



## METCASH SUBMISSION

### SELECT COMMITTEE ON COST OF LIVING

**22 March 2023**

Metcash (ASX: MTS) is Australia's leading wholesale distribution, marketing, and independent retailer services company supporting over 4,000 retailers across our food, hardware and liquor pillars.

Our purpose at Metcash is to Champion Successful Independents. Independent retailers are a vital part of local communities and the Australian economy more broadly, and we believe they are 'worth fighting for'. We help retailers across the food, hardware, and liquor pillars to be the 'best store in their town' by providing merchandising, operational and marketing support.

In Food, we support over 1,600 stores, including those that operate under the well-known IGA and Foodland brands. These are mostly family-owned supermarkets, and a large proportion are in regional and remote towns where they are relied on as the key source of supply.

The importance of independent grocers to local communities and the Australian economy was detailed in a recent report from PwC<sup>1</sup>, commissioned by IGA. PwC found that independent grocery retailers in Australia employ more than 65,000 people directly and 41,000 people indirectly, and that they contribute \$3.1 billion directly, and \$5.1 billion indirectly to gross domestic product (GDP). They also found that independent grocery retailers assist an estimated 34,000 local community organisations, with \$194 million worth of financial, time and in-kind support.

The IGA and Foodland network provides shoppers with a wide range of products tailored for local shoppers by local store owners. Independent grocery retailers work with, on average, 30 suppliers in addition to Metcash, and source approximately 27% of the products on their shelves from other suppliers. In the fresh food category, independent retailers source between 50-90% of their supplies from alternative suppliers to Metcash with a strong preference for local producers.<sup>1</sup>

The retail grocery market in Australia is dominated by two principal market participants with whom Metcash-supplied independent retailers compete<sup>2</sup>. These major supermarkets, in the ASX top 20 by market capitalisation, have substantial market power which has, in Metcash's view, cost of living implications.

Metcash welcomes this Committee's inquiry into the cost of living and hopes the following observations are helpful.

#### **Inflation and rising food costs**

In the fourth quarter of 2021, Metcash's prices from suppliers increased ~\$2%<sup>3</sup> compared with the same period in the prior year. Throughout 2022 the call for price rises from suppliers continued to increase both in terms of frequency and size. In our FY23 Half Year Results (6mths ended 31 October 2022) we advised the investment market that Wholesale Price Inflation had risen from 4.9% in Q1, to

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<sup>1</sup> [PwC Economic and social impact of independent grocers' survey \(2022\)](#) Includes Foodland IGA stores and other IGA endorsed brands – Page 3 and 14

<sup>2</sup> [Statistica; Market Shares of Grocery Retailers in Australia 2021](#)

<sup>3</sup> Average wholesale price inflation excluding produce and tobacco

7.4% in Q2, resulting in an average of 6.2% for the FY23 Half Year<sup>4</sup>. The increases were across all categories, with suppliers citing increases to their cost base as the driver. In our view, logistics issues associated with COVID-19 disruptions, the impact of weather-related events on produce and the war in Ukraine have been key drivers of supplier price increases.

Based on the increase in level and frequency of price rises being sought by suppliers in the second half of our financial year (November to date), we believe FMCG inflationary pressures are likely to continue at an elevated level. However, with global freight rates easing and a reduction in the number of COVID-19 related disruptions, we believe overall conditions should start to ease towards the end of 2023, which will hopefully provide some relief to current inflationary pressures.

### **What are we doing to help?**

We recognise that rising inflation and cost of living expenses are placing an increased pressure on Australian shoppers, and we are helping them manage this by offering a wider range of products at different, and competitive price points.

Our Low Prices Every Day program is made up of >2,500 essential items so customers can shop at IGA with confidence, knowing that products in the program are being sold at competitive low prices.

In addition, all IGA stores that participate in our Price Match program match the lowest regular shelf price on hundreds of essential comparable products to the two largest supermarkets.

We have also increased the range of products we supply to give shoppers more choice to address price increases.

### **Beyond shoppers, we are also helping those vulnerable in the community.**

We have a long-standing national donor relationship with Foodbank which includes providing meals through food and grocery waste redirection, as well as much needed free freight support via our extensive distribution network. In addition to Foodbank, we also partner with OzHarvest and Food for Change to help provide meals for those in need.

