



ALDI Stores

(A Limited Partnership)

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CORPORATE

1 March 2011

Mr John Hawkins
The Secretary
Senate Standing Committee on Economics
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Dear Mr Hawkins,

Inquiry into the impacts of supermarket price decisions on the dairy industry

Thank you for your letter of 16 February 2011 in relation to the Senate Economics Committee's (the Committee) request for written submissions concerning the impact of supermarket price decisions on the dairy industry. ALDI appreciates the opportunity to provide a brief submission to assist the Committee with its inquiry.

ALDI's submission will provide a brief overview of ALDI's business, and address the matters listed in the Terms of Reference for the inquiry, which are applicable to ALDI. Accordingly, ALDI wishes to make comments in relation to the following matters:

- retail milk prices;
- whether a price reduction of milk (to \$1 per litre) is anti-competitive; and
- the recommendations of the 2010 Economics References Committee report, *Milking it for all it's worth – competition and pricing in the Australian dairy industry*.

These are discussed below.

ALDI

ALDI is a limited partnership, which currently operates over 250 grocery stores across New South Wales, Victoria, Queensland and the Australian Capital Territory.

The vast majority of products sold at ALDI are private label brands. Private label brands enable ALDI to offer Australian consumers products of equivalent quality to branded products, but typically at lower prices. To achieve this aim, ALDI provides its customers 'everyday low prices' for products rather than adopting 'high-low' pricing practices commonly used by our competitors (i.e. Coles, Woolworths, Franklins, and others).

Retail milk prices

In response to our competitors reducing the price of milk to \$1 per litre, ALDI had no option but to reduce milk prices in order to remain competitive. ALDI made this price reduction as a rational competitor who is effectively and vigorously competing with its competitors in Australia's supermarket industry.

ALDI wishes to advise the Committee that it has not, and is not considering passing on the costs associated with this price reduction onto our suppliers. ALDI already works with its suppliers to minimise costs. ALDI also aims to minimise its own operational costs through initiatives such as the use of milk trolleys for transporting milk versus crates, thereby assisting ALDI to absorb the costs associated with price reductions, such as milk to \$1 per litre.

Whether a price reduction for milk is anti-competitive

ALDI is of the strong view that a price reduction for private label milk products should not be viewed by the Committee as anti-competitive. Rather, ALDI has responded pro-actively to the current dynamics of competition in Australia's supermarket industry to ensure that our consumers continue to receive 'everyday low prices'. Further, ALDI's decision to reduce its milk prices was entirely its own, based on our independent assessment of the market/s in which ALDI competes, and the need to continue to remain an effective and vigorous competitor in Australia's supermarket industry.

ALDI understands that the Committee is concerned that producers and/or suppliers may be absorbing ALDI's price reduction by way of cost freezes. ALDI wishes to inform the Committee that ALDI considers its suppliers as business partners. ALDI seeks to establish long term mutually beneficial supply arrangements. ALDI deals with its suppliers on a net-net basis. This limits the resources and costs associated with managing promotions, rebates and incentives. It also ensures that our suppliers do not incur unnecessary or incidental cost increases that could be attributed to the management of promotions, rebates, and incentives. Further, our suppliers are able to easily identify any cost increases based on our net-net invoicing practices. If required, ALDI can demonstrate to the Committee (commercial-in-confidence) that our net-net invoicing for milk has not changed as a result of ALDI pricing milk at \$1 per litre.

The recommendations of the 2010 Economics References Committee report, *Milking it for all it's worth – competition and pricing in the Australian dairy industry*

ALDI notes that the Committee has made a number of recommendations in its report *Milking it for all it's worth – competition and pricing in the Australian dairy industry* (the Report). ALDI wish to advise the Committee that it will co-operate and assist the government agencies identified in the Report with any future inquiries as per the applicable recommendations.

Other Information

Once again, thank you for your letter, and the opportunity to provide a response to the Committee's inquiry.

If you have any further questions regarding this matter, please do not hesitate to contact me.

Yours sincerely

ALDI Stores

Stefan Kopp
Managing Director, Buying