WOOLWORTHS LIMITED

ACCC inquiry into the competitiveness of retail prices for standard groceries

Submission by Woolworths Limited regarding questions as to "tacit coordination"

16 July 2008

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1 Introduction

Questions have been raised during the Grocery Inquiry regarding whether there is "tacit coordination" within the grocery industry. Upon examination of the vigorous, highly competitive nature of the retail grocery industry these questions are not borne out.

Woolworths' price checking and response processes are not symptomatic of "tacit coordination", but instead are vital to allow Woolworths' customers to obtain all the benefits of a vigorously competitive retail grocery industry. These activities result in significant benefit for consumers through lower prices for a wide range of products.

2 Woolworths prices its products competitively

The question of "tacit coordination" was raised recently in the *Australian Financial Review*, which reported that during the public hearings, Woolworths, Metcash and Coles had been "grilled about their practice of price-watching which… potentially led to 'tacit coordination' of prices".[1]

Specifically in relation to Woolworths, during the public session of Woolworths' hearing on 19 May 2008, Woolworths was questioned as to whether it engaged in "tacit coordination" and whether it had a "pretty cosy arrangement" with Coles and IGA because Woolworths' store managers were instructed not to go higher than its competitors, not to go lower than its competitors but instead to match its competitors in respect of known value items.[2]

These questions proceed upon a misapprehension as to Woolworths' price checking processes, the range of competitors whose prices are checked and Woolworths overall price setting processes. This brief submission seeks to address those misapprehensions.

The questioning of Woolworths concerned the limited authority given to local store managers to reduce prices to match lower prices of local competitors for known value items. This authority is only a small part of Woolworths' overall price competition processes. It is limited to a narrow range of highly visible items. Even in this regard, it is not limited to the pricing of Coles and IGA. Woolworths has a broad range of competitors nominated by its stores as local competitors whose prices are checked in the local competition pricing process.

Woolworths also has a much broader, centrally administered national process of checking the price of 10,000 product groups to ensure its products are priced competitively nationally. However, in addition to competitively set shelf prices, as Mr Luscombe explained during the public session of the hearing, Woolworths' shelf pricing is "but one element of the basket", with other discounts such as "roll-backs" for extended periods or weekly promotions and "other price positions" available in respect of products such as private label items.[3]

These pricing processes indicate that discounting does occur, and is a critical element in allowing Woolworths to maintain a competitive edge. In fact, Woolworths has thousands of products on any given day that are priced lower than at other retailers. Likewise, Coles, IGA and others also have products below Woolworths' shelf prices.

[1] *Australian Financial Review,* "ACCC to ring changes at supermarkets", M Drummond, 20 June 2008, p 3.

[2] Transcript of Woolworths Limited's hearing (19 May 2008), pp 56-60.

[3] Transcript of Woolworths Limited's hearing (19 May 2008), p 59.

3 Checking and responding to competitors' prices evidences a competitive industry

The retail grocery industry is an extremely competitive industry. The very fact that Woolworths must closely watch and respond to its competitors' prices to ensure that its range of goods is priced competitively evidences this. Woolworths reiterates Mr Luscombe's comment that Woolworths looks to a "whole host" of competitors, not just Coles.[4] Checking competitors' prices and responding to those prices is not symptomatic of "tacit coordination". The same types of market conduct and outcomes are readily observed in other highly competitive retail markets (such as firms selling audio-visual equipment, electronic goods, white goods and the like).

The submission to this Inquiry by the Bureau of Infrastructure, Transport and Regional Economics (**BITRE**) highlights the degree to which Woolworths and Coles compete in close proximity in most local areas in Australia and in large part apply national pricing:[5]

> *…the presence of a major chain in a locality is likely to provide groceries at price levels broadly similar to those obtained in similar stores in the capital cities.*

The BITRE study also does not offer support for the view that the independent sector cannot compete with Woolworths and Coles, which would be necessary for Woolworths and Coles to have any ability to act as a coordinating duopoly. Rather, the submission categorically states:[6]

> *Clearly, independent stores in some locations are able to compete with the major chains on price, with some even undercutting their competition. However, some independent supermarkets have indices which are greatly higher than the major chains, suggesting that they either cannot compete with them on price, or choose not to.*
>
> *This does not mean that these independent stores are not competitive – in fact their continuing existence argues otherwise. Rather, it suggests that they may be competing in other areas such as service, variety, opening times, convenient local location and delivery.*

4 Concluding remarks

Woolworths' price checking and setting processes, and the evidence of other submitters to the Grocery Inquiry, including the BITRE submission, lead to a conclusion that the retail grocery industry is vigorously competitive. The evidence does not support a conclusion of "tacit coordination".

At a time of rising cost pressures on many food and grocery items, Woolworths continues to deliver highly competitive prices to Australian consumers, while recognising that factors other than price (such as quality, range and convenience) are critical to customer shopping decisions.

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[4] Transcript of Woolworths Limited's hearing (19 May 2008), p 44.

[5] Public submission to the ACCC grocery inquiry by the Bureau of Infrastructure, Transport and Regional Economics, 17 April, 2008, p 9.

[6] Public submission to the ACCC grocery inquiry by the Bureau of Infrastructure, Transport and Regional Economics, 17 April, 2008, p 11.