The demand for support increased last year due to the floods, and we were able to expand the food support provided by our wholesale and retail network. The combined support to the above charity partners increased 55%, to a total of 647 tonnes. This is the equivalent of providing more than 1.3 million meals to those in need.

Metcash also partners with the FareShare program which focuses on providing food relief in regional and remote communities. In addition to food support, we utilise our logistical expertise and extensive network of independent retailers to facilitate the free transport of meals into regional and rural areas in Queensland. Metcash's involvement with the FareShare program has helped to distribute ~11,000kg of pre-prepared nutritionally balanced meals to communities in need.

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<sup>4</sup>[Metcash FY23 Half Year Results presentation](#)

### What can the Government do to help consumers?

Metcash considers independent retailers as an essential component of a competitive retail grocery market and increasing competition (or ensuring that competition is not lessened) is of benefit to consumers. In that context, Metcash is concerned that the major chains are continuing strategies involving the acquisition of independent stores, with a resulting increase in their market powers without constraint, to the long-term detriment of consumers.

The growth of the major supermarkets has been accelerated through a process of “creeping acquisitions”. In the 1980’s the combined market share of the two major players was less than 40%, today it is over 70%<sup>5</sup>. There are some localities in Australia where the combined market share of the two major chains is over 90%, leaving local shoppers with no competitive tension in those grocery markets.

The ACCC has examined several acquisitions by major grocery retailers of independent retailers, as well as a large corporate’s acquisition of independent businesses in the hardware and liquor sectors. In certain instances, the ACCC’s investigation has caused the parties to abandon or modify their proposal. However, while the ACCC may have identified preliminary concerns, the nature of the existing legal test, and the focus on local markets without consideration of broader network effects, limits the ability of the ACCC to properly protect consumer interests. In this context, Metcash considers that the Government should, with the assistance of the ACCC as necessary, consider what legislative changes should be introduced into Australia’s competition laws to maintain a competitive balance, which will have a positive effect on cost of living concerns.

One amendment, which should be considered, is the application of a reverse onus test for acquisitions by major retailers in the grocery, hardware, and liquor retailing markets, if their market share exceeds a threshold level (not merely within that local market area).

Listed below are the most recent acquisitions by major chains of independent businesses in the grocery, hardware, and liquor sectors. In most, if not all instances, the acquiring party already had a significant presence in the local area or adjoining areas, as well as being a dominant national provider.

Year	Store	Company
2023	Beachfront Hotel Darwin	Endeavour
2022	Tower Hotel Magill	Endeavour
2022	Beach Hotel Seaford	Endeavour
2022	Emu Hotel Morphett Vale	Endeavour
2021	The Grand Tasman Port Lincoln	Endeavour
2021	Swanbourne Cellars	Endeavour
2021	Cellarbrations Port Mandurah	Endeavour
2021	Terry Hills Tavern	Endeavour
2021	Manly Hotel	Endeavour
2020	Mitre 10 Northam	Bunnings
2019	Supa IGA Pyrmont	Woolworths
2019	Mitre 10 Hamilton	Bunnings

2016	Supabarn Civic	Coles
2016	Supabarn Kaleen	Coles
2016	Supabarn Waniassa	Coles
2016	Supabarn Sutherland	Coles
2016	Supabarn Fivedock	Coles
2016	Mitre 10 Yeppoon	Bunnings
2016	Mitre 10 Atherton	Bunnings
2015	Mitre 10 Colac	Bunnings
2015	IGA Hawker	Woolworths
2014	IGA Supa Renaissance St Kilda	Woolworths

The grocery and hardware stores listed above were all large format high turnover businesses, making their loss a greater impact on the wholesale supply network operated by Metcash and, by implication, the independent network.

In addition to the acquisitions noted above, there have been instances where Metcash has sought to preclude what it considers to be anti-competitive acquisitions by acquiring an interest in the relevant retailer (in the grocery sector or otherwise), in circumstances where the retailer has been approached by a major retailer. Currently, Metcash is aware of Bunnings writing to at least seven Mitre 10 businesses asking them to consider entering negotiations to sell their store to Bunnings.