications and so on have found it financially difficult to support him. We do not want to exacerbate this sort of problem. It is very real and it is happening now.²⁰

3.19 Western Australian independent retailer Mr Neville Gale believes that the difference in trading terms is the key issue. Mr Gale said that the industry works on only two or three per cent profit margins, yet the difference in trading terms between the independents and the major chains is often as much as five, six or eight per cent.²¹

18 *Hansard*, Brisbane, 16 April 1999, p 446.

19 *Hansard*, Launceston, 5 July 1999, p 547.

20 *Hansard*, Dubbo, 7 July 1999, pp 754-755.

21 *Hansard*, Perth, 9 April 1999, p 247.

3.20 Mr Gale is also concerned that it has become nearly impossible for independents to gain the sites that the majors do:

How can an independent like me compete against all of that: the sites, the capital, the trading terms and the advertising power, which comes as a result of those trading terms, and then what I believe to be unconscionable behaviour – predatory pricing?²²

Woolworths

3.21 Woolworths believes that the Australian retail grocery industry is highly competitive, with low basic food prices, high levels of consumer choice, high levels of efficiency and moderate levels of profit.²³

3.22 Chief Executive Officer, Mr Roger Corbett, said that Woolworths has grown purely because customers desire to shop with them, and expressed grave concern over the demands for a market cap:

We disagree with those who suggest that the Government impose an artificial ceiling on the market share of a company like Woolworths. We believe that would have disastrous effects upon the direct interests of our customers and indirectly on the Australian economy. We disagree with it both philosophically and factually. Options have been put forward to meet an agenda which has nothing to do with what Australian consumers want.²⁴

3.23 Mr Corbett said that the market share figure presented by NARGA (80 per cent for the major chains) is misleading.²⁵ He believes that the relevant market shares for supermarkets should be measured against the ‘stomach market’ – which includes spending on:

- Take-home food, groceries and bottled liquor; and
- Food catering.

3.24 On this basis, Mr Corbett said that the market share of the three major chains is around 43.1 per cent.²⁶ He said that some have chosen to create an impression that the three major chains are one team which work against the rest of the market:

This is the same as claiming that the three top football teams are one rugby league team and every other team is playing against them. Woolworths is one Australian company in arguably the toughest retail market in the world. We compete absolutely vigorously with Coles and Franklins and the fact that they are a significant size only tends to heighten the competition and

22 *Hansard*, Perth, 9 April 1999, p 247.

23 Woolworths, Submission 229A, p 2.

24 *Hansard*, Canberra, 6 April 1999 p 2.

25 *Hansard*, Canberra, 6 April 1999, p 3.

26 Jebb Holland Dimasi, Submission 228, pp 26-27.

continually puts pressure on our end profit margin. We deliver an EBIT of 3.53 per cent, which is amongst the lowest in the world and is similar to our major competitors'. The winner of this competition is the Australian consumer.²⁷

3.25 Woolworths is concerned that a market cap will negatively impact upon consumers. It claims that the ability to grow sales by volume growth would not be possible, and thus, the focus would turn to higher prices and lower costs in order to generate increased shareholder value.²⁸

3.26 Woolworths submitted that the major reasons for small business failures in Australia include financial mismanagement, lack of business ability, lack of capital, and economic conditions. It suggested that the best means of assisting the small independent retailer without damaging the market's competitiveness would be to focus on management and skills, financing costs, and reduced administrative costs – especially red tape.²⁹

Coles

3.27 Coles believes that Australian consumers are well served, and cautioned the Committee against 'impeding the evolution' of the retailing sector.³⁰ Coles suggested that the issue for the inquiry should not be the level of concentration, but whether the Australian retail grocery market has remained competitive and open to new entrants.³¹

3.28 Coles believes that:

- The market remains competitive – evidenced by slim profit margins (Coles' is 3.4% compared with up to 4% in the US and 5-6% in the UK);
- The market is open to new entrants – evidenced by the success of small specialised food retailers such as Bakers Delight, Brumbies, Deli France;
- Consolidation amongst mass food chains is accelerating around the world in order to respond to technological and organisational changes that increase efficiency and bring prices down; and
- Consolidation is also occurring throughout the supply chain where growers, processors, manufacturers, wholesalers and property owners seek mergers in order to compete better in local and global markets.³²

27 *Hansard*, Canberra, 6 April 1999, p 3.

