



COMMONWEALTH OF AUSTRALIA

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JOINT COMMITTEE ON THE RETAILING SECTOR

Reference: Industry concentration in the retailing sector

WEDNESDAY, 7 APRIL 1999

MELBOURNE

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JOINT COMMITTEE ON THE RETAILING SECTOR

Wednesday, 7 April 1999

Members: Mr Baird (*Chair*), Mr Jenkins (*Deputy Chair*), Senators Boswell, Ferris, Forshaw, Murray and Schacht and Mrs Elson, Mr Fitzgibbon and Mr Nairn

Senators and members in attendance: Mr Baird, Mrs Elson, Mr Fitzgibbon, Mr Jenkins and Mr Nairn and Senators Boswell, Ferris and Murray

Terms of reference for the inquiry:

To inquire into:

- (a) the degree of industry concentration within the retailing sector in Australia, with particular reference to the impact of that industry concentration on the ability of small independent retailers to compete fairly in the retail sector;
- (b) overseas developments with respect to this issue, highlighting approaches adopted in OECD economies; and
- (c) possible revenue-neutral courses of action by the Federal Government (ie courses of action that do not involve taxation reform).

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Committee met at 9.01 a.m.

JEFFERIES, Mr Gary, Owner/Manager, Friarun Pty Ltd trading as Jefferies Family Supermarket

JONES, Mr Alan, Chief Executive Officer, Master Grocers Association of Victoria Ltd

SCOTT, Mr Dennis Anthony, Owner/Manager, Scotty and Spanas IGA Everyday

VEAL, Mr Raymond John, Owner/Manager, Stratford Licensed Grocery

CHAIR—Good morning, ladies and gentlemen. I call the committee to order and declare open this public hearing of the Joint Select Committee on the Retailing Sector. Today's hearing at the Melbourne Town Hall is part of the committee's inquiry into industry concentration in the retail sector. I welcome Mr Alan Jones, Mr Dennis Scott, Mr Ray Veal and Mr Gary Jefferies.

The committee prefers all evidence to be given in public but you may at any time request that your evidence, part of your evidence or answers to specific questions be given in private. The committee will consider any such request. I point out, however, that evidence taken in camera may subsequently be made public by order of the Senate. The committee has before it submission No. 202 dated March 1999. Are there any alterations or additions that you may wish to make at this point in time?

Mr Jones—Not to my submission, Mr Chairman, but the gentlemen that are with me have written out submissions that they would like to present to the committee.

CHAIR—We would like to now invite you to make your opening statement at the conclusion of which the panel will provide questions to you.

Mr Jones—As I said, I do not have any additions to make to my written submission to the committee except for the fact that, reading in this morning's paper about certain things that were said at the original hearing yesterday in Canberra, Mr Corbett is quoted in the *Age* as saying that the Safeway organisation is the largest employer of apprentices in Australia. I have no doubt that that is the case, but I would just like to say that about seven or eight months ago we commenced an in-depth program within our independent sector with the Youth Employment Initiative program here in Victoria, and currently there are 61 trainees in various independent supermarkets situated mainly in the metropolitan and outer metropolitan area. We have had requests from a number of independent stores throughout Victoria itself and we are working on getting apprentices into those stores with the YEI program. So we also have a form of an apprenticeship program.

The only other comment I would like to make is that in the *Herald Sun* this morning it was stated that capping the market share would increase prices to the consumer—there would be less competition. I would point to the paragraph in my submission to you where I talk about the example in Kerang: 10 years ago there were three independent supermarkets and a number of individual speciality stores. Safeway bought some land up there and developed a site and now there is one other independent supermarket and most of the smaller stores have closed. I would submit that that is in actual fact a shrinking of competition—there is less choice for the consumer. Where we could have gone to three different stores that were operating under different banners with different specials, different levels of service, different levels of decor et cetera, now we are down to basically one of two choices.

CHAIR—From three previously?

Mr Jones—From three independents and a number of stores, we are now down to a Safeway store and an IGA store. What I am saying is that I believe that, in actual fact, what has

happened there with one of the chain stores going into town is that it has reduced competition. That is basically all I would like to say in relation to my submission. I think the gentlemen that have come with us this morning, who are actual storeowners that are affected by what is happening, could throw greater light on this. Perhaps I could ask Mr Scott to make his statement to you. Would that be okay?

CHAIR—Sure.

Mr Scott—I have just prepared a few pages. I have copies. Should I pass them to you or should I just read it through?

CHAIR—Are you happy for these to be made publicly available in a statement?

Mr Scott—Yes. There is nothing in it.

CHAIR—Is it the wish of the committee that we receive this submission? There being no objection, it is so ordered.

