

26 November 2010

The Secretary
Senate Economics References Committee
PO Box 6100
Parliament house
CANBERRA ACT 2600

Dear Sir,

Inquiry into ACCC's Franklins decision

Until my recent retirement I worked in the Australian grocery industry in various roles and in various organisations for over 40 years.

The recent decision by the ACCC in relation to Franklins amazes me. They seem to have no understanding of the history of the industry nor any idea of how commerce actually works.

According to the ACCC, supply of groceries to eight franchised stores makes Franklins a wholesaler.

If Franklins were a wholesaler supplying only eight stores it would go broke. Add the Franklins company stores and it has still gone broke.

To suggest that somebody else could buy all or part of Franklins and turn it into a successful wholesale competitor for Metcash is unrealistic.

It is important to remember that the Franklins business has failed, even with the backing of a large and experienced wholesaler, Pick n Pay, with all of its financial resources.

Any buyer of all or part of the Franklins business would be taking a huge commercial risk and would be highly likely to fail.

The "wholesale" business Franklins has is insignificant.

Of the eight Franklins franchised stores, four of them are owned by Mr Michael Leonis.

Mr Leonis used to own IGA stores at **Newtown** and **Springwood**, each of them taking about \$300,000 a week. As an incentive to move to the Franklins banner, Mr Leonis was *given* two Franklins stores, at **Cronulla** and **South Hurstville**. The South Hurstville store had previously been an IGA store, acquired by Franklins in 2001

In the immediate local Springwood market there were originally two independent stores, one under the Payless banner, the other IGA. Both were originally supplied by Davids, then Metcash, before Mr Leonis's store switched to the Franklins banner.

The ACCC has now raised concerns about the potential “lack of competition” if the Springwood Franklins store were to be supplied by Metcash, which also supplies the local IGA. That is a strange idea, given that independent proprietors compete fiercely in any market in their own interests.

The South Hurstville store had also operated under the Tuckerbag and Payless banners at various times and was supplied by the Davids wholesaling business until 1996 and then by Metcash from 1997, until acquired by Franklins in 2001

Mr Leonis’s Newtown store, now under the Franklins banner, was originally a Woolworths store, which they were required to divest following their acquisition of other stores in the original Franklins sell down by Dairy Farmers International. It then became an IGA store owned and operated by Mr Leonis.

Of the other four Franklins franchised stores, two are owned by an ex-Franklins employee. Another is owned by another ex-Franklins employee. The final store, at Rouse Hill, switched from IGA to Franklins.

Franklins has had very little success in attracting existing successful independents to its banner without offering significant incentives.

One of the reasons for this, in my opinion, is that genuine experienced independents are reluctant to give up their independence and be controlled by a franchise agreement.

When Pick n Pay leaves the Australian market, the franchised store operators will have little option but to return to supply by IGA Distribution or the Spar Company who operate out of Queensland.

I am willing to appear before the committee if required.

Yours sincerely,

JOE HARRISON