



Fruit Growers Victoria Ltd

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Public Submission to ACCC Grocery Inquiry by Fruit Growers Victoria Limited on 11th March 2008

EMAIL TRANSMISSION; grocerypricesinquiry@accc.gov.au

Fruit Growers Victoria Ltd (FGVL) is the peak representative body for apple and pear growers in the state of Victoria. We represent orchardists in the Goulburn Valley, Gippsland, Mornington Peninsula, Yarra Valley, Harcourt, Bacchus Marsh and North-eastern Victoria regions. As growers of fruit, our members are significantly involved in one of the categories identified as the focus of the inquiry. They have a critical interest in the competitiveness of the distribution and pricing structures of the grocery trade.

We offer the following selective comments referring to and in the order of the ACCC Inquiry into the Competitiveness of Retail Prices for Standard Groceries Issues Paper dated 11th February 2008.

COMMENT; Section A – *Structure of the Grocery Industry*

Understanding the Grocery Supply Chain

Woolworths and Coles operate a tandem system, sourcing direct from growers where practical and where available volumes are sufficient, and where they cannot source directly they use the terminal markets. In some cases both sources are used and in the case of Coles a contract service provider (Costa Group) is quite commonly charged with the task of obtaining and aggregating supply.

Prices to the supplier are set by negotiation after having regard to prices ruling in the terminal markets. Agreed prices are subject to a standard discount at settlement of the invoice. Most commonly the discount is 2.5% of invoice.

Our understanding of pricing post settlement of the price to supplier is as follows – working from the purchase price and assuming a 6kg unit value of say \$20.00 for illustrative purposes;

COMMENT	EXAMPLE 1	EXAMPLE 2
SALE PRICE AGREED WITH SUPPLIER	\$20.00	\$20.00
EARLY SETTLEMENT DISCOUNT CLAIMED	2.5%	4.0%
ACTUAL PAYMENT TO SUPPLIER	\$19.50	\$19.20
WAREHOUSE MARGIN	10.0%	10.0%
DISTRIBUTION FEE	\$2.00	\$2.00
"internal price" TO CHARGED STORE	\$22.00	\$22.00
TOTAL PRE-STORE MARGIN	\$2.50	\$2.80
TOTAL PRE-STORE GROSS MARGIN %	11.4%	12.7%
TOTAL PRE-STORE MARK UP %	12.8%	14.6%

Where a sourcing agent (such as Costa Group) is also in the chain they will take a further fee of 5.0% of the invoice cost. This fee then reflects in the "internal price" to store.

Usual minimum ticket prices (margins) are then calculated against the "internal price" to store (above) by formula depending on sales conditions current. For example;

SUPERMARKET MARGINS	MINIMUM	USUAL
ADVERTISED CATALOGUE SPECIAL	10.0%	15.0%
DAILY SPECIAL	20.0%	
LOCAL ADVERTISED SPECIAL	30.0%	
NORMAL OFFER	33.0%	50.0% to 60.0%

The retail price is usually then rounded up to the next 49 cent 98 cent price point; i.e. under the preceding system a normal price calculated at \$5.75 per kg would be rounded up to \$5.98 resulting in a mark up of 54% on the price paid to the supplier.

EXAMPLE	PRICE	MARGIN
Granny Smith Apples (NON PROMO WEEK)		
SUPPLIER PRICE PER KG	\$2.24	
EARLY PAYMENT PER KG	\$0.09	2.3%
DISTRIBUTION/WAREHOUSE PER KG	\$0.23	5.8%
RETAIL STORE TICKET PRICE PER KG	\$3.98	
RETAIL STORE MARGIN PER KG	\$1.42	35.7%
TOTAL MARGIN TO RETAILER PER KG	\$1.74	43.7%
TOTAL RETAILER MARK UP PER KG	\$1.74	77.7%

COMMENT; Section B – *Consumer Behaviour and Choice of Grocery Retailer*

Unit Pricing

Fruit is offered to purchasers per pack, per piece or per weight with the offer varying between grocers and within a grocer from time to time. Per weight is the most common offer. Per Pack pricing is most used in prepacked fruit and vegetables. Frequently such packs also carry a minimum net weight. Per piece is common where the size of the produce offered varies.

