Chapter 4

Early impacts of the pricing decisions

4.1 This chapter assesses the impacts of the January 2011 supermarket pricing decisions based on the retail sales data that is currently available. The following chapter continues the assessment by discussing any implications of these trends at the farm gate.

Demand for milk

4.2 A key question in considering the short-term and likely longer-term impacts of the supermarkets' pricing decisions is how responsive consumers may be to the price cut in terms of changes to the quantity demanded. This concept, known as price elasticity of demand, is important for understanding any changes to the volume of drinking milk sold, and any changes to the value of the product throughout the supply chain.

4.3 National Foods considers that consumption of milk is 'pretty inelastic', noting steady levels of domestic consumption over time.[1] Coles disagreed with this view:

> We do not fundamentally believe that milk is inelastic. We believe that there will be a higher demand for drinking milk, which we believe carries a higher premium to the farmer. We believe the growth in drinking milk plus the increases we have given to all of our processors should offset any changes that you see in mix.[2]

4.4 As shown by Figure 4.1 below, per capita milk consumption in Australia has been relatively steady over the past two decades, even with the growth of lower priced private label milk.

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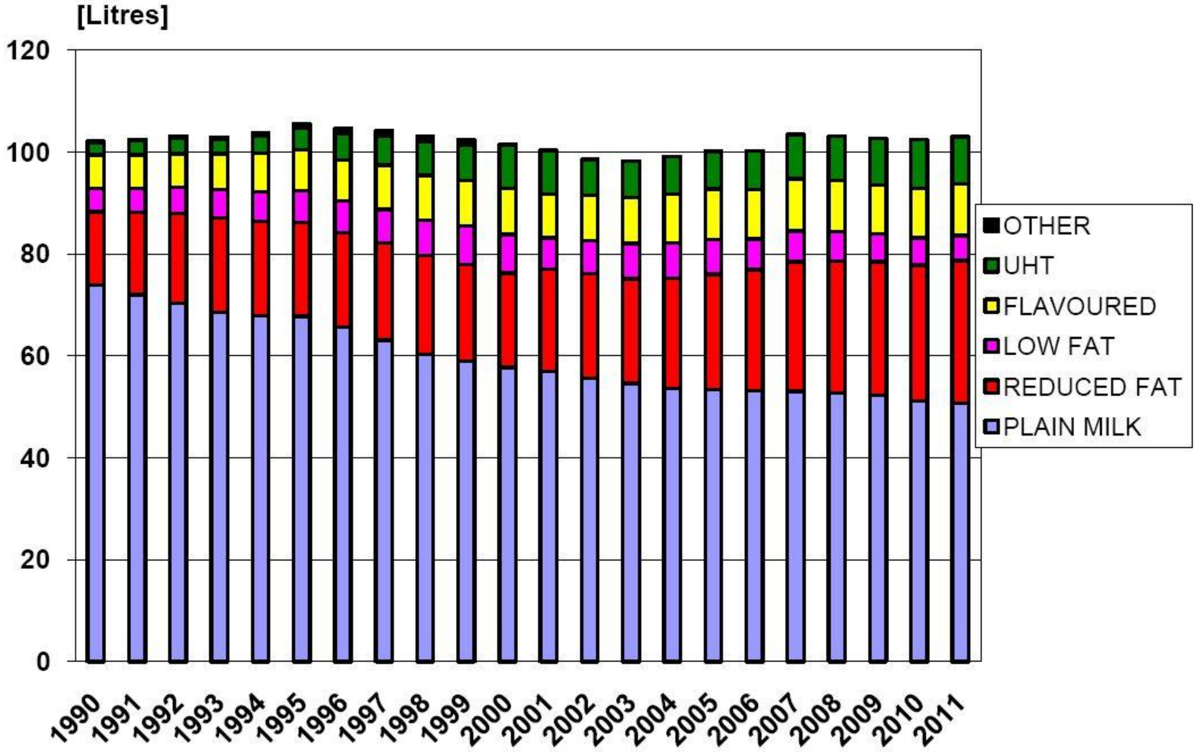
1 Mr Keith Mentiplay, Director, Technical and Business Development, National Foods, *Committee Hansard*, 9 March 2011, p. 73.

2 Mr John Durkan, Merchandise Director, Coles, *Committee Hansard*, 29 March 2011, p. 67.

Figure 4.1: Australian per-capita milk consumption



Source: Australian Dairy Farmers, *Submission 150B*, p. 28.

4.5 Professor Stephen King noted that in the short run the demand for milk is 'relatively inelastic', over a six to 12 month period,[3] but outlined how he saw the consumption of milk changing as a result of the price cuts:

> … Coles is going to need certainly not less fresh milk; almost certainly it is going to need more fresh milk. We would expect milk sales from Coles' supermarkets to go up. Unless milk is an extraordinarily unusual product—in other words, it is a product for which demand has not slowed down—milk sales generally will go up as prices go down. As other sellers of milk products are forced to lower their prices to match Coles to keep their customers, you would expect total milk sales to go up. Sales may not go up by very much, demand may be fairly insensitive in the short term, but you would expect over the longer term there to be some, possibly small, increase in milk sales.[4]

Changes in the volume and value of milk sales since January 2011

4.6 It was anticipated that the price cuts led by Coles—particularly given the heavy publicity they received—would lead to an increase in private label milk sales in the first few weeks, perhaps months, of the promotion. The degree to which the sales of branded products would be affected, whether any shift in sales from branded to