Mr Scott—After a very successful three-year stint as an owner-operator of a small country hotel, I, along with a partner who had a successful insurance business, bought a small supermarket in Benalla in 1991. Through the confidence and experience we had gained in our first ventures in the retail and service industry, we approached the venture with great enthusiasm, an open mind and a desire to be innovative and, in our own way, a market leader in town. These goals were quickly rewarded with a huge increase in business, and we won a national retail award in 1993 for our achievements, turning a \$5,000 a week business into a \$65,000 a week business within three years. The business is still a success but unfortunately does not trade at the level it once did, mainly due to the deregulation of shop trading hours in Victoria—

CHAIR—Mr Scott, because you have provided us with this submission, perhaps you could just speak generally. We have this to read. The panel are prolific readers and I am sure that they will run over it.

Mr Scott—Perhaps if there are any questions—

Mr FITZGIBBON—Is it possible for this to be incorporated in *Hansard*?

CHAIR—Yes.

Mr FITZGIBBON—I request that that be done, and then everything that Mr Scott wanted to say will be recorded in the *Hansard*.

CHAIR—Is it the wish of the committee that the document be incorporated in the transcript of evidence? There being no objection, it is so ordered.

The document read as follows—

Mr Scott—Basically, I have made the statement there in the first paragraph that, due to deregulation, we had an immediate drop of 20 per cent in our turnover. I think that was in 1996, but it might have been 1997.

Our business, along with many small businesses in Benalla, has been under threat for the past three or four years with the proposed Safeway development. At the moment in Benalla we have Coles, which has been there for perhaps 15 years. It is being redeveloped this year. We had one major independent store, an IGA Festival owned by Robertsons, which was sold to Bi-Lo in approximately June or July last year. Then we have got two small stores—and we are only very small supermarkets. One is an IGA Everyday, which is us, and the other is a Foodway. Between us we have, at best, 20 per cent of the trade in town. At the moment, there is a proposed Safeway development, which is in the planning stage. We are going to council tomorrow to hear objections. It is a Safeway development with six or eight specialty stores which are going to be attached to it.

Benalla is a town of 10,000 people. We might have 2,000, 3,000 or 4,000 people in the immediate area which is captive to it. It has been fairly heavily hit by public service cuts in the last three or four years and, like most country towns, we have been suffering from a rural decline due to cattle prices and sheep prices. In other words, it is a typical country town—it is not running along at 100 miles an hour.

With this background information on our particular situation, I am highly critical of the three levels of government and their policies towards small retail businesses, which have made the once vibrant retail sector of yesterday into a sector where we feel we are at the mercy of the three big players. This means that our considerable investment—which, to a large degree, is our superannuation—is a nil investment. That is something which I have to stress: we have all gone into these businesses and invested a lot of money in them thinking that they are our superannuation policies. With the onslaught of the supermarket chains we are finding that, certainly for the smaller stores, a lot of these investments are just not ever going to get a return. In doing so, we have been destroying families and their ambitions.

At a federal level, the three main chains have been allowed to grow and expand with no restrictions. This has allowed the chains to develop from being major players in a balanced retail sector of the sixties to now dominating the retail sector. They have over 80 per cent of the supermarket's trade and are still growing at an alarming rate.

Two major independents in our local area have been bought in the last nine months. In Myrtleford, a town within three-quarters of an hour's drive from Benalla, we have had a locally owned independent store, which has been there for the last 30 to 40 years, recently taken over by Franklins. In Benalla, we have had the IGA Festival taken over by Coles. With this chequebook philosophy, only the least attractive of the major stores and the smaller stores are out of the firing line but, with Coles and Safeway now bringing smaller stores in-line, even these cannot be guaranteed.

My second criticism is at a state level. We have had total deregulation of trading hours which has made many smaller businesses not viable. It raises the question, 'Who drove the deregulation of trading hours?' Was it Mr Average or was it simply another contrived policy of the major chains to gain the elusive market share?

In our particular case, the effects were immediate. Takings on our best trading day, Sunday, went from \$10,000 to \$12,000 a day to \$5,000 or \$6,000 a day. Before the deregulation came in, we had a captive audience. We serviced that audience and we took in the vicinity of \$12,000 on Sundays. Today, we are lucky to take \$5,000 or \$6,000 on those particular days.

This—combined with 24-hour trading from Coles during the week, which came in at the same time—cut down our takings each day and probably had an overall effect of decreasing our turnover by 20 per cent. Also, by decreasing our turnover by 20 per cent, we have a relative decrease in the value of our business; we have a relative decrease in the value of our superannuation.

We went into the business with a set of rules; we invested money—in our particular case, we estimate that we have invested \$400,000 in the business. We invested \$50,000 in legal fees to get a licence; we are in a market with certain rules. Overnight, those rules were changed. We lost 20 per cent of our trade. If our business was worth \$400,000 then, it immediately went down to being worth \$300,000. Some people might say, ‘Well, that’s just stiff,’ but if you are a small businessperson, you put your heart and soul into that business. It is a hard one to wear because we are not there for fun; we are there to service the community, but we are there to try to grow our investments as well.

