
CHAPTER 8

THE FUTURE OF THE RETAILING SECTOR

*What is the consumer getting out of the current structure? Are they missing out on anything that they should have or in the future would they miss out on something?*¹

8.1 A common theme which emerged from both the submissions and evidence was the pace at which the retailing sector is evolving. This evolution is being driven both by input factors such as technological developments, and demand factors such as changes in consumer preferences.

8.2 Factors identified as being likely to change the landscape of the Australian retailing sector over the next few years include:

- the entry of foreign players;
- the expansion of retailers into new areas; and
- the use of technology to expand market reach, reduce prices, increase the range of products available to consumers, and improve the convenience by which they can be delivered.

New entries

8.3 Two large international retailers which are often mentioned as possible entrants into the Australian retailing sector are Wal-Mart and Aldi.

Wal-Mart

8.4 The first Wal-Mart store opened in Arkansas in 1962. Today there are around 2,900 Wal-Mart stores and associated outlets in the US, with more than 780,000 employees.²

8.5 The company began to expand internationally in 1991, and now operates over 700 stores across Mexico, Argentina, Brazil, Canada, Germany, Puerto Rico, China and Korea. Employment at the international stores stands at 130,000.

8.6 Many Wal-Mart stores are 'Supercentres' which include over thirty departments including electronics, toys, fabrics and crafts, gardening, jewellery, shoes, pharmacies, and restaurants. The grocery areas generally feature a bakery, delicatessen, frozen food, meat, dairy and fresh produce departments. Products available from Wal-Mart via the Internet include books, CDs, videos, sporting goods and computer software.

1 Mr Matthew O'Neill, Senior Policy Officer, Australian Consumers Association, *Hansard*, Canberra, 13 July 1999, p 1119.

2 <http://www.wal-mart.com/corporate/>. The Wal-Mart Annual Report 1999 is also available at this site.

8.7 Wal-Mart reported annual net sales of US\$137 billion in the year ending 31 January 1999. In their submission NARGA, quoting from a book by Mr Bob Ortega, referred to the market power exercised by Wal-Mart:

Ortega correctly notes that Wal-Mart's size and scope...[sales of] US\$440 from every person in the US – gives the company vast influence over what the US consumers buy and the way they buy it...Ortega blames Wal-Mart, at least in part, for the undesirable social outfalls of mega stores.³

8.8 The 1999 Annual Report notes that plans are to develop a further 75 to 80 new retail units outside of the US. In an interview published in that Report, Wal-Mart's Chairman Mr Rob Walton stated:

Over the next five years the international division should represent up to one-third of total sales and earnings growth of the company. In addition to being the largest retailer in Canada and Mexico, we now have stores in Asia, Europe and South America and will continue to grow those markets as by the acceleration in the sales well as look for other areas where we can build on the Wal-Mart name.⁴

8.9 In June 1999, Wal-Mart launched a takeover bid for Asda, Britain's third largest supermarket chain, with 229 stores.⁵ On the basis of its expansion strategies, the Committee notes Wal-Mart's potential to expand into markets such as Australia.

Aldi

8.10 Aldi, which first opened in Germany over 40 years ago, now has over 4,000 stores throughout Europe and the US. Aldi commenced operations in the UK in 1990, and now has some 230 stores in that country.

8.11 Aldi's stores offer a limited range, including dry groceries, fresh fruit and vegetables, chilled and frozen foods, beers, wines and spirits, and household goods.⁶

8.12 As indicated in Chapter 5, Aldi has given a very strong indication that it intends to enter the Australian grocery market at some stage in the future.

Developments in Retailing

Petrol

8.13 The boundary between grocery and petrol retailing is becoming increasingly blurred. While Woolworths expands its petrol retailing network, two of the major oil companies, Caltex and Mobil, are increasing their involvement in grocery retailing,

3 National Association of Retail Grocers of Australia, Submission 201, p 127.

4 Wal-Mart Annual Report 1999, p 5.

5 'Wal-Mart Announces Recommended Cash Offer for ASDA', Press Release, 14 June 1999.

6 <http://www.aldi-stores.co.uk>

and two others, BP and Shell, are also likely to expand their retailing offerings over the next few years.⁷

Caltex

8.14 In February 1999, Caltex, which already own a network of 110 convenience stores, opened a supermarket in Sydney under the IGA banner. Open around the clock, the supermarket is about three times the size of a convenience store and includes petrol retailing, a fruit and vegetable section, a serviced delicatessen and a bakery.⁸

8.15 In April 1999, Caltex opened its first stand-alone convenience store in Brisbane (without its traditional petrol offering). The store sells a wide range of products including fresh salads, pastas, soups, sandwiches, produce, and other items typically available at convenience stores.⁹

8.16 Caltex has a further five supermarkets in the planning stages, and the total network of convenience stores (including stand-alone stores without petrol) is projected to grow to 200 by May 2001.¹⁰

Mobil

8.17 In late 1998 Coles commenced a joint venture trial with Mobil Oil, combining Mobil fuel with groceries, fruit, vegetables, meat, bakery drive-through café and a Red Rooster store. This has been reported to be a six-month joint venture trial, and will be replicated in three other sites, with a review taking place in mid-2000. If successful, it is anticipated that a national rollout will then proceed.¹¹

Woolworths

8.18 Woolworths Petrol Plus has been expanding the number of its petrol retailing sites since the opening of its first in 1996. By early 1999, there were around 90 outlets.