3 Professor Stephen King, *Committee Hansard*, 10 March 2011, p. 44.

4 Professor Stephen King, *Committee Hansard*, 10 March 2011, p. 43.

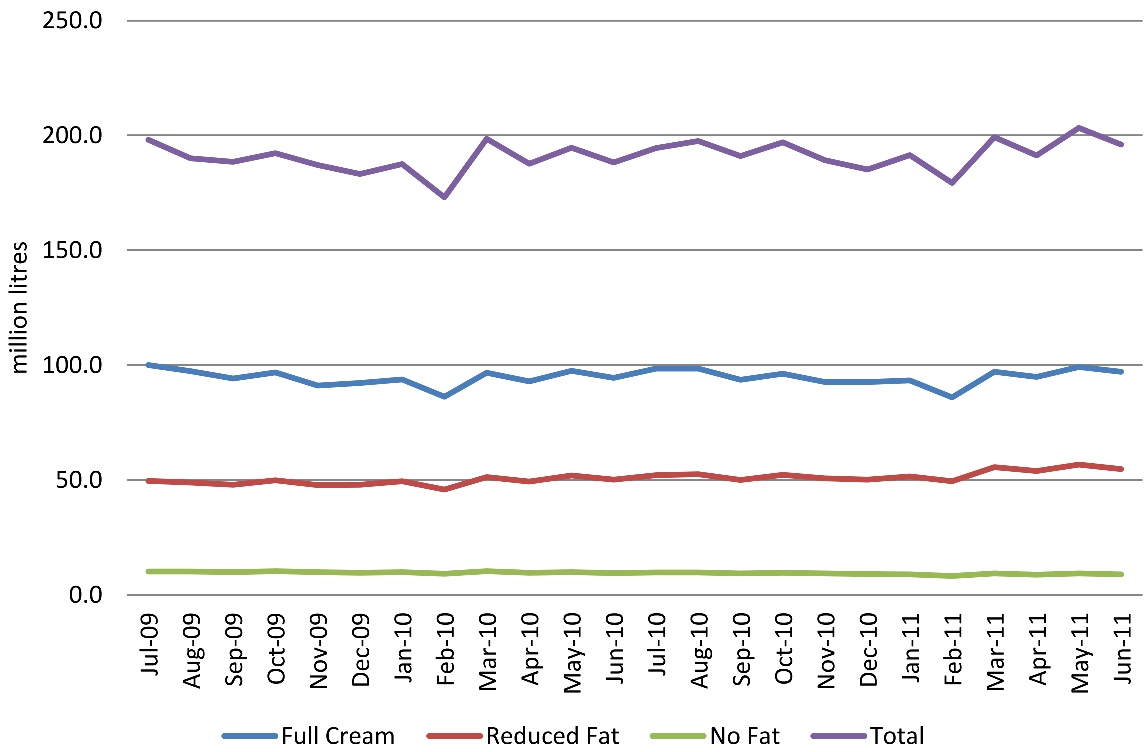
private label milk would be sustained, and the impact on the overall amount of drinking milk sold over a longer period of time was less clear.

4.7 The committee's *Second Interim Report* observed that, based on the information available at that time:

> … it is too early to draw meaningful conclusions on any possible sustained increases in drinking milk volume as a result of the supermarket price cuts. Some customers may be slow to respond. Other customers may have over-reacted, deciding to buy a larger sized bottle of milk and then finding it was more than they needed.[5]

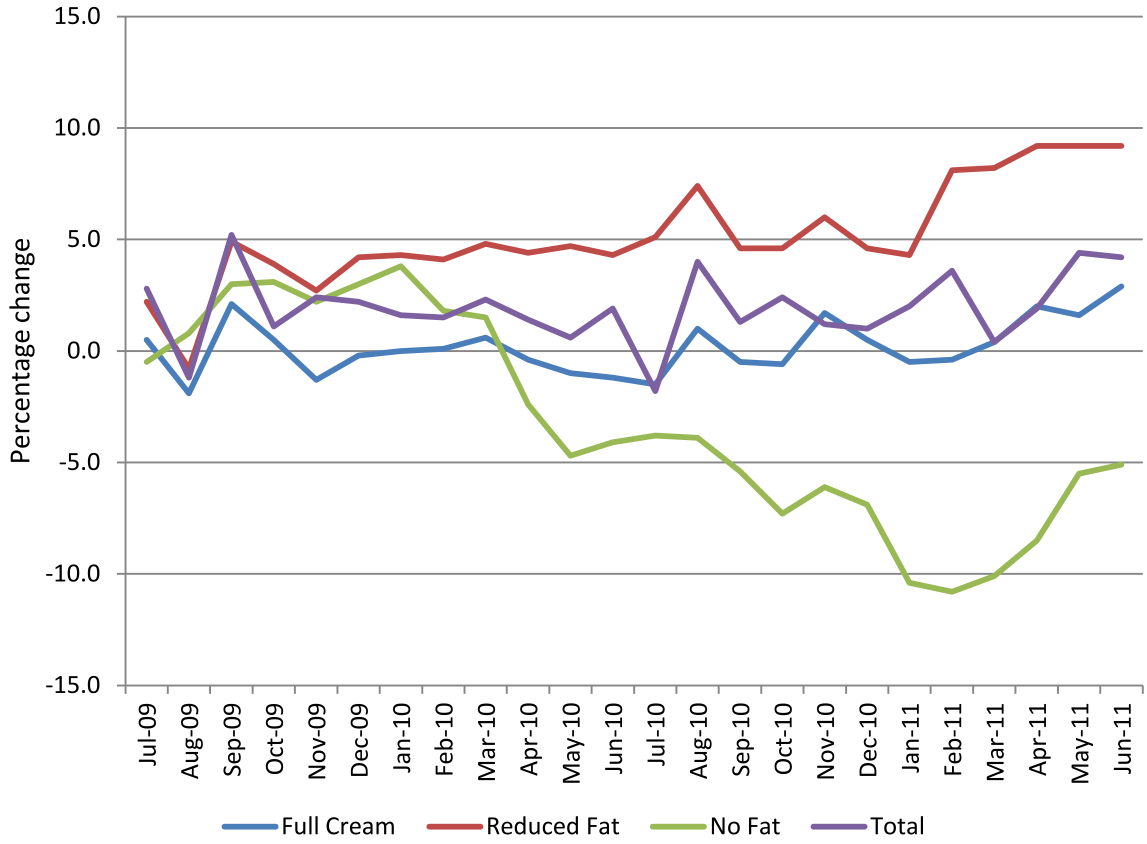
4.8 While the impact on demand is still not clear, some interesting data is at hand. Figure 4.2 shows the sale volume for selected categories of drinking milk for 2009–10 and 2010–11. Figure 4.3 shows the growth in sale volume for each month of 2009–10 and 2010–11 based on changes to sales that occurred in that month during the previous financial year.

Figure 4.2: Packaged milk sales volume by type—July 2009 to June 2011



5 Senate Economics References Committee, *Milking it for all it's worth—competition and pricing in the Australian dairy industry*, May 2011, p. 13.

Figure 4.3: Change in selected packaged milk sales volume by type—July 2009 to June 2011 (percentage change from same month in previous financial year)



Note: Total includes full cream, reduced fat, no fat, flavoured and UHT products.

Source: Compiled using Dairy Australia's 2010–11 national milk sales statistics—Dairy Australia, www.dairyaustralia.com.au/Statistics-and-markets/Production-and-sales/Latest-Statistics.aspx (accessed 17 August 2011).