My third criticism is at the local level. We have had the case where Safeway was coming into town and where the local council actually bought a parcel of land worth \$100,000 to support the Safeway development. They bought that land because they were dealing with a developer—I am not naming the developer because I do not know who the developer was. To stitch up the deal, that \$100,000 land package had to be bought by the council. That was all part of the deal. In meetings with the mayor, the mayor stated that, if we do not put that money in, there are 10 other councils which will try to attract the Safeway development. So it is just emphasising the great pull that these people have.

Senator BOSWELL—If I could ask a question. Are you suggesting that the—

CHAIR—I wonder whether, Senator Boswell, we could keep the questions until a little later so that we could have the submissions first. I presume that you are in the process of concluding your remarks, Mr Scott.

Mr Scott—Yes, that is right. Rather than running through it, I will say that, unlike major chains, the small supermarkets and stores play an integral part in the running of the town, whether we donate to or sponsor football clubs, all sporting clubs or service clubs. People come to see us; they see us as part of the town. We are there to help those clubs and to support them. We get support back from them, but we really play that integral part in the town, which cannot be said for the major chains. Should I go on any further?

CHAIR—Briefly summarising. You are getting warmed up!

Senator BOSWELL—These people aren’t qualified parliamentarians!

Mr Scott—I spent hours on this yesterday!

CHAIR—Good.

Mr Scott—In our case, we use local carriers, local carpenters, local electricians and local hardware and office suppliers—local everything. Our business supports other businesses in the town, and that certainly cannot be said for the major chains. When they build the buildings, a lot of the contracts are done by external people and a lot of the materials are brought in by external people. When we do something in the town, we are actually benefiting the town because we are spending in the town, and that money goes around.

Also, we play a human side in providing a service to the public in delivering goods to people. We play an active role ourselves with older people. We do free delivery to them and we are always doing things like changing light globes—I have mentioned a few things in here which could never come into the vision of a major chain. It costs \$5 for me to run out to do

the delivery. We do it for nothing. We are an ear for elderly or sick people and for mothers who cannot get down with their babies. We play a human part in the community, which I do not think the larger chains can.

CHAIR—We have got the general flavour, Mr Scott. I think you will be looking for a career in politics after this—see Senator Boswell. Mr Jefferies, would you like to begin?

Mr Jefferies—Thank you. Ladies and gentlemen, for 10 years we have been supplying our customers with milk in two-litre cartons. We now find that National Dairies are no longer supplying milk in two-litre cartons. I have been told that the reason they have stopped producing the cartons is that Safeway no longer receive deliveries of milk in two-litre cartons. Not only does this adversely affect my milk sales but it is also bad for the environment.

This is just a simple example of how the large chains are affecting what I can offer my customers, an example which I believe is only the tip of the iceberg if the growth of the chains is not limited. I read a few weeks ago about farmers being told at what prices they will sell their produce to the chains. The chains are telling them what price they will buy it at. That was in the weekly *Times*. If the growth of the chains is not limited, we stand to lose a lot more than two-litre milk cartons. We could lose a family business and all the knowledge that is handed down through generations. For example, I could pass on to my sons and daughters, who serve my customers, things like, ‘Talk a bit louder to Mr Smith; his hearing aid isn’t so good’ or, ‘Don’t forget to carry out the bags for Mrs Jones; she’s got a bad back.’

You cannot learn these things from any training manual that Safeway and Coles put out. Coles and Safeway staff, by nature, aim for promotion. By their nature, they will move around. We will lose the continuity of service. What we have lost with the chains buying independent supermarkets is talent and experience. Many of my friends have been bought out. I do not have access anymore to go to their store and say, ‘What’s new? What are you doing? What can I learn?—it has gone. If the buying is allowed to continue, we will lose more talent and experience from the independent supermarket business. If it is allowed to continue, we will lose the local supermarket and its surrounding neighbourhood shops. And even if the chains continued trading in a smaller format shop, you would lose the familiarity between the customers—who are the community—and the owners. Who will supply the community support—football jumpers for the local team or trophies for the local school?

Let me ask you a question: can any of you name your local bank manager? Our community shopping will deteriorate to a state where customer service becomes just like the banks’ is now. And there are four of them competing for market share. If you allow domination by three major chain companies, you will lose a lot more than a two-litre milk carton. You will lose the talent and experience of family business and tradition and the community support and spirit created among store owners and their customers. In fact, I believe you will lose the very soul of retail trading in Australia.

Mr Veal—I was not quite so organised last night and I have only got one copy, so I will read it out.

CHAIR—As long as it is not long, we will all be happy.

Mr Veal—It is in big type! You are free to have the copy at the end of the presentation. Firstly, thank you for the opportunity to present the small retailers’ position within the retail industry as I experience it in the country.

‘Competition is healthy’; ‘Competition encourages efficiency’. Maybe these slogans are true, but we independent operators are pushing uphill all the way as we compete with the chain

store supermarkets. They own their own warehouses, so they have an efficiency through wholesale sales taxes savings that no independent operator can ever achieve. I do not believe that this is going to change drastically under a GST.

