



Background Statement from Harris Farm Markets Pty Ltd

We apologise for the tardiness of our response however we were reluctant to put our issues on paper for three reasons.

Firstly, we have little hard FACTS to offer you only our experiences which are by necessity anecdotal.

Secondly, we have been subjected to some pretty heavy handed tactics by our MSC competitors over the years and so have decided to take a low profile in the debate. The feelings of “being bullied” may be over reacting but the resultant “silences” that you would have noticed are a reality. We would suggest they are not unfounded.

Thirdly, we did make a submission to the previous inquiry and never heard another word nor noticed any changes.

However, upon reflection we have decided to answer the questions put forward and Mr David Harris the CEO would be happy to answer questions about the industry if you require.

The sustainability of our and other smaller retail organisations in the fresh produce area is important not only for competitive practices in Australia but also:-

- to sustain the quality of products and diversity of products available;
- to keep the central market system viable and vibrant which in turn;
- benefits the farmers and small retailers and helps set a truly competitive price system in place
- clearly results in cheaper produce for customers

We believe there are a number of areas where the major supermarket chains (MSC) have advantages and make it increasingly difficult for smaller business to be sustainable, however there is also market, property and technology realities that also put us at a disadvantage.

Questions for response

1. **Does Harris Farm Markets (HFM) provide a competitive constraint on the Major Supermarket Chains (MSCs)? How much competition is there from other stores?**

Yes, I will give indicators below however we are only a relatively small player with only 20 stores all based in NSW; there are a further 3 stores on the books. Until recently it appeared that we were only competitive on a store to store basis however we now believe that we (and other successful independent fruit markets) have changed consumer expectations about price, range and quality and Woolworths have now chosen to set up stores directly copying stores such as Harris Farm Markets Bowral and Manly.

Indicators that we provide a competitive constraint on the MSC's are:-

- Our customers report that when we move into an area that previously had little or no competition to the majors their prices and quality changed dramatically. Particularly in regional areas – eg Orange. A recent opening at Baulkham Hills led to the Woolworths Area Manager of Fresh Produce congratulating HFM on doing what he and his store manager had been unable to



persuade the buying team to do which was to supply premium product to this store. Please see attached two typical emails from customers.¹

- We are not sure what the policy is with other MSC's but Woolworths and Coles certainly both have a different sale price of fruit and vegetable when they are near one of our stores or stores similar to ours – they have a scale of prices called “sell price groups”.

2. Does HFM match the MSC's on pricing for fresh produce, or is this too difficult?

Yes, buying through a central market there is a near perfect supply and demand curve – if the product is plentiful it is cheap and we are therefore able to sell at that cheap rate. Sometimes this means we can buy much cheaper than other chains because we do not need a standard product in every store and we can set or change prices instantly to react to special buys that become available on a daily basis.²

When there is short supply and the line is an advertised special it is occasionally difficult to match their price – the MSC's are increasingly tying up supply by way of contracts with farmers or their wholesale suppliers often pre-order the whole market. Controlling the market in this way only happens rarely.

There are times when one of the majors are specifically targeting us and using their market power. At these times it is essential for us to match them because customers will be drawn away from our stores for these amazing “specials” and thus dramatically drops our customer count and margin. As margins in our industry are historically so low the turn from profitability to loss can be as short as two weeks.

3. What are the major sources of competitive advantage and disadvantage for HFM (for example, prices, product differentiation, trading hours, scale of operations, density of retail outlets, customer service, etc.)?

Competitive Advantage:

- Quality – we offer fresher produce in most F&V lines but in particular - Asian leaf vegetables, mushrooms, fresh berries due to our shorter supply lines. We do not attempt to hold stock but buy and clear our warehouse daily. This has given us a customer base who tells us that when they buy from us the stock keeps well as opposed to the MSC's stock that they report to throw out very quickly as spoilt product.

- Range – not only product range but also variations on how we sell individual products.

¹ Attachement 1. customer emails

² Interestingly this is often when the quality of the supply is the best.



- Price – more closely aligned to market conditions – true supply and demand. We are also able to take advantage of product that comes on the market very cheaply when the MSC pre-order stock then, at the last minute, fail to take the delivery of product. This may often be justified as a “QA” issue but in fact may simply be that they have misjudged demand and have too much product due to the vagaries of demand such as a change in the weather may dictate. We have often bought exceptional quality product in these circumstances at distressed prices. Because of actions like this it is understandable why farmers get so upset with the MSC’s.
- Small food manufacturers and farmers - We can look after the small and regional based family producers who cannot supply the quantities required by the MSC’s.