4.9 As shown by Figure 4.2, packaged milk sales volume for the three fresh drinking milk categories is not subject to dramatic variation. It is also apparent that the total drinking milk volume follows a seasonal pattern. Sales drop significantly from December and throughout January, before returning to higher levels in March. This pattern was also evident for 2008–09 data (not shown in the graph). As the price cuts led by Coles occurred at the end of January 2011, when sales begin to recover from the regular seasonal trough, it is difficult to clearly infer what the immediate effects of the pricing decisions on the total volume sold actually were. As shown by Figure 4.3, however, over the months since the price cuts were introduced, the variation in total milk sales has stayed within the bounds experienced over the past two financial years (approximately -1 and 5 per cent). Accordingly, it is difficult to reliably deduce a significant change in total milk sales when examining the overall milk market.

4.10 One existing development which may have been further supported by the Coles-led price cuts is the growth in sales of reduced fat milk. As shown by both Figures 4.2 and 4.3, the sales volume of reduced fat milk has steadily increased from February 2011 onwards. On 26 January 2011, Coles' private label reduced fat milk was also reduced to the same price as the full cream variety—$2 for a two litre bottle and $3 for three litres. This meant that the extent of the price reduction was actually greater for reduced fat milk as the decision eliminated the slight premium that was previously charged.

4.11 Part of the relatively stronger growth in sales of reduced fat milk, compared to total milk sales and sales of other types of milk products, could be explained by some customers shifting away from other categories of milk. Increased private label reduced fat milk sales at the expense of branded reduced fat or no fat products would likely have some implications for processor revenues and their long-term strategies, as these products have been more the domain of the processor brands rather than the supermarkets' private labels.

4.12 To explore these issues further, the following sections examine the trends in volume and value of sales in each of the two retail channels—the supermarket channel and the non-grocery channel.

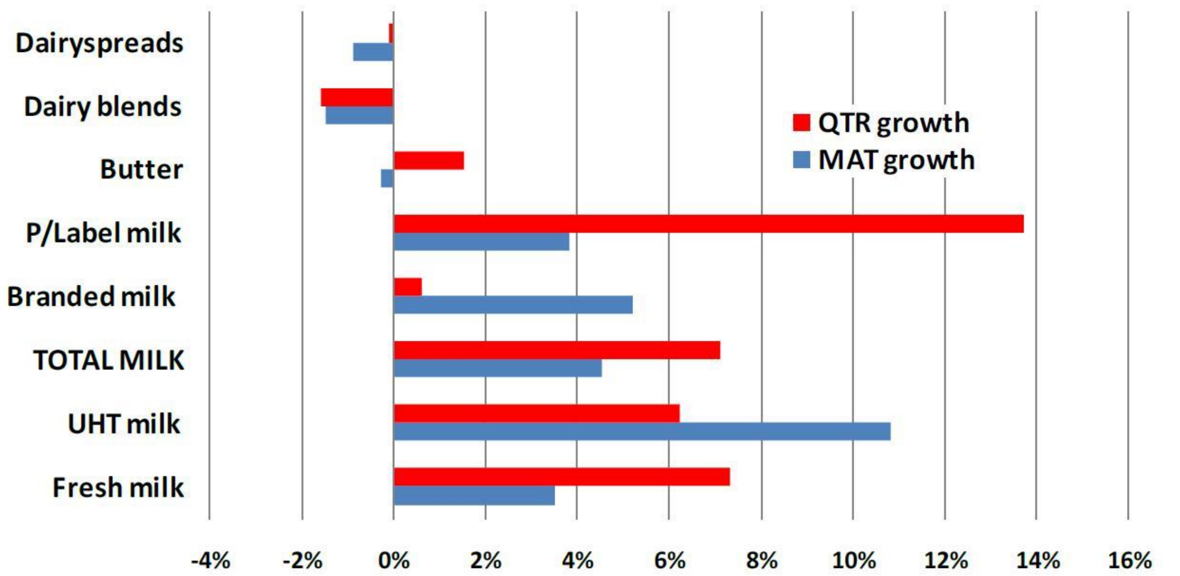
Supermarket channel

4.13 The supermarket or grocery channel consists of grocery retailers and is dominated by the two major supermarket chains—Coles and Woolworths.

Immediate impact on the volume of sales

4.14 The data available for volume growth in private label versus branded products present a clear picture of the impact of the January cuts in the price of private label milk. March 2011 sales figures showed significant volume growth in private label sales, although volume growth for branded milk remained positive.

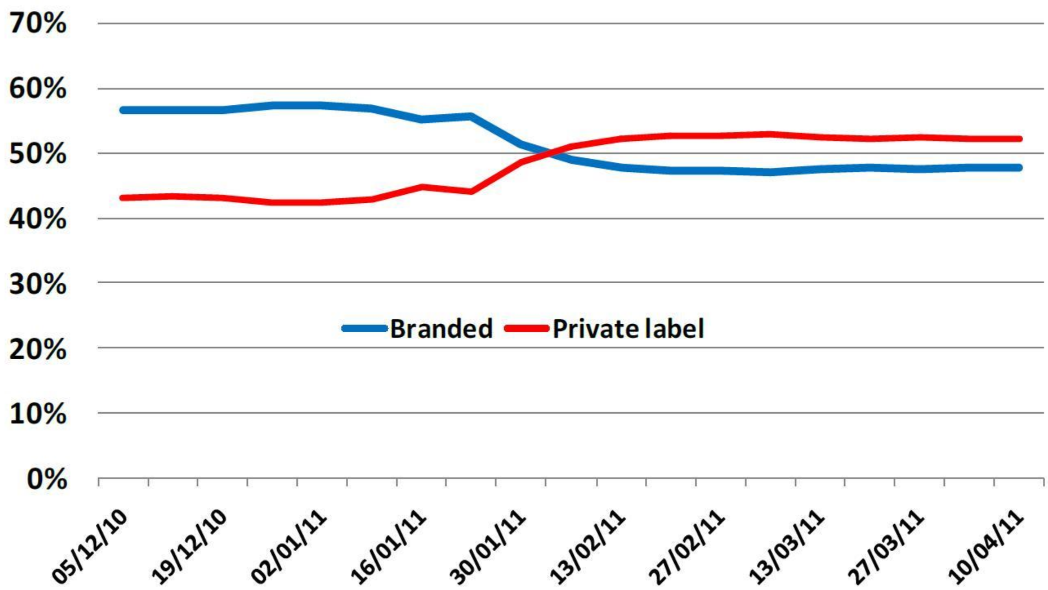
Figure 4.4: Volume growth for Australian sales—year to March 2011



Source: Dairy Australia, *Dairy 2011: Situation & Outlook*, May 2011, p. 30.