Mr NAIRN—I think it will.

Mr FITZGIBBON—Hear, hear!

Mr Veal—Regarding employment, my wife and I employ five part-time staff. It is a well-known fact, and one that Alan can verify, that small business is the largest employer in Australia at this stage. My store in Stratford helps support five families—six, if you include us—each paying income tax, receiving employer funded superannuation building towards retirement and paying indirect tax when we spend our wages. A senior Safeway manager in Sale—my nearest Safeway store—conceded in a private conversation that his store could absorb our total weekly turnover without employing a casual junior for as much as two hours per week. His weekly fluctuations are more than my turnover, which is just over \$20,000 a week at the moment.

If I am forced out, I and my five employees quickly change from being assets contributing to government revenue to liabilities dependent on social benefits. Statistics are available showing that for every employee taken on by a chain store supermarket, 1.7 jobs are lost in small business.

In the country, when it comes to tourism, each small business is a mini-tourism information centre. We are continually being asked, ‘What is worth seeing in the area? Where are there good places to eat? Where is there good accommodation? Is the road over the mountains from Stratford to Bright closed by snow? Can we tow a caravan over the mountains? What are the road conditions like?’ and so on. This is something that major chain store supermarkets openly state they do not want to become. They do not want to be tourist information centres.

If Coles and Safeway are so insistent on the retail industry being free to provide unrestricted service to the public, which includes tourists, 24 hours, seven days a week, why don’t their variety stores such as Fosseys, Kmart, Target, Katies, et cetera, trade 24 hours, seven days a week? It is basically because they are not interested in the public. As Dennis said, while it was a state government decision, that decision was driven by Coles and Safeway. Who will offer a helping hand to the thousands of international and domestic tourists that travel our roads each year when the major chain stores have dominance and the smaller stores are forced out of business? We do not get paid for giving out tourism information either.

As to the social effects, within a community when one business closes its doors because it is no longer viable—being a supermarket; I have nominated that as an example—shoppers are forced to go to the next largest centre. While out of town buying their groceries—human nature as it is—they tend to buy their meat, milk, bread, magazines, fruit and veg, shoes, hardware, chemist lines, et cetera, on the same trip. This means there is a real possibility of a domino effect through the whole town: soon the town has a milk bar-cum-general store and a lot of houses for sale; as people move out of town to where there is a larger range of commodities available, so the footy club can only field a senior team for want of players; then the cricket club loses its identity by having to merge with another town—that is the start of the slide because they lose their identity; they lose their parochial support—and then the combined club folds. I was in a town where that happened. The churches are cut back to only a visiting minister on Sundays or they rely on lay preachers to conduct the services—and then they have combined denomination services; then the CFA cannot get a crew for the truck in case of a fire. The town is dead.

My own personal story in Stratford is that from the time I agreed to purchase my store the previous owners let the trade fall away and had little stock. If a customer requested an item that had run out and not been restocked, the response was, 'You will have to get it from Coles or Safeway next time you are in Sale.' In the seven months it took to organise my finance and the transfer of my liquor licence, their turnover fell to approximately 40 per cent of their previous average. I was told later by other traders in the town that, firstly, the butcher fell by 40 per cent in turnover in the same period and would have had to close his door and walk away if it had lasted another six months; and, secondly, the local bakery fell by a little bit over 30 per cent in the same period.

With their tentacle departments, the chain store supermarkets are crushing all the milk bars, small independent supermarkets, hot bread shops, butchers, liquor stores and newsagents through their magazine sales. Only the cream of the crop—the top 10 or so bestsellers out of more than 200 magazines—are available. They only want what is economically viable. They do not want to provide a service to the customer. The florists are now aggressively selling cut flowers; they are not interested in floral arranging. And now these supermarkets are putting in petrol which they import from overseas, which neither helps our domestic oil refinery employment nor our overseas balance of trade figures—again, taking the easy bit but not providing mechanical repairs. They have been actively lobbying to enter, control and crush the pharmacy industry—and I believe that they will crush—ultimately.

Here is an example: being a small supermarket that is a little bit more efficient than the milk bar in town, my prices are expected by the community to be, and are, 5c a litre cheaper than the milk bar. I am buying at the same price as the milk bar. My price is also, by coincidence, the same as Safeway in Sale. They were at the forefront of the lobbying, insisting that the dairy industry be deregulated to give the consumer a better deal. Now with their volume bargaining power, they are buying their milk at least 8c a litre—and I believe it could be as high as 11½c a litre—cheaper than I am. What are they doing with the extra buying power? Certainly not passing it on to the consumer as they said in their argument in favour of deregulation. Are they using it to fund their destabilising campaign in the pharmacy industry?

Again, Safeway put petrol into Lakes Entrance. There were about five other outlets in the town. Safeway dropped their price to near enough to cost price plus offered a further drop of 2c a litre to their grocery shoppers. Some of the petrol stations did not have mechanical repairs to support them; soon there were two families going through bankruptcy and possibly another 10 unemployed. Petrol was so cheap it was also economically viable for people to drive from Orbost to do their shopping and get a tank full of cheap petrol. One operator in Orbost was also bankrupted.

