To Whom it May Concern,

I first reacted to the news of the ACCC grocery prices inquiry with a sigh of relief that finally some level of interest would be taken in the stitched up market the (Howard) federal government has protected to date.

I started with trying to respond to areas that I have specific experience and/or strong beliefs, however the further I went, the more I realised that this is a complex issue and that the information being sought is broad, labour intensive, and not particularly revealing about what I see as the core issues.

Furthermore to provide a comprehensive response would take me days – and I simply cannot suspend my own business without compensation for that amount of time and effort, whilst on the other hand the supermarkets will undoubtedly have teams of PR spinning their usual web of misinformation.

I actually think the ACCC is barking up the wrong tree. Grocery prices will continue to increase. For some time I suspect they will increase (in Australia at least) at a greater rate than CPI as other consumer goods have become cheaper through technology and production advancements in developing countries and because we have a low cost high standard of living for a very long time and as the marketplace continues along the pathway of globalisation, our economy will continue to align with those we aspire to compare to.

Of major concern in our marketplace however, is the amount of advertising our two grocery majors and their core FMCG suppliers project, mostly in regard to over process low nutritional value, poor value for money product, and the level of mis-education and misleading conduct this hammers into the public mentality.

In a free market economy most things should be fair game. However when the public interest is grossly affected, then it is the duty of the ACCC to look into the practices that are at play. Whilst outside of the scope of this ACCC inquiry the leaders of our nation – political and economic, need to look at what the cost the current grocery duopoly in Australia will have to the nation in the long term.

Thus I have limited my comments to a very few topics although I felt like shouting at 75% of the questions listed.

Regards,

Katie Hage
30 Garden Street, Alexandria NSW 2015

### ***Understanding the grocery supply chain***

Understanding the grocery supply chain is like asking how long is a piece of string; it involves the entire food chain and ancillary businesses, not to mention global trade and economics in other consumables and those ancillary businesses. Ancillary business can be direct and transitional such as transport and finance, or service and abstract such as marketing & advertising. The supply chains of each item can be extremely complex depending on their nature – volume, weight, density, fragility, temperature, shelf life, as well as the pathway through which they travel.

Sourcing product for supermarket chains is not as simple as wholesaling and encompasses a far broader scope than the request for submissions identifies, and needs to be further examined. It is within sourcing that grocery retailers have massive amounts of power and exert enormous influence over the market place.

Sourcing is not restricted to the transactional exchange of product for money; it involves many factors including promotional cycles, advertising spend, bespoke products, exclusivity on product lines, product placement, in store support (including product tastings & promotions, and presentation on shelf), and over the past 5 years even logistical arrangements are now a factor in procurement.

In Australia for product sourced AND manufactured domestically, the supermarkets categorise transport into primary and secondary freight. Primary freight is the freight of product from the supplier/manufacturer to a Distribution Centre (warehouse – here-on referred to as DC), whilst secondary freight is the distribution of product from the DC into store (retail outlet).

In the past 5 years, drastic changes have occurred within the supermarkets with regard to primary freight operations. Woolworths in particular, conducted a very aggressive campaign over 2004 & 2005 to take control of primary (inbound) freight. Remarkably this exercise attracted no attention from the ACCC.

Traditionally supermarkets buy products at a price that includes delivery to DC. As a part of "Project Mercury" and "Project Refresh" senior management at Woolworths decided to take control of this part of the supply chain. The belief was that Woolworths, the largest supermarket retailer in the country, should have the keenest transport rates on the market. The corollary of that is that if they took over all transport from major suppliers into their network, they would have a significant portion of transport volume stitched up, and could therefore negotiate even better rates for transport.

A primary freight conversion team was established headed by a few senior buyers, sitting under the transport function within Woolworths. This team then worked with the product buyers on a supplier-by-supplier basis.

The primary freight conversion team and the relevant buyer at Woolworths approached suppliers. The proposition was that each product had a % of cost that was attributed to the cost of delivery. The supplier would pay Woolworths that nominated amount and Woolworths would take over contracting the freight from supplier to Woolworths DC.

The supplier would advise Woolworths when product was ready to be picked up. Woolworths freight team would then arrange for a pick up, provide details to the supplier and the supplier then had to make any further arrangements with the designated freight company.

Woolworths would allocate freight on a day window basis – standard practice throughout the world is a ½ hour time slot for arrival of trucks in order to plan efficient warehouse operations.

Woolworths would not take possession of, nor responsibility for the products until they were checked and accepted into DC.

