

Submission by Master Grocers Australia

to the

Senate Economic References Committee

on the

**Inquiry into Proposed Acquisition the Franklins
Supermarkets by Metcash Trading Ltd**

3rd December 2010

About Master Grocers Australia

Master Grocers Association Australia (MGA) is a National Employer Industry Association representing Independent Grocery and Liquor Supermarkets in Victoria, New South Wales, Tasmania, South Australia, Western Australia, Queensland and the ACT.

Independent Supermarkets play a major role in the retail industry and make a substantial contribution to the communities in which they trade. Trading under the FoodWorks and IGA Brands there are 2100 independently owned supermarkets employing over 70,000 full time, part time and casual staff, representing \$12 billion in retail sales. Many MGA members are small family businesses, employing 25 or fewer staff.

MGA is an interested stakeholder in the business activities of independent supermarkets and welcomes the opportunity to comment to the Senate Economic Reference Committee which will investigate the decision of the Australian Competition and Consumer Commission (ACCC) to oppose the acquisition of the Franklins Supermarket business by Metcash Trading Limited (Metcash).

MGA makes this submission based on our belief that regardless of whether the Franklins business is sold to Metcash or some other unknown purchaser, it is important that the independent supermarket sector is able to retain its autonomous position in the market place as a stronger competitor for the chains. Our major concern is that if Metcash loses the opportunity to make the purchase and there is no other viable purchaser available then the 88 Franklins supermarkets will become vulnerable targets for the chains. This must not be allowed to happen.

MGA submits the following comments below on the issues stated by the Senate Committee being:

- a) the basis of the ACCC decision to oppose the purchase;
- b) the competition impacts of the decision at the retail and wholesale levels;
- c) whether Franklins distribution warehouses supplying eight Franklins stores could be regarded as independently sustainable wholesale businesses; and
- d) any other related matters.

a) The basis of the ACCC decision to oppose the purchase.

The focus of the ACCC decision was that the proposed acquisition of the Franklins supermarket business would substantially lessen competition by removing the “closest and only genuine competitor for the wholesale business supply of packaged groceries in NSW.”

The ACCC is relying on the fact that the removal of Franklins as the sole wholesale competitor to Metcash in NSW will lessen competition and it is submitted that this view is entirely misplaced. The ACCC has failed to take into account that the demise of the Franklins stores and its wholesale supply outlet is imminent and inevitable. It has been made quite clear by Pick n' Pay that the chain is commercially unviable and will be closed regardless of the

outcome of the decision. By allowing the sale to Metcash the ACCC would create a stronger and sustainable opposition to the dominance of the chain stores in NSW which would enhance competition rather than hinder it. At the present time the dominant power in the marketplace in NSW rests with Coles and Woolworths and it is estimated that between them they control 80% of the market. If Metcash had been permitted to purchase the Franklins business from Pick n' Pay, then the NSW market share increase for the independent supermarket sector would be only 17%.

Whilst this percentage appears to be relatively low, it is nevertheless a significant increase in the level of competition that independent supermarkets can provide in the market place and in particular one that will inevitably provide benefits to consumers. It is a fallacious argument to suggest that the acquisition by Metcash will hinder competition; surely any market share increase for independent supermarkets will ultimately be beneficial to the community.

MGA is strongly of the opinion that the failure of the ACCC to allow the purchase of the Franklins stores will have a serious impact on the independent supermarket sector. The possibility of the purchase by of these stores by the chains would have a deleterious effect on the strength of the independent supermarkets sector. It will damage competition and could result in many of them being further squeezed out of the market place as the power of the chains is enhanced.

b) the competition impacts of the decision at the retail and wholesale levels;

If the sale had been approved and the Franklins stores are ultimately sold by Metcash to independent operators, there will undoubtedly be an increase in competition. Metcash has demonstrated that the growth of the independent retail supermarket sector is due to a combination of factors. They include the significant growth and presence of independent retailers in suburban areas and country regions, there is a strong emphasis on customer service, there is a wide product range and there is efficiency in cost pricings. If there is no expansion of stores in the independent sector then the chains will continue to dominate. There is a need for a competitive challenge and Metcash is in a strong position to provide the support to the stores that may be purchased from them and they would contribute to retail competition throughout NSW.