All of a sudden, instead of sharing their petrol market with 10 outlets in the two towns, Safeway's 12c a litre subsidy had reduced their opposition to seven, and the consumer now has less choice. They have increased their market share by crushing some of the opposition.

CHAIR—Mr Veal, we are concluding now. The problem is that the more you talk, the less time there is for questioning.

Mr Veal—There are only one and a bit pages to go.

CHAIR—Okay.

Mr Veal—Thank you. I am left wondering whether the petrol subsidy was financed by their milk rip-off. I hope your inquiry takes in how the chain store dominance has decimated the Melbourne wholesale fruit and vegetable market. Today is a holiday for me; I am away from my business. My wife and I have been working 11-hour days, seven days a week for nearly

seven years now without a holiday, and I cannot see us having a full week holiday in the next 10 years. I believe the chain store supermarket senior executives realise that everybody must eat and so domination of the food chain leads to total dominance of society. Ultimately, they will be so big that not even the government will be able to stand up to them with their army of lawyers, accountants, economists—as you said—and other academics.

In closing, I provide more employment per \$100,000 turnover than they do. I give sponsorship to local community groups such as the Red Cross, sporting clubs and schools to help hold the fabric of the local society together. I do not have multinational shareholders taking my profits overseas. I take the time to help tourists; I take the trouble to have local groups' raffle books on my counter—those little things that you need in the country.

Wanting to limit chain store supermarkets' share will probably be considered by them as protectionism—only protecting a handful of inefficient whingeing shopkeepers—but I put it to you that it is protecting Australia's employment, the economy, the very fabric of society from exploitation and the hundreds of thousands or maybe couple of million people in the outer communities who do not have access to the major chain stores. In Gippsland, that can be Cann River, Orbost, Omeo and Yarram. The retail industry is a see-saw; not everybody can be on the high side. Unfortunately, it is your job, not mine, to weigh it all up and to declare a balance. Thank you.

CHAIR—Good. Gentlemen, thank you for your contribution and speaking openly about the problems confronting your own communities. I would ask the panel if they would like to kick off with questions. Bearing in mind that we have a full complement, could you restrict your questions to perhaps a couple of questions each.

Senator BOSWELL—Dennis, during your presentation I wanted to qualify something. Are you saying that the local government paid \$100,000 to subsidise Safeway?

Mr Scott—That is exactly what I am saying. Sorry, I will put it in total perspective. There was a parcel of land which was for sale—which belonged to the secondary college in Benalla—which was a proposed Safeway site. The developer was not prepared to pay the reserve amount on that particular block of land—and there were adjoining blocks of land. To get the development through, the local council purchased a block of land for \$100,000, which is going to be used as a car park or part of a car park specifically for that development.

Senator BOSWELL—So there is a subsidy going from the ratepayers, which you are one of—

Mr Scott—The ratepayers, of which I am one—

Senator BOSWELL—To subsidise the biggest—

Mr Scott—Exactly.

Senator BOSWELL—That is the most outrageous thing I have ever heard!

Senator FERRIS—But is it a public car park? Is it still owned by the council, or is Safeway now going to control the car park?

Mr Scott—No. Sorry. It is a public car park. The Safeway development is in an isolated end of the town. I spoke to the mayor about this particular problem. He came back to me with, 'Well, we were going to put a car park there anyway.' But if you saw the position, it was on one end of the town well away from what was traditionally the main shopping centre. What their argument was is that they are going to get that money back in rates. Over the next five years they can charge them \$20,000, but the fact is that they are proposing to buy a parcel

of land worth \$100,000 for a car park which is directly related to a Safeway McDonald's development.

Mr NAIRN—Is there a shortfall in parking on the Safeway site?

Mr Scott—I think the problem—and I cannot be quoted on this—was that the developer was not prepared to pay, for example, \$500,000 for the parcel of land; he was only prepared to pay \$400,000. So the council, to attract that development and not lose the development—as I have stated in here—said that they were vying with 10 other councils. They thought it was a small price to pay to ensure the development in the town—despite the fact that there is Safeway, McDonald's and there is going to be a petrol—

Mr NAIRN—Normal planning laws are such that, if you cannot provide the necessary parking on the development site, there may be parking areas nearby. I think most local governments would then charge the developer a premium for every car park less on the site that is available, for those sorts of reasons. You really need to make sure that they are not actually paying an additional fee.

Mr Scott—That could very well be so. I can only go on what I am reading in the paper. It is openly publicised in our local paper—a \$100,000 land purchase by the Delatite shire. It directly forms part of the Safeway McDonald's development, which will be rented back to the shire to the people. They are getting a return of \$20,000.

CHAIR—Senator Boswell, would you like to continue your question?

Mr FITZGIBBON—I was wondering whether Senator Boswell would mind if I came in while we are on this topic. Is that okay?