4.15 The effect of the strong growth in private label is shown by Dairy Australia's data on the trend in private label sales, which showed that the breakdown of overall branded milk versus private label milk sales moved from a split of around 50:50 to 45:55.[6] The shift is particularly noticeable for modified milk products; as shown by Figure 4.5, since the price cuts in January 2011 private label sales have consistently surpassed those of branded products within the supermarket channel.

Figure 4.5: Share of fresh white modified milk sales within supermarkets (Dec 2010 to April 2011)



Source: Dairy Australia, *Dairy 2011: Situation & Outlook*, May 2011, p. 33.

4.16 Figures 4.6 and 4.7 compare the March 2011 data for private label sales versus branded sales for fresh full cream milk and modified milk against the corresponding data from the previous year and across different states.

6 Dairy Australia, *Dairy 2011: Situation & Outlook*, May 2011, p. 33.

Figure 4.6: March 2011 fresh white milk sales volumes (change from March 2010)

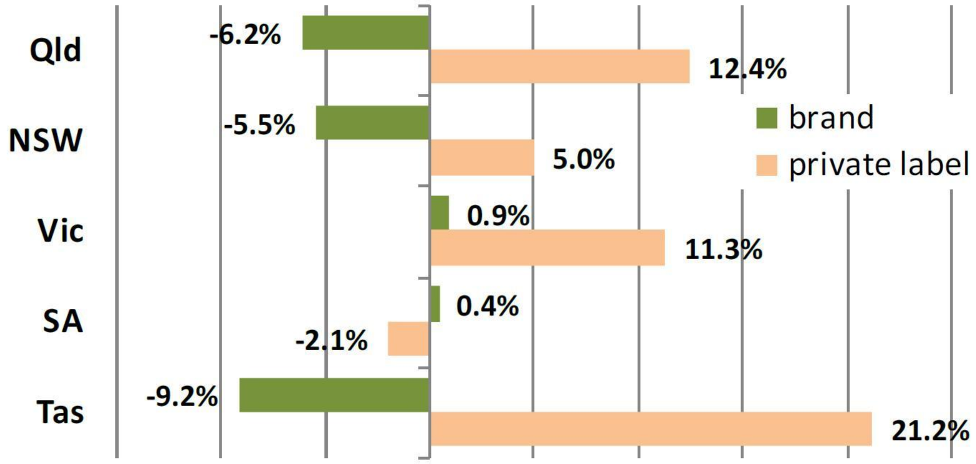
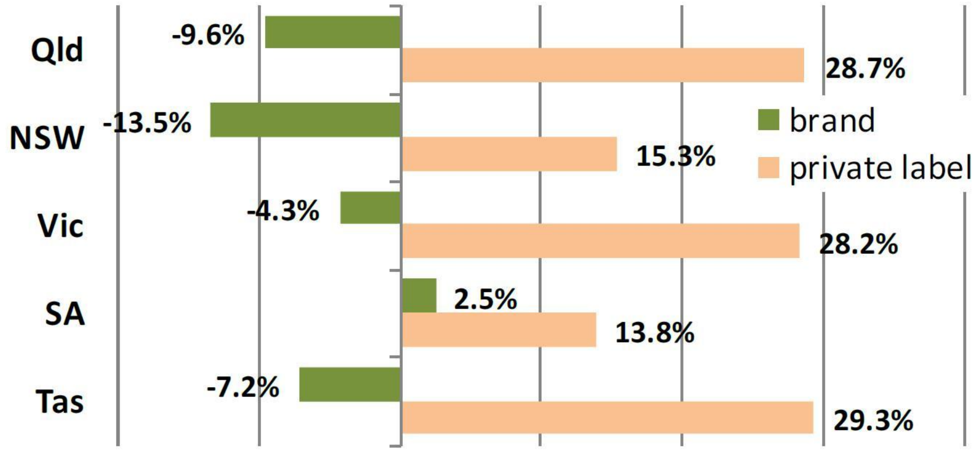


Figure 4.7: March 2011 fresh modified milk sales volumes (change from March 2010)



Source: Dairy Australia, *Dairy 2011: Situation & Outlook*, May 2011, p. 8.

Impact on volume over several months

4.17 More recently, however, there appears to have been some marginal improvements in the performance of branded products. The Dairy Farmers Milk Co-operative (DFMC) provided the following assessment to its members on the sales figures for June:

> June milk sales data from Dairy Australia showed that milk brands regained some ground against private label products in the past months in some states; however, comparisons show that they continued to lose ground to private label products in other states. While branded full cream milk sales had made some progress in all states for May and June, they lost ground in

Victoria. Modified branded products also lost share in Qld, Victoria and to a small extent in South Australia.[7]

4.18 Table 4.1 provides data on supermarket sales trends up to early July.

Table 4.1: Supermarket sales trends (volume)

	5 months to early July 2010 ('000 litres)	*5 months to early July 2011 ('000 litres)*	*% change*
Branded fresh full cream white milk	60,868	60,896	+0.05
Private label fresh full cream white milk	147,557	160,152	+8.54
Branded fresh modified white milk	101,919	91,578	-10.15
Private label fresh modified white milk	76,237	99,171	+30.08
Total branded white fresh milk	162,787	152,474	-6.34
Total private label white fresh milk	223,794	259,324	+15.88
Total white fresh milk	**386,581**	**411,798**	**+6.52**
Total milk (includes flavoured and UHT)	**484,825**	**512,384**	**+5.68**

Source: Australian Dairy Farmers, *Submission 150B*, p. 13.

Value of sales

4.19 Although there has been a measurable increase in the volume of sales within the supermarket channel, there is evidence that the increased sales of low priced private label milk at the expense of branded products has affected the overall value of sales through that channel.