28 Woolworths, Submission 229A, p 3.

29 Woolworths, Submission 229, pp 156-158.

30 Coles, Submission 168, p 26.

31 Coles, Submission 168, p 4.

32 Coles, Submission 168, pp 4,5 and 9.

3.29 Coles is concerned that further regulation would be impractical and against the interests of the community, and maintains that adequate protection is already available to consumers, suppliers and other retailers through the provisions of the *Trade Practices Act* and the common law.³³

3.30 Coles believes that capping the market share would be extraordinarily difficult and contentious, and would vary according to how a market is defined. Mr Alan Williams, Managing Director of Coles Supermarkets, said:

From our observation, we do not believe it will fix the independent's dilemma. It will not achieve the outcome – there is the 25 per cent recommendation for the independents, but you cannot guarantee it is going to go to them. There are international operators looking at coming into the Australian market now, and already one German company has carried out job interviews. We have seen recently Caltex and IGA coming together with small and medium sized supermarkets. All of that evolution is happening now as we speak.³⁴

3.31 Mr Williams believes that Coles have acted in an ethical and fair way in achieving efficiency and innovation. He said that Coles have been able to pass those benefits onto its stakeholders, including its customers:

We have better stores, we have competitive prices, we have improved our service levels. The quality of goods that go into our stores has significantly improved, as has the food handling and safety aspects. We have a wide range of products and a wide range of offerings, and we are open at times that are convenient to the customer.³⁵

3.32 Mr Williams said that Coles are customer-driven:

Quite simply, if you do not meet the customers' expectations, they will shop elsewhere.³⁶

Franklins

3.33 Franklins, the smallest of the three major chains, believes that to compete effectively it must take advantage of economies of scale and scope.³⁷ Mr Ian Cornell, Chief Executive Officer, told the Committee that Franklins must grow to achieve the economies of scale that their primary competitors enjoy in logistics administration, information technology and advertising, to ensure that they are not placed at a competitive disadvantage:

33 Coles, Submission 168, pp 4-26.

34 *Hansard*, Canberra, 6 April 1999, p 30.

35 *Hansard*, Canberra, 6 April 1999, p 30.

36 *Hansard*, Canberra, 6 April 1999, p 31.

37 Franklins, Submission 200, p iv.

These economies of scale are critical in a small and geographically dispersed Australian market. To be able to offer customers lower prices and achieve an acceptable level of profitability we need to achieve these economies of scale.³⁸

3.34 Mr Cornell told the Committee that Franklins made major losses in 1995 and 1996 due to its delayed response to consumer demands. He said that customers have a preference for those supermarkets that allow them to shop when it suits them, and not when it suits the retailer. He said that Franklins' competitors were able to adapt to these changes brought about by 'time poor activity rich' customers quicker than Franklins because they already offered a one-stop shopping experience:

These changing consumer demands also needed to be addressed by the independent retailers. The customer does not differentiate between chain stores and independent operators. Customers will shop when they want to shop in the most convenient store.³⁹

3.35 In rejecting NARGA's proposal for a market share cap, Mr Cornell believes that legislative restrictions effectively stifle competition, ultimately leading to increased prices:

[In the liquor industry] licences are allocated on a needs basis in most States. In many areas the major liquor retailer has dominance, which precludes any further entry based on the needs test. Franklins cannot create competition in these areas because of our difficulty in obtaining licences.⁴⁰