Regulation to require a standardised unit price would not be practical and would be regulation for regulation sake. Indeed it could well serve to increase prices rather than moderate them. It would make sale by 'each' almost impossible in such places as country markets where there is little prospect of weighing then calculating the price of an apple for instance.

Further it could stifle important public health initiatives such as the fruit vending machine project, currently being trialled in Victoria, where it is impossible for individual fruit to be sold other than by the piece.

COMMENT; Section E – *Buying Power in the Grocery Supply Markets*

Market power is a very serious issue. It is more serious for suppliers than consumers because it can determine the viability of farm businesses. A commonly held belief is that volume purchasing provides economy of scale which in a competitive environment translates to lower consumer prices. However, the opposite can be the case, when market dominance is achieved and the retailer is at liberty to set the purchase and selling price based solely on the retailer's own determination. This is to the detriment of both supplier and consumer.

The two dominant Australian grocery retailers have significant market power which is exercised openly. It is also exercised subtly by the implied threat in many ways.

Examples of this include: their accepting only selective grower suppliers where other potential grower suppliers are forced to sell to secondary markets; and their selective use of terminal market agents where the remainder must compete for secondary markets.

They carry the implied threat of excommunication in their dealing. For instance they are able to exercise coercive demands in respect of quality systems, packaging and delivery arrangements. In the recent fruit fly outbreak in suburban Melbourne one major chain took it upon themselves to instigate a protocol for the Melbourne Wholesale Fruit & Vegetable Market that was above and beyond that required by the Victorian Department of Primary Industry.

The dominant grocery retailers appoint suppliers and buy on a national basis. This results in a flow on consequence for all suppliers of a segment when a dominant grocery retailer has issue with any supply in that segment. This can and does prejudice suppliers overall relationship with a major segment of the Australian market.

Consumer choice may be affected. The variety available to consumers may be diminished as grocery retailers allocated space to high volume lines and restrict low volume lines to minor shelf space, or remove altogether. However, this may be unlikely as it would further highlight the extra service/range that independent fruit shops offer consumers.

Major grocery retailing in Australia has been permitted to evolve to the situation where it is effectively a duopoly where the pricing structure and margins of the two players have become fundamentally similar and not driven by competitive pressure.

Efficiencies gained through the bulk buying dominant Australian grocery retailers are significantly to the benefit of the retailer as the costs of their not generic individual labelling, packaging and delivery requirements can be higher than the broader market. These costs are borne by the supplier.

Demands that product be delivered on pallets to suit the dominant grocery retailers distribution centre pallet racking sometimes means that truck capacity is wasted and as a consequence the transport cost per kilogram can be inflated.

COMMENT; Section I – *Horticulture Code of Conduct*

The introduction of the Horticulture Code of Conduct increased the cost of doing business for all fruit growers because of the extra administration required. . For apple and pear growers there was little, if any change to the way, the industry operated on a day to day basis. However the outlawing of averaging has meant that smaller growers are now at a distinct disadvantage because of the long selling season of stored fruit. This unintended consequence is subject of other reviews. FGVL acknowledges the value of the dispute resolution mechanisms of the Code.

The inclusion of groceries and supermarkets in The Horticulture Code of Conduct Code would have no impact except to further increase the cost of doing business as the Code applies in the majority to the grower pack house relationship where the pack house acts as the agent or merchant. Pricing to supermarkets is generally known before delivery so their inclusion would serve no purpose.

The Code, as it is currently legislated, is considered by many in the pome fruit supply chain to be a failure because a significant proportion of growers and agents are continuing to trade as previously. There is anecdote within the industry of agents who actively avoid compliance by avoiding suppliers who show an inclination to demand that the compliant procedures.

The code has made it near impossible for a contract Fruit Packer/Marketer to legally accept product for processing and subsequent sale from producers.

John Wilson
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