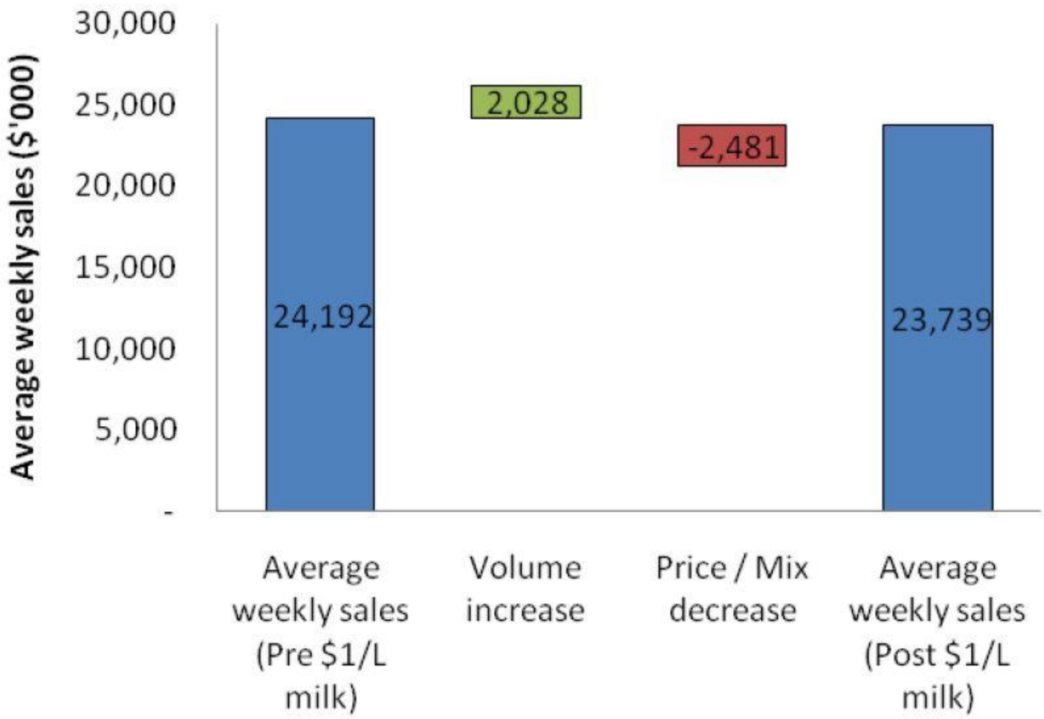
4.20 Lion Dairy & Drinks, formerly National Foods, submitted the following assessment of the changes in volume and value of overall sales in the supermarket channel since the January price cuts:

> … Nielsen data shows that total grocery white milk volumes have increased by 8.4% since the end of January 2011. However, average weekly white milk sales value across the grocery channel has decreased by approximately 1.9% (~$0.5 million) driven by significant shifts in price and mix reflecting volume transfers away from branded into house brand products. Increased house brand market share has resulted in an approximate 14 cents per litre (9.5%) reduction in the average price of fresh white milk across the grocery channel.[8]

7 Dairy Farmers Milk Co-operative, *Dairy Reporter: Weekly Dairy News for Members of DFMC*, 16 August 2011, p. 1, www.dfmc.org.au/docs/dairyreporter16august11.pdf (accessed 18 August 2011).

8 Lion Dairy & Drinks, *Submission 159*, p. 5.

Figure 4.8: Total grocery average weekly sales—fresh white milk (late January–early July 2011)

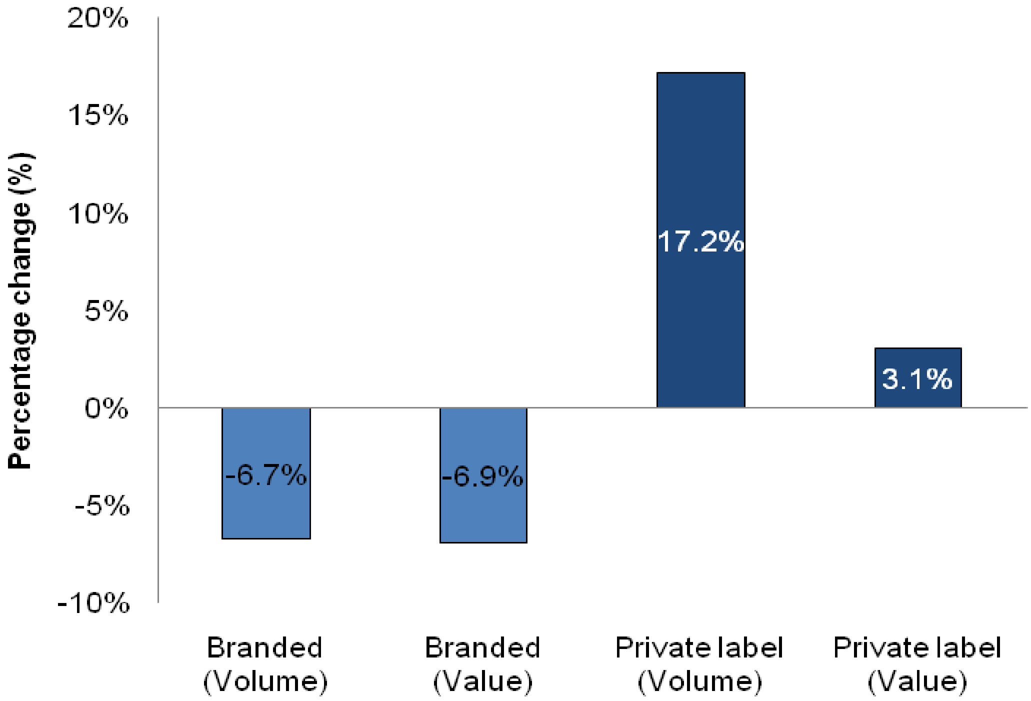


Source: Lion Dairy & Drinks, *Submission 159*, p. 5. Originally sourced from sourced from Nielsen Scan Track and Nielsen C-Track data.

4.21 Lion also noted the effect on the value of sales resulting from the shift from branded products to private label, commenting that although the drop in value from branded product sales largely matched the fall in the volume of those sales, the value of total private label sales increased 'by only 3.1% despite strong volume growth of 17.2%'.[9] This data is presented in Figure 4.9 below.

9 Lion Dairy & Drinks, *Submission 159*, p. 5.

Figure 4.9: Grocery volume and value change—branded versus private label fresh white milk (late January–early July 2011)



Source: Lion Dairy & Drinks, *Submission 159*, p. 6.

Non-grocery channel

4.22 The non-grocery channel includes a variety of retailers and users of milk products, such as convenience stores, takeaway food shops, cafés, hospitals and aged care centres. Offsetting the overall increase in the volume of sales through the supermarket channel, is evidence of a decline in sales through the non-grocery channel.