Wholesalers

Dauids

3.36 Davids' wholesale business is inextricably linked to that of the independent retailers. Its relationship with the independents is one of mutual dependency. Without the independents, Davids does not survive, and vice versa.⁴¹ Mr Andrew Reitzer, Chief Executive Officer, said:

So whilst we could be perceived to be big business, we are totally and completely linked to the small independent retailers of Australia. We both need that certain critical mass, that certain critical volume, to survive.⁴²

3.37 Davids provide three main functions. First, it delivers goods to the independents, secondly, it does the marketing for the independents, and thirdly, it acts as 'head office' for the independents. Davids therefore provides a number of services that the independent retailers could not obtain individually, as Mr Reitzer explained:

38 *Hansard*, Sydney, 15 April 1999, p 367.

39 *Hansard*, Sydney, 15 April 1999, p 367.

40 *Hansard*, Sydney, 15 April 1999, p 367.

41 Mr Andrew Reitzer, Chief Executive Officer, Davids, *Hansard*, Melbourne, 7 April 1999, p 116.

42 *Hansard*, Melbourne, 7 April 1999, p 116.

For example...I track the prices at Franklins, Woolworths and Coles in each State every single day of the week and I record them on our computer. I then utilise that information for what we call host support – the computers of the majority of those 4,000 independent retailers are linked to mine. And the retailer can say, ‘I’ve got a Coles next door to me, I’ve got a Safeway next door to me and I want the same selling prices as they have,’ and then that gets done automatically through the computer. So I provided that service just as one of the chains would provide their service for their stores.⁴³

3.38 Davids also have a training school, where its customers receive all levels of training, from shelf packing to cash flows and balance sheets:

We run ‘planograms’, so just as one of the major chains’ head office will tell their schools exactly how to lay their shelves out, our customers can link onto the Internet and from the Internet say, ‘I have got this sort of shelving and I am about to re-lay the coffee section,’ and we will tell them exactly from a merchandising point of view how best to re-lay that. We have re-lay teams, so that if a store is really a bit run down because the independent is not up to date and he wants to re-lay the whole store for whatever reason, we will go in there and re-lay the whole store for him.⁴⁴

3.39 In contrast to the claims of the major chains, Davids believes that the Australian grocery market is a textbook example of market failure:

To tilt the playing field in the interests of fair competition and in the public interest the Government must cap the market share of the chains through amendments to the *Trade Practices Act* or through the introduction of US anti-trust style laws to break up the monopoly power of the chains.⁴⁵

Foodland Associated Limited (FAL)

3.40 Mr Barry Alty, Managing Director of FAL, told the Committee that independent retailers do not have equal access to sites, equity capital or debt facilities at low cost, and are disadvantaged by the current sales tax system. In addition, they do not have the ability to spread risk as do the major chains, namely because they are single-site or few-site operators. They are also supplied by a wholesaler who is entitled to make a profit:⁴⁶

The result of this situation is self-evident. If you do not have equal opportunity, you cannot enjoy equal success. It is quite simple. As a consequence, the independent market share has diminished consistently for the last 20-odd years. This has led to chain domination and it continues; there is an increasing domination. The constant erosion of the independent share through unequal opportunity and through acquisition strategy places

43 *Hansard*, Melbourne, 7 April 1999, p 117.

44 Mr Andrew Reitzer, Chief Executive Officer, Davids, *Hansard*, Melbourne, 7 April 1999, p 117.

45 Davids, Submission 166, p 2.

46 *Hansard*, Perth, 9 April 1999, p 304.

the entire independent sector under threat. If growth in chain dominance continues unabated or unchecked, there will not be a viable independent sector at some time.⁴⁷

3.41 Mr Alty believes that a market cap would be the only insurance against the survival of the independent sector:

How will small stores and rural towns be supplied at any form of reasonable cost? What are the price and choice impacts in the marketplace of duopoly or oligopoly? What are the social impacts, particularly in rural Australia? Thus, in our view, there has to be a cap. There is no other way of protecting genuine public interest.⁴⁸

Primary producers

3.42 Farmers are concerned that the market power of the major chains enables them to drive very hard bargains in the purchase of produce, which is often done in an aggressive manner.

