



11 September, 2009

The Secretary
Senate Standing Committee on Economics
PO Box 6100
Parliament House
CANBERRA ACT 2600

Re: Inquiry into the GROCERYchoice website

Dear Mr Hawkins,

Thank you for the opportunity to provide a submission to the Senate's inquiry into the GROCERYchoice website.

While Tasmanian Independent Retailers (TIR) welcomes any move to ensure consumers achieve the full benefits of a competitive market environment, unfortunately the Australian Government's attempts to achieve this through the GROCERYchoice website fell well short of the mark.

If anything, the experience served to highlight the structural imbalances that exist in grocery retailing in Australia, caused by the market concentration of a limited number of dominant operators. It would appear the ACCC was unable to identify appropriate independent retailers in all regions of Tasmania for the purposes of comparison on the GROCERYchoice website for the simple fact that in two of the three Tasmanian regions, there aren't any.

Further, TIR's confidence in the ACCC to undertake its duties in an efficient and professional manner has been significantly undermined by the GROCERYchoice experience.

We believe that taxpayers and consumers have been poorly treated as a result of this process and while recognising a genuine intent by the Australian Government to address a real concern in the community, we submit that the GROCERYchoice website has failed to deliver any benefits.

Who is Tasmanian Independent Retailers (TIR)?

TIR is a cooperative that was formed in 1947 by a group of independent traders to improve their buying power and improve service and prices to customers.

The same philosophy applies today, albeit the size of TIR and the members it represents has grown significantly since its inception and it now represents 97 IGA branded supermarkets in Tasmania who trade under the banners Supa IGA, Festival IGA, Value Plus IGA and Friendly Grocer IGA.

TIR's brief is to service the many requirements of independent supermarket retailers trading under the respective banner outlets. This includes co-ordination of promotional activity, in-store support

and staff training, maintenance of retail price files and negotiating trading arrangements with respective trade suppliers.

An overview of the Tasmanian grocery market

The Tasmanian grocery market is serviced by Woolworths, Coles and the independents (which includes IGA / Foodworks and a host of other small retailers that do not qualify or choose not to trade under an advertised independent banner).

The majority of the larger independent retailers in Tasmania trade under the IGA advertised banner - there are currently 97 IGA supermarkets in Tasmania.

Foodworks has a small presence with around eight stores statewide.

The Tasmanian grocery market is also serviced by around 150 plus small independent convenience stores that predominantly operate as a 'milk bar / corner store' style operation.

Woolworths and Coles have a total of 42 supermarkets in Tasmania (Woolworths 28, Coles 14) and are highly concentrated in the metropolitan areas of Tasmania.

In TIR's opinion the market share of the major chain supermarkets has increased from an estimated 75 per cent in 2002 to in excess of 80 per cent in 2009.

What is our concern?

GROCERYchoice website misled consumers from inception.

At the heart of TIR's concern with the GROCERYchoice website is that its results were going to be misleading and wrong from day one. When announced, it was clearly stated that the minimum size for a supermarket to be surveyed was 1,000 sq. metres or above.

However, this claim was subsequently revised by the ACCC to be 'around' 1,000 sq. metres when it became apparent that not all supermarkets surveyed were of this minimum size.

In Tasmania, there is only one region which has any independent grocery stores in excess of 1000 sq. metres – that being the north of the state where there are two – a Supa IGA located in the outer Launceston suburb of Prospect and a Supa IGA at St Helens in the far north-east of the state.

Of these two operations, we understand Supa IGA St Helens was surveyed by the ACCC. It should be noted that this store is some two hour's drive from the urban centre of Launceston where there are approximately nine major chain supermarkets (Woolworths and Coles) of which both are largely serviced for their grocery requirements by two locally based Distribution Centres (DC's). The Supa IGA supermarket at St Helens is also largely serviced for its grocery requirements from Launceston.

Unfortunately, the ACCC would not reveal the supermarkets that were surveyed but it would be fair to assume that it is unlikely the other supermarkets surveyed in the northern area of Tasmania did not have the transport disadvantage of being located some two hours from their main Distribution Centre.

It is also disappointing to note that there was no protocol established by the ACCC with regard to informing our members that their premises were to be surveyed and so TIR has had to rely on word-of-mouth in order to establish which of our members in the state were or were not surveyed.

Both the owners / operators of the Supa IGA Supermarkets at Shearwater and St Helens have confirmed they only became aware their store was being surveyed when they noticed a person recording the shelf prices of various items within their store on a computer and they queried what the person was actually doing.

Of the remaining independent stores that were surveyed in Tasmania that we are aware of, these had significantly less floor space than the claimed 1,000 sq. metres.

The largest of these at over 10 per cent smaller than claimed was Shearwater Supa IGA in north-west Tasmania with 891 sq. metres of retail floor space.

A second store surveyed in the north-west region was Value Plus Valley Road in Devonport, which has 312 sq. metres of retail space.