4.23 Lion Dairy & Drinks submitted that for petrol and convenience retailers, Nielson data shows that for the 23-week period up to 3 July 2011 (compared to the same period in the previous year) the volume of fresh white milk sold declined by 2.7 per cent, and the value of sales decreased by 2.5 per cent.[10]

4.24 Lion also discussed the trends in sales for smaller independent shops (such as milk bars, takeaway food shops, corner stores etc):

> White milk volumes in this channel were already in organic decline as a result of an existing trend of white milk volume transfer from unstructured convenience into grocery and national petrol & convenience. However, these volume declines increased significantly post the introduction of $1 per

10 Lion Dairy & Drinks, *Submission 159*, p. 7.

litre house brand pricing—from an average -10.3% decline versus previous year to an average -15.1% decline.[11]

Assessment of early information

Consumer welfare and purchasing decisions

4.25 In examining the impact of the supermarkets' pricing decisions on the supply chain, it is important to remember the benefits gained by consumers. The committee's *Second Interim Report* noted:

> It was outlined in evidence to the inquiry that the current retail price competition in milk is saving consumers $1 million per week. Lower prices are of benefit to consumers as this improves their economic welfare, allowing them to buy more of that product, or to spend their savings elsewhere.
>
> The fact that consumers are saving over $1 million dollars a week on what is, for many, a basic staple is not a benefit that should be dismissed lightly, or be disregarded by those concerned with impacts upon producers.
>
> In an era of food price inflation, sadly exacerbated by recent natural tragedies and disasters, this represents a significant saving to individuals and consumers across Australia. This is particularly true for those on lower incomes, who spend a higher proportion of their income on food.[12]

4.26 The Australian Bureau of Statistics' data clearly shows a significant decrease in its milk price index since the January 2011 pricing decisions.

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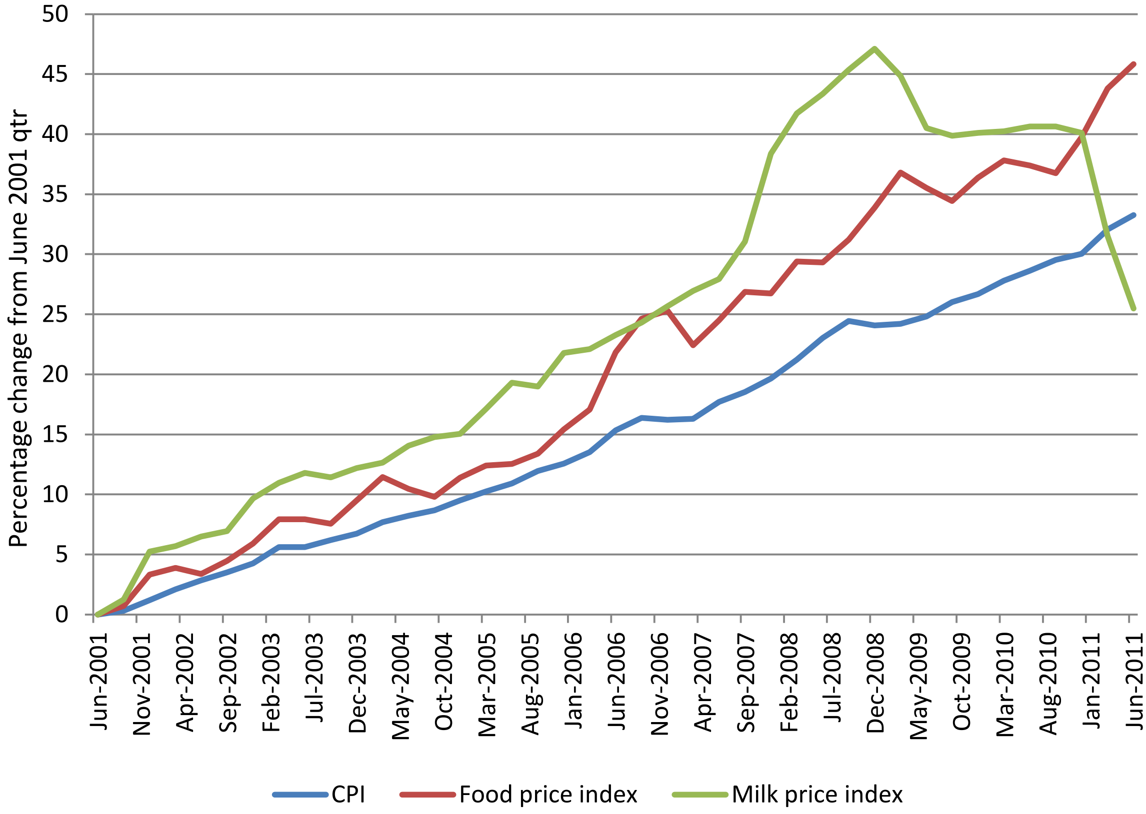
11 Lion Dairy & Drinks, *Submission 159*, p. 8.

12 Senate Economics References Committee, *The impacts of supermarket price decisions on the dairy industry: Second Interim Report*, May 2011, pp. 13–14.

Figure 4.10: Percentage changes in the consumer price index, food price index and milk price index compared to June 2001 levels (weighted average of capital cities)



Notes:

(1) This chart plots the percentage changes in the CPI, food price index and milk price index using their June 2011 quarter levels as the base. Changes are measured against the immediately preceding quarter, not the corresponding quarter from the previous year.

(2) The chart aims to provide a limited graphical representation of the January 2011 price cuts only—there are limitations on long-term comparisons of CPI or other retail data. See www.abs.gov.au.

(3) The Dairy Adjustment Levy—an 11 cent levy imposed on milk to fund a deregulation restructure package—was in place from 2000 to February 2009.

Source: Australian Bureau of Statistics, *cat. 6401.0 – Consumer Price Index, Australia, June 2011*.

4.27 This provides a simple representation of the immediate gains to consumers in terms of lower prices, and as noted in the *Second Interim Report*, is a benefit that should not be dismissed lightly. At the same time, however, the size of the drop lends support to arguments presented to the committee that the price cuts led by Coles could devalue milk as a product and threaten the sustainability of the industry, meaning that milk could become more expensive in the longer-term.

4.28 Accordingly, the longer-term impacts on consumer welfare need to be considered. Treasury recognised this point when discussing the sustainability of the industry and consumer preferences:

> … consumer welfare also goes beyond simply the short-term price that is available to consumers in the market at a given point in time … If consumer preferences are that there is fresh drinking milk available for them to purchase, then a well-functioning market will deliver that product, hopefully efficiently and at an efficient price.[13]

4.29 Of course, an assessment of changes to overall consumer welfare (limited to supermarket prices) also needs to take into account whether other prices have changed significantly. Associate Professor Frank Zumbo raised this query:

> If Coles are reducing the price of home brand milk, what are Coles doing to the prices of other products in the supermarket? We have been told publicly by Coles that they have lowered or are expecting to lower upwards of 5,000 items. However, there are upwards of 20,000 products or more at a Coles supermarket. The real question is: what is happening to the other 15,000 products? Are the prices of those other 15,000 products going up? In other words, if the price cuts to home brand milk are being offset by higher grocery prices elsewhere in the supermarket then consumers will be worse off. We cannot look at the reduction in the home brand milk price in isolation from what Coles may be doing in relation to other products.[14]

4.30 In evidence to the committee, Coles estimated that consumers have saved approximately $175 million as a result of lower milk prices. Coles also provided some detail about price movements on other products they sell:

> We can confirm that Coles has reduced prices by more than 10 percent on over 6,000 products over the last 12 months. There have been some price increases on fresh produce as a result of Cyclone Yasi in Queensland and the east coast floods earlier this year and higher input costs for manufacturers of branded grocery products but there has still been net grocery price deflation in our stores over the last 12 months because of Coles' investment in lower prices.[15]

Consumer perception regarding the value of milk

4.31 The impact on the value of the dairy supply chain as a result of the price cuts was also considered in terms of the long-term perception of milk as a product. The DFMC explained:

> They are buying very strongly, they are selling at cost, they are loss leading in regions, they are damaging milk value on the shelf and to a degree they are damaging the milk value of their partners, the processors who supply

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13 Mr Brad Archer, Department of the Treasury, *Committee Hansard*, 10 March 2011, p. 12.

