
MACQUARIE
BUSINESS SCHOOL



Select Committee on Supermarket Prices
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Re: Inquiry into Supermarket Prices

I, Dr. Farida Akhtar (Senior lecturer at the Macquarie University) grateful to the Senate Select Committee calling for submissions on a pressing issue related to “Supermarket Prices”. My research expertise in corporate decisions, market power, competition, growth, business analytics and Open-AI will suitably contribute to some of the key inquire terms of references are addressed below.

a. The effect of market concentration and the exercise of corporate power on the price of food and groceries.

The market concentration observed in Australian retail industry is largely dictated by two giant supermarket chains Woolworth Group Limited (a multinational corporation (MNC) which operates in Australia and New Zealand) and Coles Group Limited (a domestic corporation) with higher market share. According to Australian Bureau of Statistics media release report, monthly sales turnover for month ending January 2024 fell in almost all industry sectors including cafes, restaurants, and takeaway food services by -1.1 per cent, yet food retailing was the only retail industry up by 0.1 per cent as shows in **Figure 1** (seasonally adjusted data). This is mostly due to an upwards pressure in prices of foods and grocery items set by large supermarket chains which adversely impacts household, since they reduced discretionary spending, which has led to a substantial gap between food and non-food retail sales growth industry. Higher market share by giant corporations leads to biased market concentration and large corporations often make strategic investment decision to improve their growth prospects that benefits its shareholders (Akhtar, 2016, 2017) but such action could lower competition in the food industry. Further, barriers to entry for new entrants due to lack of space for supermarket developments in major shopping malls, remote and/or regional areas can further attenuate the competitiveness across different companies within the food industry sector. To overcome this issue small size business in retail food such as local grocery stores and independent grocers’ stores need to invest heavily in innovation

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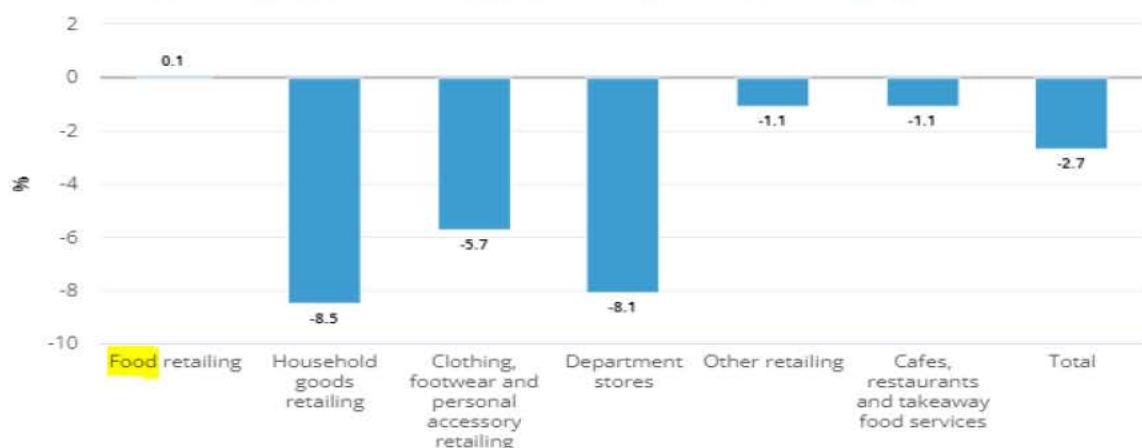
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and capability to have its products and foods to be distinctively valuable and different from large supermarket chains like Woolworths, ALDI (German MNC), and Costco (American MNC). Investment in innovation capability will help small food stores to apply multichannel retailing experience to customers which integrates in-store, online, and digital mobile offerings to meet customers differing needs; understand the demand and behaviour of customers by offering loyalty programs that is needed to become competitive in the digital age. For such capability development Federal Government need to invest in innovation implementation in the food grocery industry to help small and medium size business that are not multinational to stay afloat and compete with giant supermarket retail stores.

Figure 1: Monthly turnover of total food retail sales across retail industries



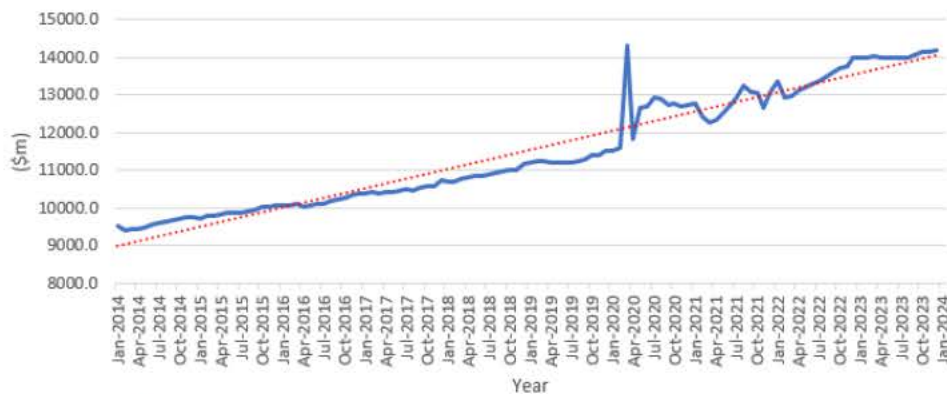
Source: Australian Bureau of Statistics Retail Trade