Metcash can supply goods to a range of different sized independent supermarkets. Where there are variances in the size of a supermarket it is inevitable that there will be differences in the prices at the register. The prices are obviously also dictated by other competitive factors such as location in a town or city, the location of other retailers, and their pricing strategies. Independent supermarkets are in competition with the chains and other stores and also with each other. Metcash supplied stores are never told to sell their goods at a particular price, other than catalogue advertising, as this is a legal requirement. There is always emphasis on the need for a store owner to create competition in its own area. Undoubtedly, the acquisition of the Franklins stores by independent operators will enhance retail competitiveness in the market place.

c) whether Franklins distribution warehouses supplying eight Franklins stores could be regarded as independently sustainable wholesale businesses;

It has been made clear by Pick n' Pay that the distribution warehouse is clearly an economically unviable entity. The ACCC has failed to realize that to have several wholesale suppliers for the independent sector is unrealistic, given the size of the NSW market. In Victoria in the 1990s it was clearly demonstrated that if multiple wholesalers had been retained independent supermarkets would have lost their competitive edge and the independent supermarket sector today would be fragmented and ineffective. There would be no effective competition for the chains. Under the current single warehouse model there is efficient service, competitive pricing and there is competitive tension in NSW. There is no reason why the current system should not continue to be effective and competitive in the future.

The ACCC believes that Franklins can continue to be an alternative to Metcash for the wholesale supply of packaged groceries in NSW. However, Pick n Pay has publicly stated that it will quit the Australian market. If as the ACCC claims there is vigorous competition from Franklins then why is it not profitable? Franklins has clearly demonstrated that it is not currently providing competition and as a business it is not economically sound.

Pick n' Pay has been told by the ACCC that there is another buyer out there, yet Pick n' Pay is not aware of any offer from any other party. The business is currently clearly unsustainable in NSW.

As previously stated, it is our belief that regardless of whether the Franklins business is sold to Metcash or some other unknown purchaser, it is important that the independent supermarket sector is able to retain its autonomous position in the market place as a stronger competitor for the chains.

d) any other related matters.

Independent retailers can compete with the chains on the pricing of goods derived from Metcash and from other local markets. However, the strength of the chain stores in the marketplace, which is estimated to be approximately 80%, makes them formidable opponents. The merger of Franklins and Metcash will not provide Metcash with any massive increase in market power. In fact Metcash will continue to lag significantly behind the market strength of the chains.

Independent supermarkets have increased their influence in the market place because of their increased ability to be competitive which has been enhanced by the standards of service and the significant community roles that they have developed over time. Independent retail stores do not fall into the category of the "local corner shop" and it does seem necessary to dispel the myth that independent supermarkets are small "convenience type" stores. There are much larger independent supermarkets in existence, the size of the stores range from very small to very large independent supermarkets. They have different price points and different price structures and the growth of these independent supermarkets as significant competitors should be encouraged rather than dismissed as a threat to competition in the marketplace.

It should be borne in mind that in the 1990s when the Trade Practices Tribunal was considering whether there should be one wholesaler in Victoria and NSW it was held that it was not anti competitive to have a single wholesaler in NSW and that it would be better for competition rather than detract from it. There is really no comparison between the status of Metcash and that of Franklins as wholesalers.

Franklins does not supply products to its supermarkets or franchisees on the scale of Metcash and its inability to carry out this function has been clearly demonstrated in the failure of the business.

We submit that the independent supermarket sector must be strengthened and continue to be a viable competitor in a NSW marketplace dominated by 2 very large organisations in Coles and Woolworths.

MGA thanks the Senate Committee of Inquiry for the opportunity to make these comments

Jos de Bruin

CEO

Master Grocers Australia