Bernhard Lubitz, Leongatha dairy farmer

Accc hearings

I am going to take a slightly lateral approach to describing the issues to hopefully bring about a more long-term solution to better understand the underlying problem farmers and manufacturers are dealing with.

The supermarket duopoly, and their business model and practices, can now be seen as a form of restrictive trade or trade barriers to an effective market. Processors are the ones who have taken a real hit with massive erosion of their proprietary brand margin and volume.

The supermarket duopoly can be likened to or seen as a socialist or nation state in its workings and dealings with suppliers and manufacturers that want to sell their products within their walls.

The duopoly is acting like a nation state with the supply base treated like a state run and controlled organization, setting prices for what goods will be sold for, and discounts that need to be applied to goods produced or manufactured by the broader supply chain feeding the population. It is restrictive which in turn stifles innovation, enterprise, product development and jobs.

Before home brands came along there was a free and open market within the walls of a supermarket with products, produce and manufacturers competing for the consumer's business.

A supermarket was no different to any market, be it the Queen Victoria Market, South Melbourne Market or the local farmers market. Any form of market as well as supermarkets provided a convenient place for manufacturers and producers to display and distribute their products for the citizens to purchase for their needs. Supermarkets need to be forced to go back to what they originally were, a business that supplied space and convenience for manufacturers and farmers to display and give access to their products for the population to then purchase for their needs. And take a margin for supplying that space and service.

It can be argued, that with their home brands, supermarkets are being anti-competitive and is a restraint on fair and proper (open) market dynamics. House brands are then a form of restrictive trade barrier and anti competitive.

Supermarkets now run virtual supply chains this practice, which from memory, was initiated by Woolworth's and Roger Corbett. Both major supermarkets now run similar business models and were hailed by the investment community as sheer genius. Manufacturers and suppliers must deliver stock to their warehouse, hold stock at certain levels in their own warehouses and not get paid until 90 days after the item is sold and then replaced on the supermarket shelf by more stock. This is the power the supermarkets have. They are not bearing any of the financial risk or cost of the supply chain as it all rests with the manufacturer and farmer. This business strategy is taking all the cost out of their business and fire walling it back to the farmers and manufacturers.

House brand ramped this business model up to the next level. They have now become virtual manufacturers, again, with none of the risk and associated business development cost. They sourced these products from the same suppliers that wanted shelf space for their own branded products, who carried all the risk and business cost and owned the brand and long-term business value.

It's a virtual manufacturing base that is so wide spread, that no private manufacturer could be that diverse with product range and ownership, yet still remain profitable and efficient. They get all the benefits and profits with none of the risk. Product lines can be turned on and off at the drop of a hat, depending on the market conditions and margins. There is no commitment to new product development and improvement, and it stifles innovation. Supermarkets decide what products the community will, and can have access to, reducing freedom of choice and supply and destroying true market competition and diversity.

If supermarkets want to be vertically integrated they should own and control the manufacturing business of the products they want to sell, along with all the associated business and market risks. If total separation of manufacture and supplier from the retailer cannot be achieved, then this is a second best option.

Monocultures in nature will eventually fail and collapse and this is starting to happen with this race to the bottom. It is like super powers building more and more nuclear weapons, ensuring their mutual self-destruction.

$1.00 milk, along with home brands, can now be seen as the root cause of the contraction and collapse of the liquid milk states dairy industries. Deregulation had a small part to play but the home brand strategy and associated stresses it placed on the industry with $1.00 milk and home branded cheese, etc., and cost recovery, had the biggest impact. It took longer to come through but is now impacting the southern milk pool with the flattening of the milk supply curve.

As a nation we champion free and open trade but what happens inside the walls of the supermarket is the exact opposite. It is a place of trade that is far from fair and open.

This nation/socialist state idea or attitude goes further with things like the Coles Nurture Fund where they are now giving out largesse to farmers that they decide are worthy of financial support for business up grades. Both supermarkets are also going in and assisting specific suppliers with direct investment to help finance hothouses and new processing facilities, that again have direct supply contracts with the supermarkets, again compromising fair and open competition and trade.

The same goes for the Coles Farmers Fund for the dairy industry and the grants that that go back to a hand full of farmers. If there were fair and transparent pricing, with the removal of home brands, none of these would have any place or need in our industry.

Woolworth's premium house-brand milk Farmers' Own is also a form of largesse as it serves to underpin a select group of farmers doing nothing for the broader dairy region. With Woolworth's contracting processing to Parmalatt taking profit from both Parmalate and its whole supply base. There by making the hole supply chain less efficient and profitable and resilient

They have gone down this route, as they know that all the profitability has been removed from the supply chain by their virtual supply and manufacturing initiatives as they move their costs down the supply chain. They are stifling and dampening the ability and willingness for farmers to invest in their business for the long term.

Home brand need to be removed or at least be limited to 10 % of the product range and volume on shelves and they must truly be budget brands and products of necessity.