b. The pattern of price setting between the two major supermarket chains

Figure 2 shows the pattern of total turnover of food sales is an upwards trend over the past 10 years and the growth is exponential post year 2020 despite a pandemic. Technically price setting is a function of many different factors for example supply chain shock, rise in interest rate and inflation resulted in cost of food transportation, fuel, labour, raw materials to go up. Additionally, innovation such as Artificial Intelligence (AI) application in the two giant supermarkets and sales target set by corporate executives' forces managers to hike up prices. While increment in price of food and grocery item is not illegal but if price increase is not transparent then questions arises about the integrity of giant supermarkets profit making strategy, how they set prices and weather they have engaged in price gouging remains a concern which could lead to a shift in customer behaviour, loss of customer confidence and possible penalty by the regulator Australian Competition & Consumer Commission (ACCC). Long term concerns can damage corporate reputation. To overcome this issue, supermarket giants need to take a proactive measure and be transparent on how they set prices on grocery food items. A few recommendations are provided below to improve transparency and awareness on their price setting behaviour that seems fair:

- (1) Use information labels on price setting (just like nutrition information) on all food items.
- (2) Provide a tag on all shelf food items that shows a quick summary of price setting information.
- (3) Give a quick metrics of price setting of terms in the receipt when consumers purchase products.
- (4) Use AI algorithm to educate customers about prices setting for all food items in store digital monitor.
- (5) Educate the wider community through advertisement on how company set prices on essential items.
- (6) Provide reward points to customers that buy food items from environment sustainable program.

Figure 2: Total sales turnover of food retail from Jan 2014 to Jan 2024

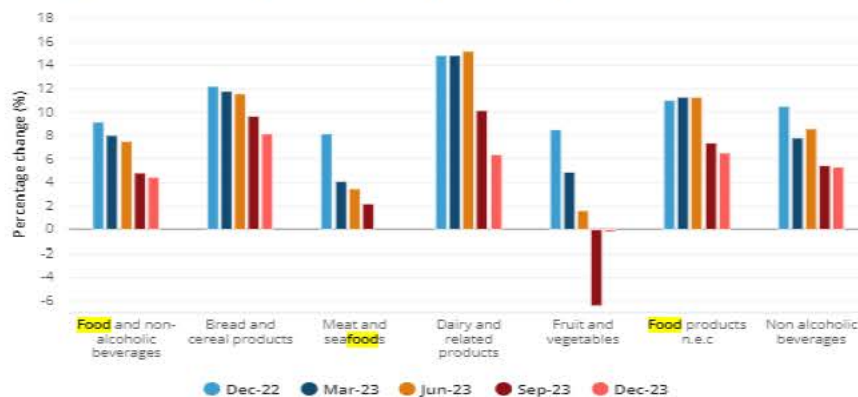


Source: Australian Bureau of Statistics

c. Rising supermarket profits and the large increase in price of essential items

There have been sharp increases in prices of essential consumption goods includes dairy products, poultry, fruit, and vegetables in 2022 compared to 2023 (ABS, 2024). Figure 3 shows in 2023 fruit and vegetable prices fell 0.2 per cent compared to 12 months ago, 15.0 per cent decline in price of lamb and 4.5 per cent decline in goat, beef and veal for offsetting price rises in chicken, pork and seafood.