14 Associate Professor Frank Zumbo, *Committee Hansard*, 9 March 2011, p. 49.

15 Coles, *Submission 131A*, p. 2.

them and rely on branded milk to extract an average price from the market.[16]

4.32 The Australian Food and Grocery Council (AFGC) described the consequences this may have on the price consumers are willing to pay:

> Consistent discounting of product eventually results in a "resetting" of the worth of the product in the mind of consumers. Consumers equate the discounted price with the real value of the product and will only buy the product when the price is discounted. If the discounted price is below production price the situation is clearly unsustainable unless significant changes can be made in cost structures within the business.[17]

4.33 A number of comparisons were made about the price of other products sold by the major supermarkets, such as bottled water and soft drinks, and the result this could have on the perceived value of drinking milk.

> I would just say … that a dollar does not sound like enough for the amount of the work that goes into producing a litre of milk when you see that a litre of water is $1.25—or it was yesterday when I looked. It is much easier to produce.[18]
>
> Senator XENOPHON—… aren't you actually devaluating the product? As Senator Heffernan says, you are flogging off milk less than bottled water. How is that not devaluing a consumer product?
>
> Mr McEntee—There is no doubt that, when you take the sell price of private label milk from where it was to where it is today, the value at sell point has been devalued. At this point in time, that has not reflected back to the cost price because our cost prices are locked in.
>
> Senator XENOPHON—At this point in time. But inevitably it will, won't it?
>
> Mr McEntee—We agree, and we have been open on our concerns of that.[19]

Impact on consumer choice

4.34 As noted in the committee's *Second Interim Report*, some witnesses and submitters suggested the increasing shift in sales from branded products to the supermarkets' private label product is likely to result in negative consequences for consumer choice in the long-term. The AFGC suggested, in a broad sense:

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16 Mr Ian Zandstra, Chairman, Dairy Farmers Milk Co-operative, *Committee Hansard*, 8 March 2011, p. 67.

17 Australian Food and Grocery Council, *Submission 100*, p. 7.

18 Mr Francis Davis, Chairman, Warrnambool Cheese and Butter Factory, *Committee Hansard*, 8 March 2011, p. 102.

19 Mr Pat McEntee, General Manager, Fresh Foods, Woolworths, *Committee Hansard*, 29 March 2011, p. 19.

… if the Australian food (and grocery) manufacturing base is eroded, so too is the capacity of companies to invest and innovate in such areas as new, healthier and more sustainably-produced goods.[20]

4.35 For the dairy industry specifically, the future ability for processors to develop modified products was questioned:

For processors it is difficult to differentiate regular white milk in the market place. Processors have moved more to the modified milk products with different fat and taste profiles, added nutrients and levels of functionality for consumers. Processors have been able to capture the benefits of this innovation with more sustainable margins for their branded product, which in turn has supported category development. However, the latest round of retailer price cuts have targeted at this modified milk market segment, and initially reports have presented that processor modified milk brands have lost a significant amount of market share to the heavily discounted supermarket 'store brand' modified milk.[21]

4.36 It may be the case that some modified products which appear more substantially different to the products in the limited private label milk range have increased their sales since the price cuts in the plain products were introduced. For example, it has been reported that sales of a2 Milk, a niche modified milk product, have increased significantly since the price cuts began.[22] It has also been reported that sales of Sungold have bucked the trend of branded products decreasing their share of overall sales.[23]

4.37 The committee also noted in its *Second Interim Report* the arguments put to it that a possible long-term result if the price discounting is maintained could be a shift towards increased ultra high temperature (UHT) treated milk consumption or UHT milk being the only milk product available in some regions.

4.38 Such an outcome would be of concern, although it is difficult to predict whether it could occur in Australia. It is also difficult to draw meaningful conclusions from international experience. The Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) advised the committee that in Europe the percentage consumption of UHT milk compared to fresh milk appears to vary widely—for example, it is estimated that 95 per cent of drinking milk consumed in France is UHT milk compared to less than 10 per cent in the UK. However:

There was a tendency for those markets with a high level of per capita consumption of milk to also have a very low consumption of UHT milk.

20 Australian Food and Grocery Council, *Submission 100*, p. 4.

21 Queensland Dairyfarmers' Organisation, *Submission 94*, p. 5.

22 Jared Lynch, 'Profit in milking health benefits', *The Age*, 17 August 2011; *Weekly Times Now*, 'a2 milk sales rise', 28 April 2011, www.weeklytimesnow.com.au (accessed 22 August 2011).

23 Steve Hynes, 'Rising Sungold: Plant expands to meet demand for WCB's milk', *Warrnambool Standard*, 14 July 2011, p. 1 (On the Land); attachment to Coles, *Submission 131A*.

> Countries like Finland, Sweden, Ireland, the Netherlands, Norway and United Kingdom all have relatively high levels of per capita milk consumption and also very low levels—below 20 per cent—consumption of UHT milk.[24]

4.39 It was also argued that if consumers valued fresh milk they would continue to express this value by paying for it:

> There is some degree of consumer sovereignty here and consumers can exercise choice.[25]

Smaller retailers, convenience stores, petrol retailers and vendors

4.40 One of the key issues in this inquiry was the effect that the price cuts, if sustained, would have on the ability of the smaller competitors of Coles and Woolworths to compete in both the short and long-term. These concerns were shared by a range of businesses, including those that compete directly with the major supermarkets for end consumers—such as independent supermarkets, convenience stores, petrol station organisations—and businesses that work to supply others, such as milk vendors. The committee received a considerable number of submissions raising concerns about the possible effects of $1 per litre private label milk.