CHAIR—If it is on this topic, please go ahead.

Mr FITZGIBBON—This particular example probably highlights the dilemma that this very sympathetic committee faces—that is, that the local authority here is, I suspect, reflecting the wishes of the local community. Would you agree that the local community wants this development in the town and, therefore, the moves of the local authority are reflecting that view?

Mr Scott—That could certainly be argued. I cannot comment any further on what you have said. We have taken this proposition to the mayor, saying that the development as such can go ahead. We are powerless to do anything, but we certainly object as ratepayers. We have made it known in writing as a formal objection that we do not think that it is right, feasible, fair, whatever you want, to put money towards a major company or towards a major development. We are talking about a \$12 million development—\$100,000 works out to a percentage of the total costs. It is ludicrous.

CHAIR—I think it is appropriate that we return to Senator Boswell's question.

Mr FITZGIBBON—I am hoping that Senator Boswell will not mind if I ask the gentleman to refresh my memory on the state of play of local government in Victoria. This is a fully elected council now, isn't it—a mayor and a full complement of councillors now?

Mr Scott—Yes, that is correct.

Mr FITZGIBBON—What is the actual municipality or shire?

Mr Scott—It is in Delatite Shire.

Mr FITZGIBBON—How many councillors?

Mr Scott—I am not sure. I couldn't tell.

Senator BOSWELL—In all your submissions, you made mention of what has become known now as ‘creeping acquisition’. I asked this question yesterday and I think it is a very important question because I think we could probably tweak up the ACCC’s powers. How would you feel if we were to stop creeping acquisition and stop the sale of your stores to Safeway, Coles or indeed Franklins? How would any of you feel if you were made a fairly big offer, an offer that exceeded the value of the business, and the ACCC came in and prevented the sale of your stores. Would you accept that? When you present a problem, as Ray said, we have got to come up with the solution. But if we were to prevent those creeping acquisitions and one of those three chains came to buy your store, Ray, and offered you a price well over the market price and you were prevented from selling it, what would your views be?

Mr Veal—I could answer that one. That very situation happened down at Lakes Entrance. The Festival store down there was offered quite a handsome sum, but it had been a family business and they said, ‘No, we will keep it in the family and keep working. Thank you very much for your offer.’ Safeway virtually bought the block across the road, built their own store, squeezed him out and ultimately offered him about two-thirds of their original offer as a goodwill gesture, simply to buy his liquor licence. If you do not sell out to them, they will just open in opposition to you—squash you out.

Senator BOSWELL—The answer to my question, I take it, is that you would not want to be prevented from selling out.

CHAIR—Would you like to answer, Mr Jefferies?

Mr Jefferies—If someone like Coles or Safeway came to me and offered a substantial amount of money, I would not be interested. I have got four kids. I want them to have a job and I want to serve the community. There is a hell of a lot of youth unemployment and I want to protect my kids by giving them, four of them, a job.

CHAIR—Mr Jones, could you answer that?

Mr Jones—I can only speak in general because I am not a business owner. But on behalf of the 700 people that I represent, the feeling is that an independent goes into business to grow his asset, to make it something worth while, and if it is attractive enough for a supermarket chain to want to buy it, that is fantastic. I do not think they should be forced to sell in the fear, as Ray mentioned has happened in Lakes Entrance and a few other places around the state, that the chain will come to town anyway and you will end up losing this huge investment that you have made in the business. It is the fear that they might come anyway. Therefore that plays a big part in their decision making process.

The committee may be aware that in Victoria we have an eight per cent ceiling on liquor licences. When the chains were purchasing supermarkets with a licence, there was a period of time when they could not operate the licence because they wanted their cut and they had to divest a smaller, freestanding liquor store in order to be able to take that other licence. If they want to buy a bigger supermarket that is advantageous to them and the owner wishes to sell it, that is fine. But they should divest some of their smaller businesses.

CHAIR—Do any of the other panellists want to ask a question at this stage. Senator Murray?

Senator MURRAY—Are the three store owners here all members of banner groups?

Mr Jefferies—Yes.

Mr Veal—Yes.

Mr Scott—Yes.

Senator MURRAY—Can you name the banner groups for us?

Mr Veal—I am currently Goodfellows; in a couple of weeks time I will be changing over to the IGA Friendly Grocer Group.

Mr Jefferies—I am IGA Everyday banner.

Mr Scott—I am IGA Everyday.

Senator MURRAY—Is it true that no independent supermarket can survive unless they are a member of a buying group or a banner group?

Mr Jefferies—I could not see that they could really survive. Where would they buy their groceries from?

Mr Veal—They have got to be a part of a buying group. They have to get their groceries from somewhere, whether it be Davids warehouse or AIW. Some of the larger milk bars, who have a small grocery range, actually buy them virtually at cost price from Safeway themselves.

Senator MURRAY—So it is not like other retailers—shoe shops, liquor stores, pharmacies or butchers—who can operate on their own? You actually need muscle in supermarketing?