Disadvantage:-

- Access to sites, the box we require for our stores are similar to many of our competitors, in particular Aldi, Dan Murphy and now Thomas Dux – small independent retailers are unable to “put their foot” on a site. The MSC’s can afford to tie up a site then sit and wait for three years to build. We could not afford to do this. From a landlords perspective a lease to the MSC’s can achieve a 2% better cap rate and this usually translates to cheaper rent for the MSC or, in a highly desirable site, the lease been given to the MSC’s in preference to small private companies.
- MSC are considered “anchor” tenants in shopping centres which means they have hugely more competitive rental agreements, they also do not have to secure their rental agreements with Bank Guarantees which dramatically reduce our, and other independent operators, ability to grow. Rental bonds or bank guarantees of three to six months rent are common for private operators in addition to personal guarantees.
- Access to technology – point of sale, back dock receipting and logistic and forecasting tools. All of these technologies are often developed with and for the major retailers. Re- programming and configuring for smaller retailers is hugely expensive or else the tools are just not available.
- Access to product in scarce markets – as mentioned above - by passing markets, by controlling and contracting supply to move goods out of the competitive market arena.
- The major industry groups are focused toward the top end of business and represent their views as opposed to the views of smaller retailers eg. smaller retailers do not have the expertise, research resources, nor technical skills to be a voice for change.

4. Can you provide as much detail as possible in relation to the gross margins you make in the various product categories?

Commercial in Confidence.

5. Do you have any evidence of predatory pricing behaviour by the MSC’s? If there is evidence, how do you know that the MSC’s are pricing below cost?

Yes - Commercial in Confidence.



6. Has HFM considered expanding more into dry groceries?

Yes, if we can be competitive.

7. How many stores does HFM have and can you provide the approximate dates on which the stores opened or were acquired?

We have 20 stores that opened between 1974 and 2007. We also have two butcher shops and a further three shops in the pipe line for this year.

8. Other factors questions:-

- Do the grocery suppliers or sales representatives have any role in maintaining an alignment between the MSC sell prices and the manufacturers recommended retail price? We have heard evidence that this is the practice.

We look forward to the outcomes of the inquiry and would like to be kept informed of developments.

For specific enquiries please contact Mr David Harris CEO Harris Farm Markets Pty Ltd on (02) 9746 2055.

Yours faithfully
Harris Farm Markets Pty Ltd,

A handwritten signature in black ink that reads "Catherine Harris". The signature is written in a cursive, slightly slanted style.

Catherine Harris AO PSM
Chairperson.



ATTACHMENT # 1

EMAILS RECEIVED THROUGH OUR CUSTOMER FEEDBACK ONLINE SERVICE

Name: Patricia Fulton

Postcode: 2578

Email: pfulton_hinet.net.au

Store: Bowral...now Open!

Subject: Question or comment regarding your local store

Message: I visited Bowral store today for the first time and would like to let you know that I was impressed. So many local products as well as products which I find difficult to get in the Southern Highlands, and at very competitive prices. I sincerely hope you give Woolworths and Coles a run for their money.

From: Gary Frame [<mailto:johnapthorp@southernphone.com.au>]

Sent: Friday, 22 February 2008 1:29 PM

To: Lynette McGuire

Subject: Suggestion about a Dubbo store.

Gary Frame

4R Jandra Rd

Dubbo, 2830

NSW

02 6885 5487

Subject: Dubbo Market.

Hi Guys,

I recently moved to Dubbo & was very disappointed to find out that you don't have a market down here yet. I did hear a rep from the Dubbo City Council say something about you guys not being able to open your shop near the Village Hotbake because of traffic concerns. This was a very fair comment. However, there is now a major "Business Type" estate opening up in East Dubbo. There is currently a Bunnings store being constructed there.

Surely it would be a great area for you guys to open up a new store. God knows – we need some real competition here. Woolies & Coles are bleeding people dry with "Fresh Food" that looks like it has been stored since Noah built the ark!

Here's hoping that you get here sooner rather than later.

All the best,

Gary Frame.