Banking

8.19 A development which has attracted some publicity in recent times is the expansion in the range of banking services on offer in the major chain stores.

8.20 During the course of the inquiry, Woolworths announced their Ezy Banking joint venture with the Commonwealth Bank, which will allow customers to undertake

7 The Australian, *Pumping out profits*, Michael McGuire, 12 February 1999.

8 Caltex Australia, *Caltex announces service station supermarket chain*, Media Release, 5 February 1999.

9 Caltex Australia, *Caltex launches its first stand alone convenience store without petrol*, Media Release, 13 May 1999.

10 Caltex Australia, *Caltex launches its first stand alone convenience store without petrol*, Media Release, 13 May 1999.

11 Australian Financial Review, *Coles and Mobil get a fuel for the market*, Bill Pheasant, 1 December 1998, p 21.

a wide range of banking transactions, including making deposits and withdrawals and checking account balances, either at the check-out or in dedicated banking centres inside the store. Customers will have access to more fee-free transactions than is currently the case.¹²

8.21 In contrast to the Woolworths-Commonwealth Bank venture, the banking facilities being rolled out at Coles stores will not be tied to one particular financial institution, and are likely to vary across the country. By the middle of 1999 there were 30 stores nationally with banking services, with plans to roll out another 50 within six months.¹³

Technological developments

8.22 The Committee recognises that technological change has had an important impact on recent developments in the retailing sector, as both retailers and wholesalers exploit new means of achieving lower inventories, a wider range of goods, higher product turnover and faster receipt of goods. New technologies such as self-scanning are also on the horizon.¹⁴

8.23 Enterprises are increasingly using technology to learn more about their customers in order to optimise their sales. Better information has, for example, allowed firms to match inventories closer to customer needs, and thus reduce the need for mark-downs and discount sales.¹⁵

Electronic Commerce and the Internet

8.24 Electronic commerce between business and consumers is a rapidly developing area of economic activity, with the potential to substantially change the structure, conduct and performance in the retailing sector. Of particular import is the ability of small and medium specialty retailers to benefit from Internet trade by offering their goods to an international audience.¹⁶

8.25 In principle, entry barriers to electronic commerce are low, and costs (and thus prices) are likely to be lower than for standard shops.¹⁷ By increasing competition and reducing the costs of establishing and running a retailing business, electronic commerce may serve to maintain downwards pressure on consumer prices.

12 Commonwealth Bank web site at <http://www.commbank.com.au/Today/ShareholderInfo/def-prism.htm>

13 Foodweek (and Liquor Week), *Banking just part of Coles' improvement of services*, Simone Zenoni, 26 July 1999.

14 OECD Working Papers, Vol V, Economics Dept Working Papers, No.180, *Regulation and Performance in the Distribution Sector*, No. 75, Paris 1997, p 14.

15 OECD Working Papers, Vol V, Economics Dept Working Papers, No.180, *Regulation and Performance in the Distribution Sector*, No. 75, Paris 1997, p 14.

16 Department of Foreign Affairs and Trade, *Putting Australia on the New Silk Road*, web site at <http://www.dfat.gov.au/nsr/>

17 Australian Retailers Association, Submission 57, p 30.

8.26 Internet shopping for groceries is still in its infancy in Australia. Woolworths' Homeshop is currently available in many Sydney suburbs, centred on their stores in Parramatta and Warringah.¹⁸ Coles On-Line is currently available in a limited number of suburbs across the south-east of Melbourne.¹⁹

8.27 Other retailers and service providers in Australia such as banks, bookshops and computer stores already have a well-established presence on the Internet. *Greengrocer.com.au*, which delivers fruit and vegetables across Sydney on the basis of ordering via the Internet, demonstrates how the Internet can be used by small specialty food retailers to provide competition in markets where the major chains are established.

8.28 In their submission, the Australian Retailers Association referred to a poll taken at an international food convention in 1998, which revealed that over 40 per cent of food retailers believed that 20 per cent of food sales would be transacted via home shopping by the year 2010. If translated to today's market in Australia, the amount of food transacted on the Internet would be equivalent to the whole of the independent grocery sector or a quarter of the major chain's sector.²⁰

8.29 There is widespread evidence that the retailing sector is dynamic and responsive to consumer preferences. The expansion of two of the major chains into petrol retailing, mirrored by the expansion of some of the oil companies into grocery retailing, demonstrates the extent to which retailers are aiming to increase convenience for consumers. Joint ventures between the major chains and the banks are geared towards saving consumers both time and money, via a reduction in transaction fees.

18 Woolworths web site at <http://www-ets.woolworths.com.au/ets/owa/entry>

19 Coles web site at <http://www.colesonline.com.au/new.htm>

20 Australian Retailers Association, Submission 57, p 30.