Mr Scott—I think when you belong to a buying group it is a parcel you are buying because you are not only buying groceries at an acceptable price but also buying weekly advertising, like flyers that go out, which would become prohibitive if you were trying to do it yourself.

Senator MURRAY—The things that face the committee are these: we have to see to what extent you can compete on a natural basis; we also have to see whether there are any restrictive trade practices which affect you; and we have to address the issue of size.

It seems to me that buying groups and so on give you the systems, the buying and the professionalism which otherwise would be difficult for independent operators to develop themselves. In what areas do you believe that the majors actually operate close to unlawful, if you like? Bearing in mind that you are subject to parliamentary privilege here so you can speak your mind, in what ways do they deal in the market to an extent which would put you at risk as business people?

Mr Jefferies—If I were really wanting to have a go and lower my prices to attract more customers, the local Coles or Safeway store could do exactly the same thing, undercut me, and run their store at a loss. They do not care. They have hundreds more with which they can make up the money; I cannot.

Senator MURRAY—So they cross-subsidise?

Mr Jefferies—They could do that, yes, very easily.

Senator MURRAY—Is that the main way?

Mr Jefferies—That is a fear of mine, so I do not take them on.

Senator MURRAY—So their principal weapon is price?

Mr Jefferies—Yes, that is probably one of their major weapons.

Senator MURRAY—Are there any other weapons?

Mr Veal—Range.

Senator MURRAY—Range comes from a natural advantage they have, and we cannot criticise that, but predatory pricing is, as you know, a restrictive practice.

Mr Jefferies—Talking about range, if the larger chains wanted a larger range because they know they can accommodate it and they know we cannot, they can ask the manufacturers for another variety, another variety and another variety, and keep on expanding their range as much as they like. They have got the room to put it.

Senator MURRAY—But that is not unlawful. You can see what I am driving at, can't you? I am looking for things which tell us, as a committee, that the supermarket chains are operating either immorally or unlawfully. Cross-subsidisation might or might not fall into that practice, but range certainly does not. They are entitled to have whatever range they want.

Mr Veal—Not illegally, but immorally. For example, a few months ago, Safeway, which is in the complex called the Gippsland Centre, Sale, started aggressively pushing pre-made bunches of cut flowers and undercut all the other florists in the town. Within three months, the florist at the other end of the complex—within the same complex, not out in the general strip shopping centre—was out of business because they could not compete with the cut flower arrangement and there was not enough income to sustain the business in the complex.

Senator MURRAY—And then the price went back up?

Mr Veal—They are not much cheaper than what they were originally.

Senator MURRAY—That is classic predatory pricing behaviour: you cut your price and get rid of the competition, then you raise your price and win a monopoly.

Mr Veal—The Gippsland Centre actually lost the services of a floral arranger by that predatory action.

CHAIR—Are the prices now higher or lower than when the chain first went into it?

Mr Veal—They have gone back up.

CHAIR—Okay.

Mr Veal—I do not know whether they have gone right up to full price or not, but they have gone back up.

Mr FITZGIBBON—Much of what I was seeking has been covered, but I would not mind hearing a bit more from Mr Jefferies on the milk example—the two-litre milk carton.

Senator FERRIS—Yes, I wanted to talk about that too.

Mr FITZGIBBON—What was the strategy of the chains there?

Mr Jefferies—It might sound silly, but one of the advantages I like to give my customers is a little bit of entertainment. I built, at my own cost, a milk carton that stands a metre tall and sings to customers, to the kids. They love him. We also have a banana that does the same thing.

Senator BOSWELL—That does what?

Mr Jefferies—A big banana that sings.

Senator BOSWELL—It sings.

Mr FITZGIBBON—We'll get you one for Christmas!

Mr Jefferies—Look out, Myer's windows! I built this, and we actually won an award from the Maroondah City Council because of the environmental things that we were doing—getting rid of plastic bags, et cetera. Now Monty the Milk Carton has nothing much left to sing about, because he used to sing to try to convert people to buy their milk in cartons rather than bottles. Now my two-litre cartons are gone what is Monty going to sing about? But what riles me is that my customers then come back at me to say, 'You won this award; now you're not doing

what you said you were doing.' The only reason is that Safeway no longer have two-litre milk cartons.

Mr FITZGIBBON—They have two-litre bottles, but not cartons.

Mr Jefferies—They have two-litre bottles; I can get two-litre plastic bottles, but I cannot get two-litre cartons. That is wrong for the environment, and it is part of their strategy to dominate the marketplace and tell my customers what they have to buy.

Mr FITZGIBBON—But how does that represent a strategy on their part—bottles or cartons? There is an environmental question, but how do you suggest there is some sort of economic strategy in that?

Mr Jefferies—I am not saying there is an economic strategy; I am saying that it is an example of what having too much power can do.

Mr FITZGIBBON—How they call the shots, sure.

Mr Veal—They are now telling the manufacturer what they want.