NSW Farmers Association (NSW Farmers)

3.43 NSW Farmers is concerned that there is a fundamental imbalance in market power between farmers and the major chains, with some members reporting instances of what they believe to be abuses of market power. Despite this, many farmers appreciate the professional and efficient roles played by the major chains in food distribution.

3.44 NSW Farmers said that there are better alternatives than a market cap, an action which it believes would introduce its own set of inefficiencies:

It would not solve the fundamental problem of ensuring markets remain transparent and that fair practices prevail.⁴⁹

3.45 NSW Farmers want measures put in place to ensure market transparency and fair trading practices, including the establishment of a Fair Trading Authority with comprehensive powers, including the ability to:

- identify markets ‘vulnerable’ to unfair trading;
- facilitate the development of an industry Code of Conduct;
- impose and enforce information disclosure requirements on market industry participants;
- provide information that assists in preventing unfair trading practices; and

47 *Hansard*, Perth, 9 April 1999, pp 304-305.

48 *Hansard*, Perth, 9 April 1999, p 305.

49 Mr Michael Keogh, Policy Director, NSW Farmers Association, *Hansard*, Sydney, 15 April 1999, p 342.

- recommend summary penalties for market participants engaged in unfair trading practices.⁵⁰

3.46 NSW Farmers envisage such an authority's role (with associated tribunal) as being predominantly preventative, implementing measures to ensure markets remain fair and transparent, while at the same time enabling competitive forces to generate efficiency gains.⁵¹

3.47 NSW Farmers also seek the implementation of a program aimed at encouraging farmers to combine into cooperative or collective groups, which would enable them to better match the commercial skills of major corporate organisations.⁵²

South Australian Farmers Federation (SA Farmers)

3.48 SA Farmers believe that there is an unhealthy level of competition, with most producers having few potential customers in the marketplace.⁵³

3.49 SA Farmers appreciate that the major chains are a very important part of their livelihood, but are becoming increasingly concerned at their level of concentration:

Some of what is happening in terms of the vertical linkages where they are becoming more and more involved in growers' businesses and growers in effect are becoming more involved in their businesses is actually quite healthy. It is just where the balance gets so far swung one way that effectively the supermarkets are potentially exerting an unhealthy level of control over prices, margins, and the businesses that these growers are involved in, that the situation becomes a problem.⁵⁴

3.50 SA Farmers expect that, in the future, there will be a decrease in the number of farmers growing produce uncontracted, with the increased use of patented biotechnology further extending the use of vertically integrated relationships throughout the supply chain. Increased vertical integration of this nature provides benefits, but the extent of these to primary producers depends on their ability to gain just terms in their dealings with the major chains.⁵⁵

50 NSW Farmers Association, Submission 216, p 3.

51 Mr Michael Keogh, Policy Director, NSW Farmers Association, *Hansard*, Sydney, 15 April 1999, p 342.

52 Mr Michael Keogh, Policy Director, NSW Farmers Association, *Hansard*, Sydney, 15 April 1999, p 342.

53 Mr Alexander Cameron, Chief Executive Officer, South Australian Farmers Federation, *Hansard*, Adelaide, 8 April 1999, p 203.

54 Mr Alexander Cameron, Chief Executive Officer, South Australian Farmers Federation, *Hansard*, Adelaide, 8 April 1999, p 212.

55 Mr Alexander Cameron, Chief Executive Officer, South Australian Farmers Federation, *Hansard*, Adelaide, 8 April 1999, p 214.

