Master Grocers Australia Ltd

Trading as:

MGA Independent Retailers

ACCC Inquiry into the Australian Dairy Industry

Submission Paper

December 2016

National Support Centre - Suite 5, 1 Milton Parade, Malvern VIC 3144
P 1800 888 479 | **F** 03 9824 4022 | www.mga.asn.au | **ABN** 44 004 063 263

Submission by Master Grocers Australia (MGA to the ACCC Inquiry into the Australian Dairy Industry

December 2016

Introduction

Master Grocers Australia (MGA) is a National Employer Industry Association representing the owners and operators of Independently owned Grocery and Liquor Supermarkets in all States and Territories of Australia trading under brand names, such as, Farmer Jacks (WA), Foodland (SA), FoodWorks, Friendly Grocers, IGA and SPAR, and they range in size from small, to medium and large businesses.

Independently owned and operated Supermarkets play a major role in the retail industry and make a substantial contribution to the communities in which they trade. In Australia there are 2,100 independently owned branded supermarkets employing over 115,000 full time, part time and casual staff, representing $14 billion in retail sales. Many MGA members are small family businesses, employing 25 or fewer staff.

MGA is making this submission in response to the Issues paper released by the Australian Competition and Consumer Commission (ACCC) as a result of a notice issued by the Treasurer, the Honourable Scott Morrison MP, to the ACCC to hold an inquiry into the competitiveness of prices, trading practices and the supply chain, in the dairy industry.

In particular the Inquiry sets the terms of reference that the ACCC should take into consideration including, but not limited to, the nature of retail pricing arrangements for milk and dairy products and their impact up the supply chain. MGA will focus its comments to this Inquiry on Issue 4 Domestic Markets in the Issues Paper which seeks responses on the impact of cheaper milk products on the retail industry.

MGA understands that competitive strategies are an inevitable part of doing business and welcomes opportunities for independent retailers to compete with other retail market participants. However, MGA submits that in any competitive environment it is essential for there to be a level playing field. Unfortunately that is not currently available in Australia to all the supermarket retail industry participants. The major chains, namely Coles and Woolworths, have grown their joint share of the national grocery market from about 34 per cent in 1975 to almost 80% and in some regions, their joint market share is closer to 90 per cent. It is difficult for smaller retailers to combat the power of the larger supermarket chains because they have the ability to engage in practices that can severely impact the survival rates of independent supermarkets. The two chains have demonstrated their powerful market position by their ability to reduce the price of a single commodity, in this case $1 per litre of milk, which was, and remains at an unrealistic low retail price cost level, but one that has attracted consumers to their stores, while they increase the costs of other products. The inevitable consequence of this action is that their already undermined, smaller rival retailers suffer a downturn in their business viability.

MGA submits that supermarket customers are entitled to the benefits of genuine competition, which will deliver cheaper grocery products, diversity in retail offers and a supply chain that makes efficient use of Australia's resources but also one which results in a more equitable distribution of the available profits.

MGA thanks the Honourable Treasurer, Scott Morrison MP and the ACCC for the opportunity to comment on the important issue of assessing the impact of $1 per litre of milk sales on small to medium sized independent supermarkets in the retail industry.

Comments on Issue 4 –Domestic markets

The seeds of the problems currently facing the dairy industry were sown nearly six years ago when Coles unveiled its $1 a litre milk cuts. At that time Coles was seeking to dramatically increase its profits, gain a bigger market share and ward off any potential threat from newcomers to the supermarket industry, such as Costco and Aldi. The bold move was introduced simultaneously with is "Down, down-prices are down" campaign. In an article in the Financial Review [1] it was pointed out that although consumers seized the opportunity to purchase $1 per litre milk and accepted the price with some enthusiasm, it has, according to dairy farmers, devalued the price of milk over the years. It would seem that what started out as an attractive plan with massive benefits to consumers has resulted in having a serious deleterious effect on the profitability of the dairy industry.