4.41 The impact on milk vendors was an issue raised throughout the inquiry. An operator of an independent supermarket in South Australia informed the committee about the early impact on milk vendors:

> I have spoken to our milk vendor. When Woolworths went direct with their milk deliveries, he lost 20 per cent of his volume of milk so he has had to get back on his feet. With this new price war with Coles and Woolworths—mainly Coles—he has lost 15 per cent of his business again in major centres where the snack shops are not buying from him but are going direct to Coles.[26]

4.42 Early shifts in sales from smaller stores to the major supermarkets were observed by some witnesses:

> What we are seeing now, with such a difference in price, is that they are going out of their way to go to a supermarket to pick it up. The volume of smaller shops—newsagents, mum-and-dad corner stores—has been reduced

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24 Mr Paul Morris, Deputy Executive Director, Australian Bureau of Agricultural and Resource Economics and Sciences, *Committee Hansard*, 10 March 2011, p. 20. Mr Morris prefaced his remarks by noting that this information was compiled at short notice in response to evidence given during the hearing conducted the previous day, and the reliability of the information may be affected as a result.

25 Mr Brad Archer, Department of the Treasury, *Committee Hansard*, 10 March 2011, p. 17.

26 Mr David Reynolds, Owner-Operator, Yentrac, trading as Goolwa Foodland, *Committee Hansard*, 8 March 2011, p. 47.

> by up to 20 or 30 per cent because people are not shopping there; they are shopping at Coles or Woolies.[27]
>
> In relation to what they call the convenience sector, which is everything below supermarkets—so it is your delis, your snack bars, your convenience outlets—the information I have from our major supplier is that that sector was down 16 per cent in February as a direct result of what is happening with the milk discounting. So the small business area will be suffering due to that.[28]

4.43 The added impact of the milk price cuts in the context of other pressures and the sustainability of competition in the grocery market was also noted:

> … we have been hit on one product after the other. Long term the retailer will decide whether he can better invest his money in the share market or somewhere else rather than get the low return he is getting. Clearly, in the last couple of years the return has diminished.[29]

4.44 Some convenience store operators noted that, because Coles is also selling low price milk at its Coles Express outlets, other promotions and discounts it offers in these businesses and their effect on competitors in that market need to be considered. APCO Service Stations called attention to the Coles Express discounts on petrol offered on convenience store sales which meant:

> … you can walk into any of the 620 Coles Express service stations and pick up an additional 2 cents per litre (over and above the 4 cent supermarket docket by spending $2 or more in the shop) just by purchasing the Coles generic milk which is already below cost to all small businesses. An additional 2 cents per litre on an average purchase of 35 litres equates to a low of $1.30 for the 2 litre generic milk bottle. No competitor can survive this predatory behaviour; combining the Coles Supermarket chain with 620 Coles Express service station sites (or satellite Coles Supermarket stores) across Australia.[30]

4.45 Coles refuted claims that their actions were aimed to drive smaller competitors such as convenience stores out of business, arguing that:

> … many customers prefer branded milk and they prefer to pay for the convenience of buying branded milk in corner stores, as they do for tobacco and other convenience based products. I have worked in the supermarket industry for 30 years in the UK and Europe in different countries and I can say that I cannot see a future without corner stores. Supermarkets may be

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27 Mr Colin Lawson, Manager, Industry Relations, Amalgamated Milk Vendors Association, *Committee Hansard*, 9 March 2011, p. 79.

28 Mr Russell Markham, Chief Executive Officer, Foodland Supermarkets, *Committee Hansard,* 8 March 2011, p. 51.

29 Mr Russell Markham, Chief Executive Officer, Foodland Supermarkets, *Committee Hansard,* 8 March 2011, p. 50.

30 APCO Service Stations, *Submission 33*, p. 1.

> able to compete on price but they cannot compete with the absolute convenience of location. In fact, research shows that the number of convenience stores in Australia has grown by 49 per cent in the last decade.[31]

4.46 Continuing with the example of the United Kingdom, although it has a concentrated supermarket sector, convenience stores can still be successful:

> As well as the growth in the supermarket sector, consumers are also using convenience stores on a more regular basis with more than 75% of adults using them at least once a week. Convenience stores are often used for 'top up' shopping for products such as milk and bread.[32]

4.47 The degree of the price difference between the supermarkets' private label milk and the price for which branded milk could be sustainably sold at convenience stores, however, is considered to significantly deter convenience store purchases:

> People will not pay $2 more. I think it is also important to remember that by breaking that, by having a scenario where people will not pay the difference, it is not just processors and farmers that suffer. It is all of those milk vendors, corner stores, convenience stores that rely on people saying, 'I'll just pop in and buy the milk', or 'I'll get my petrol and get some milk'. That is a huge part of their business. When there is a big gap, when people say, 'Yes, but it is so much cheaper if I go to the supermarket. I won't buy it anymore', it has a huge potential to flow on through that small business convenience store market.[33]

4.48 Lion Dairy & Drinks also warned about the possible impact of continued increases in supermarket sales at the expense of non-grocery retailers on the ability to supply non-grocery stores in the future:

> If fresh white milk sales through [the non-grocery] channel continue to decline as a result of sales transfers into the grocery channel, it will become increasingly uneconomic for the cold chain distribution system to service these small regional retail outlets.[34]

Committee comment

4.49 The committee gives particular weight to the evidence available regarding the gains enjoyed by consumers who purchase milk as a result of the price contests between Coles and its competitors.

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31 Mr Ian McLeod, Managing Director, Coles, *Committee Hansard*, 29 March 2011, p. 37.

32 Dairy UK, *The White Paper: A report on the UK dairy industry*, June 2010, p. 31.

33 Mrs Kate Carnell, Chief Executive Officer, Australian Food and Grocery Council, *Committee Hansard*, 10 March 2011, pp. 37–38.

34 Lion Dairy & Drinks, *Submission 159*, p. 7.

4.50 While claims about the possible long-term broad impact on consumer welfare that a permanent shift to private label milk will have may have merit, it is difficult to set aside the clear benefits to consumers gained by lower prices.

4.51 Further, as they have increased in quality and reputation over recent years, it is clear that consumption of the supermarkets' private label products in general has been increasing. Given the lack of differentiation between private label and branded milk, it seems milk is a particularly likely target for private label growth. It may be the case that, while the January 2011 price cuts led by Coles have brought forward this event, the shift in consumption towards private label milk is a market adjustment that was inevitable.

4.52 Given the difficulties the independent supermarkets and smaller retailers have in competing with the purchasing power of Coles and Woolworths, as well as other challenges they face, the committee is concerned about the long-term future of these smaller retailers, and the effect that any weakening of this sector of the grocery market will have on competition in the long-run. The committee kept these issues in mind, where they proved relevant, when considering other aspects of this inquiry, as discussed later in this report.