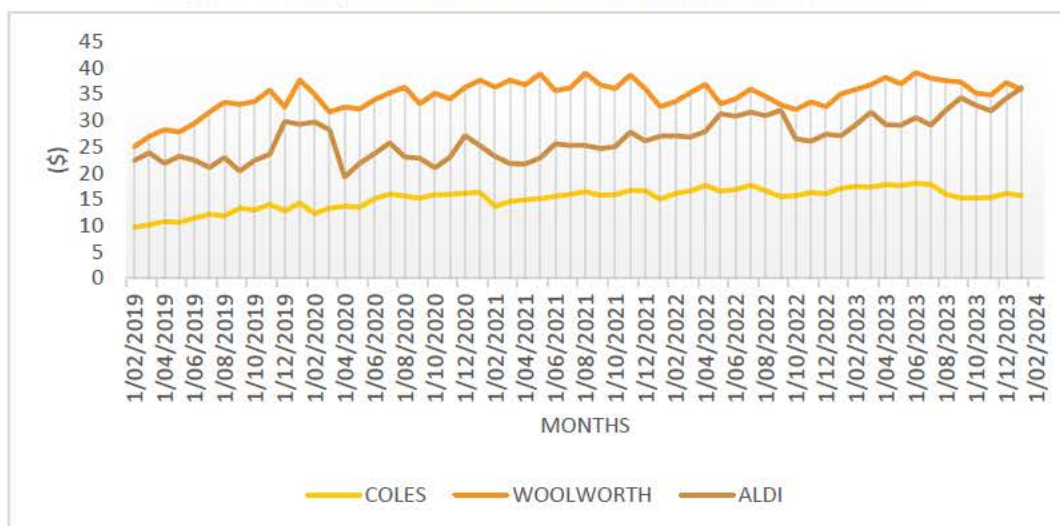
Figure 3: Annual grocery food price change between 2022 and 2023



Source: Australian Bureau of Statistics Consumer Price Index

To gauge the impact of price movement of essential goods on supermarket profits over the past 5 years, we look at the share price performance of the supermarkets to better understand if Woolworths, ALDI (both MNCs) performance is improving or declining relative to Coles supermarket.

Figure 4: Share price of food retail chains from Jan 2014 to Jan 2024



Source: <https://au.finance.yahoo.com>

Figure 4 depicts an interesting discovery between the MNC supermarket ALDI compared with Woolworths and Coles supermarket. ALDI's share prices has climbed up reducing the gap by moving towards Woolworths share price while ALDI's share price is moving further away from Coles share price. This reflect despite rise in prices of food in the two large supermarket chains in Australia, customers are becoming smart and conscious with spending and turning to other grocery stores like ALDI as their value offers resonates better with household cost of living post pandemic crises. The price setting by giant supermarket have provoked many customers to lose trust on their price setting strategies and turn to other international retail food stores such as ALDI or other local stores to buy essential items that comes in smaller pack size, uses private label that is often cheaper. Additionally, stores like Costco offer customer with value bulk buying for essential items at lower prices easing the pressure of rising cost-of-living crises can impact the demand for food items in giant supermarkets.

h. frameworks to protect suppliers when interacting with the major supermarkets

On 1 July 2015 both giant supermarket chains have signed up with Food and Grocery Code of Conduct which is a voluntary code under the Competition and Consumer Act 2010 and subject to compliance by Australian Competition & Consumer Commission (ACCC) and ALDI did the same on 15 June 2015. The question is “*Can the ACCC take actions against supermarkets giants if it is found that they have engaged in price gouging and made false or misleading claims for price increases?*”

The answer is yes but may be limited because Food and Grocery Code of Conduct is not a mandatory code but rather a voluntary code. This means the Grocery Code does regulate the relationship that exists between a wholesaler and its suppliers (i.e., farmer) and suppliers are protected by the Code (Commonwealth Australian, 2018). To protect our farmers what is necessary is the Food and Grocery Code of Conduct to become mandatory not just voluntary to ensure that giant supermarkets are hold accountable for their actions for paying much lower prices to farmers while charging much higher prices to the consumers if they fail to prove price rise was fair and just. Also, ACCC need to seek more power from the Federal Government to take heavy actions against leading giant supermarkets if they are found guilty of price gouging behaviour in food items that is unfair and non-justifiable given the economic uncertainty due to rise in interest rate, inflation, cost of living and turbulence in international economy.

i. the role of multinational food companies in price inflation

Multinational Corporations (MNCs) with larger market share that are more concentrated should play a dominant role in shaping the Australian food industry as part of the corporate social responsibility that brings positive externality to the wider community during uncertain time. MNC have long term reputation (Akhtar et al. 2019), yet how they can contribute to the food ecosystem needs further investigation and transparency. MNCs with larger market share that operates in Australia should do more because their capabilities in Business Analytics (BA) using real time data and Open-AI powered system could streamline supply chain operation which can reduce cost, improve inventory quality of food system in the digital age. Such technology and innovation capability can be used to develop a digital platform and food ecosystem framework that facilitates connection between retail food stores, suppliers (i.e., farmers etc.), and customers to brings customer satisfaction and improve price informativeness. Customers are cautious about where their food comes from and willing to pay premium prices for foods that are grown or raised ethically and in an environmentally sustainable manner that supports equitable livelihood in food ecosystem. Institutional investors must push MNCs to implement innovation in food ecosystem framework that focuses on minimising food price inflation can benefits the wider community and support sustainability in the food industry for the long horizon.

I will be delighted to engage in further discussion on this pressing matter using real time big data analytics should the need arise. Thank you for giving me the opportunity to contribute.

Sincerely,
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