However, it is not just the dairy farmers that have been adversely affected by $1 per litre milk sales, the impact is much more far reaching. It was inevitable that small businesses were going to be disadvantaged if the Chains were able to entice consumers to their stores by using $1 per litre of milk as an attraction. There is no doubt that Coles and Woolworths have used the $1 per litre of milk sales as a "loss leader" in stores. It was foreseeable that consumers would shop at Coles or Woolworths for other products having been attracted into the store by the enticement of cheaper milk. Milk and bread

[1] http//www.afr.com/business/retail/coles$1-a litre-milk-masterstroke –or-mistake-20160519-gozeq1

were the corner small shop basic commodities but Coles and Woolworths saw an opportunity to use a staple item that they could manipulate to their advantage and so grow their businesses. The reduced price of the milk was offset by the higher cost of other commodities, in particular fresh food items. This was yet another indication of the duopoly engaging in anti- competitive behaviour that inevitably detracted from the sustainability of smaller retailers. The reduction in the price of milk was seen initially as a massive benefit to consumers, farmers and of course the big retailer. Time has shown that it is tactics such these that may have enticed the consumers but at a massive cost to the dairy farmers and of course small businesses. Many businesses have been driven out of the market due to their inability to compete on a level playing field.

Many smaller independent retailers recognised the potential damage of $1 per litre milk sales to their businesses when Coles first introduced $1 milk sales but very few predicted the extent of that damage to their businesses and that of the farmers. As a strong opposition to the actions of Coles, one Queensland independent retailer decided to promote local branded milk to the best of their ability in their store, by placing it at eyelevel, lauding the importance of supporting local industries and publicly showing their support for local produce and small local farmers. At the time their support went largely unrecognised but now the impact that $1per litre milk has had on farmers, particularly in Queensland, demonstrates that their support at that time was commendable, but it also predicted the eventual outcomes. It did not take long before the effects of the so called "milk wars" in Queensland had repercussions which has seen many dairy farmers in Queensland forced to sell up their properties.

Whilst initially very few retailers and farmers predicted the long term effects of $1 per litre milk sales the outcomes today are a sad indictment of the failure to recognise the longer term risk for small businesses. Consumers will ultimately make their own decisions about what products they will buy and where they will buy them, obviously seeking out the best prices. MGA does not dispute that just because a business is big and has attractively priced products that its activities are necessarily wrong. What is unacceptable however, is the powerful repressive practices that are often utilised by the large supermarkets that enables them to squeeze the small producers and small retailers resulting in many of them just closing their doors. If such practices continue there will be no choices available, prices will be determined by a select few and inevitable massive price rises will follow.

Over the last few years, as Coles has taken advantage of its increasing market share, it has enlarged the availability of its privately labelled goods in stores which has inevitably led to a decrease in the choice of goods available for consumers. In response to this criticism in the article, Market power in the Australian Food system – Future Directions International, it was stated, "Coles argued that customers will ultimately decide what products they want to buy and can simply shop elsewhere." That choice is not afforded to all Australians, however, many customers particularly in rural communities no longer have access to affordable retailers other than Coles and Woolworths. These practices ultimately reduce the competitiveness and diversity in the domestic food system and run the risk of a supermarket-induced extinction of smaller, often family owned businesses and brands."[2] The introduction of $1 per litre milk may have grown the ability of Coles to increase its market power to gradually lessen the choice of commodities to consumers in their stores but it also led to the demise of their smaller competitors.

Another serious effect for small independent supermarket businesses resulting from the milk pricing wars of Coles and Woolworths has been the reduced profit margins in independent supermarkets. The milk price war which was part of the relentless price competitiveness of the Chains resulted in detracting customers from smaller independent stores and the result has been an inevitable decrease in profits. Lesser profits result in the devaluation of the business. Four years ago the average value of an independent supermarket was approximately 4.2% and that has decreased to approximately 3.3% today. The risk factor of operating a small independent supermarket has therefore increased whilst resulting in depreciation. The $1 per litre milk campaign is just another example of the Chains being able to successfully decrease the viability of their competition and then taking advantage of their decline for themselves.

Conclusion

MGA submits that it is painfully evident that the dairy industry has suffered as a result of many structural and behavioural issues. Unfortunately many independent supermarkets have also become casualties of what was promised would be rewarding for the Australian economy. MGA submits that whilst the consequences of the $1 per litre milk venture has been devastating for the dairy industry there has also been a high cost for independently owned and operated supermarkets.

MGA appreciates the opportunity to make the above brief comment on this issue with thanks to the Treasurer and the ACCC.

Jos de Bruin
CEO Master Grocers Australia
December 2016

[2] http//www.futuredirections.org.au/publications/market power-in-the-Australian-food-system/