Queensland Fruit and Vegetable Growers (QFVG)

3.51 The QFVG also relayed mixed views from growers. Some feel that they have not been treated fairly by the major chains, while others reported good relationships, and that direct supply represented the best marketing strategy for the future.⁵⁶

3.52 In a survey of 28 growers selected from a large area, and including both those who deal directly with the major chains and those who do not, the QFVG provided a comprehensive list of ‘pros and cons’ regarding dealings with the major chains.⁵⁷ Despite its mixed views, the QFVG believes that the manner in which the major chains treat growers has improved over time:

A significant number of growers, producing a range of crops, had quite unsatisfactory experiences some years ago. It is no exaggeration to say that those early experiences created levels of fear, anxiety and hostility, which have prevented any rational reconsideration of entering into direct supply arrangements.⁵⁸

3.53 However, the QFVG believes that the major chains should recognise the ‘very considerable imbalance of market power which exists’, and exercise appropriate responsibility in ensuring that business relationships are conducted in a fair, reasonable and transparent manner. Particular recommendations include:

- Better staff training for employees who deal with growers;
- The acceptance of produce by retailers once it has entered their distribution centres and has passed quality control requirements;
- The development of specific protocols between growers and retailers to minimise the occurrence of produce return;
- The development of an industry Code of Conduct;
- The further consideration of marketing systems for the industry as a whole; and
- The encouragement of ongoing dialogue between the major chains and horticultural industries to facilitate and enhance industry development.⁵⁹

Other organisations

Council of Small Business Organisations of Australia (COSBOA)

3.54 COSBOA, established in 1979 primarily to ensure that the *Trade Practices Act* delivered on its promise for small firms, regards retail concentration as only the tip of a very large policy iceberg.

56 Queensland Fruit and Vegetable Growers, Submission 203, p 2.

57 Queensland Fruit and Vegetable Growers, Submission 203, pp 12-13.

58 Queensland Fruit and Vegetable Growers, Submission 203, p 13.

59 Queensland Fruit and Vegetable Growers, Submission 203, pp 16-17.

3.55 COSBOA believes that the underlying problem is whether, in a free market economy which wants to measure its efficiency only in capital terms, government should pro-actively support small labour-intensive firms or not.⁶⁰

3.56 COSBOA has been arguing for some years that concentration of ownership is increasing in Australia, particularly in a number of retail categories, and that this is undesirable in both its employment and social consequences. COSBOA believes that smaller operators have an important role in maintaining a wide diversity of products and services, and for maintaining a wide range of suppliers:

Experiences in many regional economies have been that concentration of ownership of retail outlets (food, for example) leads to a reduction in the amount of product sourced locally, as the bigger retailers move to centralise suppliers to maximise economies of scale. The impact of increasing firm sizes thus needs to be assessed not only in terms of price reduction and scale economies, but on the extent of displacement of other enterprises and their employees.⁶¹

Shop Distributive and Allied Employees Association (SDA)

3.57 The major chains enjoy strong support from the SDA, which is the largest trade union in Australia with more than 211,000 members. A significant proportion of its members are women, most of whom are employed by the major chains.⁶²

3.58 The SDA said in its submission that the major chains have often taken the lead in improving the pay and conditions of their employees, as well as promoting skills development within the industry.⁶³

3.59 The SDA believes that there is a range of issues hindering the growth of small business that the Government could address, instead of what it believes to be counter productive measures directed towards the major chains.

3.60 The SDA strongly opposed the idea of a market cap:

Any decision which forced the major corporations to limit or reduce their market share would, in our view, have the effect of undermining wages, working conditions, equal opportunity, occupational health and safety, skills development and sound industrial relations in the industry. It would lead inexorably to job losses and a transfer for the many workers from higher paying jobs to lower paying jobs with worse working conditions.⁶⁴

60 Council of Small Business Organisations of Australia, Submission 140, p 2.

61 Council of Small Business Organisations of Australia, Submission 140, pp 6-7.

62 Shop, Distributive and Allied Employees' Association, Submission 214, p 1.

63 Shop, Distributive and Allied Employees' Association, Submission 214, p 1.

64 Shop, Distributive and Allied Employees' Association, Submission 214, pp 1-2.

3.61 Mr Joe de Bruyn, National Secretary-Treasurer of the SDA, fears that significant job losses in regional communities would result if the major chains were required to divest stores.⁶⁵