Woolworths undertook to provide preferential unloading of primary freight controlled by Woolworths on arrival at Woolworths' DC. In other words, primary freight not handed over to Woolworths would be accepted at Woolworths' leisure, and any associated cost fro demurrage would obviously fall back to the supplier (as they held the transport contract) and the supplier would be accountable for failure to meet agreed service levels.

Instead of providing a rebate on the cost of goods, or negotiating amended prices on supply contracts for products, Woolworths would continue to pay the contracted price for products, and suppliers pay Woolworths for delivery; this is reported as a revenue stream for the supply chain division.

At the same time Woolworths was in the process of rationalising its DC network. Whilst the primary freight "negotiations" was based on a 30+ delivery destinations, Woolworths was in the process of transitioning to a network that would have meant product was delivered to either 2 national DC (NDC) or 10 regional DC (RDC) thus further rationalising freight movement, reducing cost, and pocketing the difference.

In terms of the consumer, Woolworths touted its supply chain transformation extensively, including television commercials telling consumers that the supply chain project would mean cheaper prices, better and fresher products and an enhanced shopping experience. The inflation figures speak for themselves – not a single cent in savings has been passed on to the consumer.

In fact, according to the AGM 2007 presentation material on Woolworths' web site, shareholder return over from 2003 to 2007 has increased by 80% whilst profit after tax over the same period has increased by 112%.

On page 22 of the presentation, Woolworths states,

> "*As expected Gross Margin has improved reflecting improved buying and shrinkage, the success of our private label offering, the change in sales mix achieved through the rollback campaigns and a reduction in supply chain transition costs.*"

For this year, Woolworths predicts (page 27),

> "*We believe we are very well positioned for future growth*
> - *For FY08 we expect overall group sales to grow in the range of 7% to 10%.*
> - *We also expect that EBIT will continue to grow faster than sales in FY08.*
> - *Net profit after tax for FY08 is expected to grow in the range of 19% to 23%.*"

Woolworths has every right to improve operations and increase profits, but I would suggest that it is unconscionable for them to tout savings passed on to consumers, particularly advertise on commercial television that the consumer will save, when the cost of groceries and the profits made by the supermarket has steadily increased!

**B. Consumer behaviour and choice of grocery retailer**

Both of the major supermarket chains have undertaken supply chain transformation programmes to reduce cost however advertising to the public that this is making groceries more affordable is simply misleading. It is amazing that nothing has been done to reel these corporate giants in.

**C.  Competition in grocery retailing**

There is virtually no competition in grocery retailing in Australia. Coles and Woolworths, in conjunction with their FMCG suppliers have systematically controlled the retail environment and distorted the public's understanding of the important of good nutrition systematic mis-education via advertising.

The only competitive edge that alternate retailers have is one of bespoke product and sentimental good will for bakeries, butchers and greengrocers. Even then, the supermarkets have tried to undermine that. For example, Woolworths noted that when they removed the butcher counter behind the meat fridges sales receded. They now push the image of having an on location butcher, including showing in store butchers in advertising, to quell the consumer emotional need to see a butcher.

In regard to competition between the two major supermarkets one should examine the reporting of both entities in local media. Coles has failed to perform to expectation and has received a public lashing in the media, whilst mistakes that Woolworths makes rarely make the news – and they do happen!

The ACCC should not be questioning how independent and specialised grocery retailers impact on the major supermarket chains, but vice versa. It appears to me, many of the questions have been phrased to direct an outcome to this inquiry without considering what the public interest is, and what the commission should be looking into in regard to that public interest.

Curiously asking whether the Australian grocery industry of a sufficient size to sustain a third supermarket chain of similar size to Coles and Woolworths raises more questions than answers – is the ACCC conducting this inquiry to determine what is in the public interest for Australians, or to determine whether the establishment of a third major supermarket retailer should be encouraged.

It should be more important for the inquiry to focus on the current practices of the major supermarkets and to understand what impact this has on the quality of life in our society, not just in terms of straight dollar pricing, but the ongoing cost to our society for the practices they tout and the behaviours they encourage.

**E. Buying power in grocery supply markets**

It is not clear whether you have any questions with regard to buying power. It seems that you understand that the larger the volume, the better deal a retailer is able to exercise. Wholesalers will never have the volume that Coles and Woolworths have so long as Coles and Woolworths continue to be protected as they have been to date from any impropriety. Thus anyone buying from a wholesale distributor is paying the ex-works price of goods, the wholesaler’s cut, the associated costs for movement and storage via the distribution network, and then somehow needs to make a margin and compete with the major supermarkets who are buying the same product at the price (or less) than the wholesale distributor buys it for.