In the south, representatives of the ACCC attempted to survey Festival IGA Lindisfarne which has a retail floor space area of 232 sq. metres. This supermarket is less than one-quarter of the size that was claimed to be surveyed and the proprietor refused entry of those conducting the survey.

TIR is unaware of any other of its members being surveyed and while this is not to suggest other independents did not participate, our members experience highlights that in three of the four cases highlighted, the floor space of the outlet was well short of the 1,000 sq. metre minimum.

Given this it would be fair to assume that any other 'independent stores' surveyed in Tasmania fell well short of required floor space as the only remaining store with an excess of 1,000 sq. metres, Supa IGA Prospect, is confident it was not surveyed.

Despite the issue of floor space being raised publicly by TIR, we are yet to receive an adequate explanation, or for that matter, an apology from the ACCC for misleading the public in Tasmania over the size of independent supermarkets surveyed in the state.

This is a striking omission and serves to highlight the failure of GROCERYchoice to offer a true comparison of grocery prices in Tasmania.

Why is floor space such a concern?

Attempting to compare supermarkets with differing floor sizes is similar to attempting to compare an aircraft carrier with a speed boat.

The issue of floor space is of significant concern because it goes to the heart of the competitive nature of the retail grocery industry – being that higher volumes and purchasing power play a significant part in the ability to deliver competitive prices.

This issue has been well documented in the past and is at the heart of one of the challenges faced by the independent sector in remaining competitive against the major supermarket chains.

To illustrate the comparison, table (1) shows the difference between the types of stores the ACCC attempted to survey in Tasmania. On the left is an aerial shot of the Eastlands Shopping Centre which has a Woolworths and Coles supermarket, each with an average floor space of 2,800 sq. metres, while on the right is Festival IGA Lindisfarne which has 232 sq. metres of floor space and is located less than one kilometre from Eastlands.

Table (1) – Aerial view of Eastlands Shopping Centre, Rosny Park (left) and Festival IGA Lindisfarne (right), East Derwent Highway, Lindisfarne.



As this comparison shows, attempting to compare a large major chain supermarket with over 2,800 sq. metres of floor space with a small independent local convenience supermarket is ridiculous.

Either of the major chains in Eastlands Shopping Centre is likely to have a weekly average turnover of anything between \$650,000 to \$850,000 while a typical turnover of a store the size of Festival IGA Lindisfarne would be in the vicinity of \$50,000.

Even on the most conservative of estimates this means the independent attempted to be surveyed in this example has a turnover of anywhere between 13 to 17 times less than the competing major chains, which it is likely it was compared to.

Why is turnover such an issue?

Because in retail, economies of scale and buying power are the two keys to cost competitiveness.

Put simply, it is an invalid comparison to compare the economies of scale generated in Tasmania by a major chain supermarket and that of an independent on a number of fronts.

The first issue is that according to the ACCC's own figures, the major chains hold some 70 per cent of the market. In Tasmania this figure is higher and TIR argues it is over 80 per cent of the retail grocery market.

On this basis alone, it is not hard to understand that the buying power of an independent who is a member of TIR is significantly less than that of a major chain.

Put simply, the ability to purchase product on better terms is determined by the amount you wish to purchase. Consider this together with the terms of trade – again more favourable if you are purchasing more, and it is not hard to see that the competitive opportunities for an independent in Tasmania are limited when compared with a major chain.

In addition to this, the competitive position of an independent is further reduced by needing to operate with a lower margin to remain competitive with the major chains, as their mark-up or margin is lower because they pay more for their goods but must remain price competitive.

Conclusion

TIR's concerns with the issue of major chain supermarkets domination of the Tasmanian retail grocery market is well documented by our activities and that of the National Association of Retail Grocers of Australia (NARGA) of which we are a member.

We have continually argued that despite claims to the contrary, the Australian shopping public and in particular, Tasmanian shoppers, have been poorly served by the operations of the Trade Practices Act and its oversight by the Australian Competition and Consumer Commission.

Our initial response to the announcement that the Australian Government would honour its pre-election commitment and hold an investigation into the retail grocery industry was met with delight, only to be shattered by the realisation that the very watchdog charged with protecting the fair trade in Australia – the ACCC, was in fact being asked to review its own activities.

Not surprisingly the outcomes of this investigation were a disappointment to TIR and it is interesting to note that at the press conference where the findings for this investigation were announced, the Australian Government also unveiled GROCERYchoice – perhaps in an attempt to deflect attention from an investigation that did little more than justify the current status quo.

However, more importantly it is consumers and taxpayers who have suffered the most. They are being misled by an organisation that appears unwilling to concede, explain or apologise for the errors it made with the GROCERYchoice website and in particular its decision to list as a legitimate comparison, the prices offered in major chain supermarkets to those offered in local grocery stores one-third of their size.

Yours,

Grant Hinchcliffe
Chief Executive Officer
Tasmanian Independent Retailers