Coalition Against Major Chain Dominance

3.62 The Coalition Against Major Chain Dominance, made up of a mixed group of small retailers and consumers, was formed after a meeting organised by NARGA in December 1998.⁶⁶ The group's purpose is to 'emphasise to the Committee the strength, breadth and depth of community concern regarding the dominance of the major chains'. It focused its attention on what it considers to be 'in the best interests of all Australians, not just selected groups'.⁶⁷

3.63 The group believes that there is a misconception that the debate is between retailers, and that consumers are either unconcerned or in favour of the present situation:

There is little doubt that a majority of Australians enjoy the one-stop shop convenience of the major supermarkets and no one is suggesting that they are not an integral part of the modern way of life. However, to suggest that the consumer is unconcerned about the ever-increasing stranglehold of the majors is both incorrect and misleading.⁶⁸

3.64 The group referred the Committee to a survey of 60,000 shoppers conducted by the KPMG Centre of Consumer Behaviour. The survey revealed that support for large shopping centres has been on the decline, with the number of shoppers preferring large shopping destinations falling from 73 per cent in 1994 to 54 per cent last year. The 'formula approach' to large shopping malls was said to be one reason for the slump.⁶⁹

Consumers

Australian Consumers' Association (ACA)

3.65 Peak consumer group the ACA did not make a substantive submission to the Committee. Rather, it referred to a number of articles published in its journal *Choice*, which indicate that prices are generally cheaper in supermarkets than in smaller convenience stores, that transportation costs are a significant factor in price differences across the nation, and that competition between supermarkets has

65 *Hansard*, Sydney, 15 April 1999, pp 332-333.

66 Coalition Against Major Chain Dominance, Submission 294, p 4.

67 Coalition Against Major Chain Dominance, Submission 294, p 2.

68 Coalition Against Major Chain Dominance, Submission 294, p 5.

69 Coalition Against Major Chain Dominance, Submission 294, p 7.

increased, contributing to lower prices.⁷⁰ Mr Mathew O'Neill, Senior Policy Officer, Australian Consumers Association, told the Committee that:

Firstly, in regard to the surveys, what we would like to say up front is that we firmly believe that this inquiry should be looking at what is benefitting or costing consumers, reflected by structures of retailing industry, not necessarily whether they are small or large businesses?⁷¹

3.66 The Committee notes that one of the *Choice* articles shows that, for a basket of household grocery items, a local convenience store charges an average of 43 per cent more than a supermarket.⁷²

Consumer Food Network (CFN)

3.67 Unrelated to the ACA, the Consumer Food Network (CFN)⁷³ has around 80 members Australia-wide, made up of groups such as the National Council of Women, some Country Women's Association State branches, the Home Economics Institute, dietitians and some community legal centres.

3.68 The CFN has concerns about the increasing dominance of the major chains.⁷⁴ Coordinator, Dr Richard Copeman, said that there is a divergence of views among consumers. He told of the concerns relating to less mobile consumers, and spoke about the non-shopping benefits that independent stores can bring to communities:

Even for those who do [have access to private transport], sometimes for the elderly it is difficult to drive and park and get to a more distant supermarket than it is to access a local food store in a suburban area or in a country town. We feel that has other impacts on the community in general, of which consumers form a part, in terms of taking away from that sense of community and knowing retailers, being able to talk to and know people in their local community. That is a very important part of the food shopping experience for a lot of consumers, and that is something that is largely dying out for Australian consumers. It is becoming a very impersonal experience. You rush in and rush out, and you really do not talk to anyone you know. It is another chore to be done, rather than what used to be a fairly pleasant community experience.⁷⁵

70 Australian Consumers' Association, Submission 245, p 2.

71 *Hansard*, Canberra, 13 July 1999, p 1119.

