

Public Submission to ACCC grocery Inquiry by Ian Baker on 11 March 2008

Submitted by

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Proposal

That the ACCC grocery Inquiry investigate the costs and price mark ups in the supply chain from farmer to wholesaler for a number of representative fruit and vegetable items including high volume, low shrinkage, low volume, high shrinkage lines through a publicly funded consultancy.

Back ground

The horticultural supply chain is characterised by many small sellers and a few large buyers.

Communication along the supply chain is very poor with very little or no transparency. Partners in the supply chain no little of the costs of each participant or the profitability of each participant in the chain i.e. grower, transporter, wholesaler, retailer.

The Horticultural Code of Practice has had little or no significant impact on improving transparency. Growers have accepted similar terms of trade as existed before the Code. The Code has provided a better mechanism to deal with disputes or contravention of terms of trade through the ACCC.

The lack of knowledge and poor transparency in the trade leads to many real and perceived market failures, the most common being that growers are being ripped off by wholesalers and the major chains.

The key point that I wish to raise, or to see properly investigated and clarified, is the large discrepancy in mark ups within individual lines in the fruit and vegetable category. I contend that the major chains, who set the benchmark price for independents to follow, charge very high mark ups on many high volume low shrinkage lines like potato, onion, apples, oranges and charge a low market on low volume, high shrinkage and high priced lines like mango, fresh beans, snow pea, rambutan.

In doing so they secure very high profits on fruit and vegetables but are able to create an image of fair and reasonable mark up by providing an average mark up across all categories.

This observation is based on looking at wholesale market quotes for fruit and vegetables (eg from Market Information Services) and comparing this to the supermarket (or independent) consumer price.

I contend that the chains manipulate margins on individual lines to maximise profit, but give the appearance that they are charging fair mark up by averaging mark ups for all lines. However the real mark up can only be calculated for fruit and vegetables as a category by dividing total sales/total purchases, a figure chains will not disclose. In calculating a mark up as an average of items in the category they are able to demonstrate a fair mark up whereas in reality it is much higher as the mark up on the high volume lines is very high.

As a comparison I have included the wholesale price to growers for a number of high volume low shrinkage lines compared to low volume, high shrinkage and often high priced lines.

High volume low shrinkage lines

	Wholesale price to farmer \$/kg	Retail price to consumer \$/kg	Mark up
Apples	1.50-2.00	4.00 – 6.00	300-400%
Potatoes	0.50 – 0.60	2.00-3.00	400-600%
Onion	0.50-0.70	3.50-4.00	500-700%
Oranges	0.60-0.70	2.00-3.50	250-500%
Banana	1.50-2.50	2.50-4.00	100-200%

Low volume, high shrinkage, high priced lines

	Wholesale price to farmer \$/kg	Retail price to consumer \$/kg	Mark up
mangoes	2.00-3.00	4.00-6.00	100%
beans	2.00-3.50	4.00-6.00	100%
rambutans	14.00-15.00	20.00	50-75%

I provide this data as indicative only. It is based on wholesale market price quotes and observation in major chain stores. There is considerable variation store to store and product to product, and day to day particularly in market prices. There is also variation with some commodities e.g. in general the mark up on bananas and carrots that are high volume lines are not high, of the order of 100%. The data provided is far from an accurate analysis but provides an indicator of what may be happening in the supply chain.

I contend that the majors, with the independents following the prices set by the majors, are deliberately making very high profits on high volume lines, and using the lower margins on low volume lines to average a mark up across all commodities in the category that looks fair and reasonable, whereas in fact consumers and suppliers are being fleeced.

This is the basis for my proposal that the inquiry fund a study into costs and price mark ups in the supply chain for a range of fruit and vegetable items that cover all types eg high/low volume, high priced/low priced, high shrinkage/low shrinkage and if possible determine a more accurate figure of mark ups and costs in the supply chain from grower to consumer.