72 CHOICE Magazine, '*Convenience – worth any price?*', April 1999, p 52.

73 The Consumer Food Network is part of the Consumers Federation of Australia.

74 Consumer Food Network, Submission 172.

75 *Hansard*, Brisbane, 16 April 1999, pp 465-66.

Government organisations

Australian Competition and Consumer Commission (ACCC)

3.69 The ACCC is responsible for the administration and enforcement of the provisions of the *Trade Practices Act*. The objective of the *Trade Practices Act* is to enhance the welfare of Australians through the promotion of competition and fair trading, and to provide consumer protection.⁷⁶

3.70 Given the ACCC's statutory functions, the ACCC chose not to comment on the socio-economic impact of industry concentration, except to the extent it related to the competitiveness of the sector.

3.71 The ACCC believes that there may be competition issues flowing from the declining market share of the independents:

Whether or not the declining market share of the independent sector impacts on the competitiveness of that sector depends on certain factors, including the impact of that declining share on the supply costs of independents, whether it signals to them a need to respond to competition (eg in some dynamically efficient way such as changing format), and whether there is competition between the chains themselves.⁷⁷

3.72 From a competition perspective, even if the independent sector were less competitive as a consequence of its market share, the ACCC believes that an issue would only arise if there were a lack of competition between the chains:

NARGA has argued that a critical mass of independents is needed for the sector to be a viable competitive constraint on the chains. If this is true, then the declining market share of the independent sector may be compounded by the split of the independent wholesale sector because of the acquisition of AIW by Woolworths, and its subsequent successes in taking market share from Davids.⁷⁸

Department of Agriculture, Fisheries and Forestry (AFFA)

3.73 The Department of Agriculture, Fisheries and Forestry (AFFA) commented that the recent deregulation of aspects of the Australian fresh milk market has been a particular concern among producers. In most States, retail prices have increased, following post farm gate deregulation. Further, the price spreads, at constant 1997/98 prices, have also increased. The increases are most notable in:

- Victoria (from \$0.70 per litre to \$0.90), and

76 *Trade Practices Act 1974*, section 2.

77 Australian Competition and Consumer Commission, Submission 191, pp 8-9.

78 Australian Competition and Consumer Commission, Submission 191, pp 8-9.

- Tasmania (\$0.49 per litre to \$0.66), between 1995 and 1997.⁷⁹

Office of Small Business (OSB)

3.74 The OSB operates within the Department of Employment, Workplace Relations and Small Business. The OSB believes that there are many aspects of today's retailing market that need to be considered in the light of this inquiry. These include:

- an increasing consumer trend towards 'one-stop shopping', and less of a tendency for consumers to shop at several different stores for their food and grocery supplies;
- an increasingly wide-range of products and services now being offered to consumers;
- the recent policy initiatives of the major chains to employ more permanent full-time and part-time staff, with less reliance on casual staff; and
- an increased trend towards vertical integration between retailers and wholesalers.⁸⁰

3.75 The OSB believes that any recommended courses of action should also address the potential impact on other sectors which can be generally regarded as 'the broader public interest'. The OSB warns that small business, economic and employment growth should not be sought through initiatives which provide short-term support for inefficient market participants, or as a prop for tenuously viable operators.⁸¹

3.76 The OSB also emphasised the importance of an appropriate market definition against which concentration levels can be established:

If the grocery retailing market is to be analysed, the definition that accurately captures the product range and activities of all grocery retailers, and which has regard to vertical integration, should be used to establish market concentration ratios.⁸²

3.77 On this last point, much debate has occurred as to the actual level of market concentration. Depending on the definition of the market, concentration levels will vary significantly. Regardless of this, the market share of the major chains has been growing at the expense of independent retailers over the past two decades. This was said to be undermining the buying power of the independents, hence the call for a market cap.

79 Department of Agriculture, Fisheries and Forestry, Submission 256, p 3.

80 Office of Small Business, Submission 285, p 5.

81 Office of Small Business, Submission 285, p 12.

82 Office of Small Business, Submission 285, p 4.