CHAIR—Mr Nairn, do you have any questions?

Senator BOSWELL—Mr Chairman, I had one question.

CHAIR—Is it related to that issue?

Senator BOSWELL—No. As long as I can come back to it. I had a line of questioning I wanted to pursue and I got hijacked by my Labor colleagues.

CHAIR—I think, Senator Boswell, you have had a fair go. Mr Nairn, do you have any questions?

Mr NAIRN—Mr Scott, how big is the population of Benalla?

Mr Scott—Approximately 10,000.

Mr NAIRN—And there is your store—

Mr Scott—There is a Bi-Lo, a Coles, two small—what we call more convenient size—supermarkets, us and a Foodway.

Mr NAIRN—And a Safeway going in as well.

Mr Scott—And a proposed Safeway.

Mr NAIRN—So Coles and Bi-Lo?

Mr Scott—That is correct, yes.

Mr NAIRN—Bi-Lo is owned by Coles, as you know.

Mr Scott—Yes, I understand that. The Bi-Lo bought out what was probably the major independent in town. It had been there for 30 years; Bi-Lo bought it out last year.

Mr Jones—There is no population growth or big development that is going to warrant a third large supermarket.

Mr Scott—I think that, in the last census, the town had virtually stopped still as far as population is concerned in the last 30 years. It is around 10,000. We might have a greater area, including small towns such as Violet Town, Baddaginnie and Tatong, which might give you an overall 13,000, 14,000 or 15,000 people. But the actual town of Benalla is under 10,000.

Mr NAIRN—It seems that one of your major problems has been the deregulation of shopping hours, almost as if that is probably the major cause of the change in turnover in recent years. Would that be right?

Mr Scott—Certainly in our case, that is most definite because—I am not underestimating or overestimating the position—it costs us 20 per cent in turnover, and then the relative devaluation of your business because of that. I think one of the other things of big concern to us and also to many other small retailers, not supermarket people, in Benalla is, if we were to get a development like Safeway that comes into the town—and this is general throughout any town or any shopping strip—we would have another six or eight specialty shops which would come into the town. It would virtually shift the demographic centre of the town to the advantage of a few. Many country towns have empty shops everywhere because they actually choose the centre of town.

Mr NAIRN—If I could take up one other point that Senator Boswell raised. I think you may have missed the point when he was asking about the reaction to whether you were not allowed to sell. Perhaps I should address this to Mr Jones, who is representing the group. I think the point he was getting at was what has been suggested to us is that there should be some sort of cap on how big the big three can get. But the net effect of that, if you went that sort of fairly draconian way, is that one of your members will probably end up in a position where they may be made an offer but that will go over the cap. So you are saying, ‘You cannot sell because that is going to breach the cap,’ and then you might say, ‘That is okay. They can buy it as long as they divest of something else.’ But the net effect of that is really a devaluation of those businesses. That is one of the dilemmas.

Mr Jones—It is a dilemma, because the bigger players in the market have worked hard to get their business to a point where they are saleable, but I do know stores that had some succession plans in place that ended up selling to the chains just out of fear alone. Their preference was not to go out of the business. Their preference was to stay in and continue the family business.

Mr NAIRN—The reaction that you were quoting before was that ‘If you do not sell, I will just go and buy across the road.’ What I am saying is that under a capping situation they would not be able to do that. They would not be able to buy across the road and build a whole new store, because that would take them over the limit as well. What we are saying is that many independents are going to be put in the position of not being able to accept an offer because of that cap.

CHAIR—And possibly the price or the value, if you have got a restricted market, will go down. So with respect to the retail stores that you three own, if we put in a cap and if the market works as it normally does, the chances are that the value of your stores on the open market would decrease significantly. Mr Veal, would you want to comment on that?

Mr Veal—I disagree with that because, if there was no threat of them coming in and opening up right next door, I could find a buyer to sell to who wants to take over an independent store; whereas now, there are so many people out there saying, ‘I would not mind having that store but, if Safeway are likely to open up next door, all of a sudden my—

CHAIR—Mr Veal, can I point out to you that one of the problems of that is certainly that the possibility may be diminished but, even within that cap, the majors could divest their stores in other locations and still come in and provide competition to you.

Mr Veal—Yes, but the possibility of competition coming in would be diminished marginally. They have got to weigh up the situation—do we start there and divest there?—which would diminish the threat, which would then increase my chances of selling to another independent.

Senator FERRIS—Mr Jones, I am just wondering if you could tell me what you consider to be a category which would fairly differentiate supermarkets from corner stores. Would you consider a supermarket to be one that includes, say, fruit and vegetables and some meat, or would you consider it to be just something that sells dry goods?

Mr Jones—No, I think that it would be something that does offer some prepacked deli items, prepackaged meat items. I know Mr Veal's store is a fairly small shop, but he sells meat to his locals; he sells deli items to his locals; he carries a limited range of produce as well as the dry goods and frozen goods.

Senator FERRIS—The question of the big three's dominance in the market depends on whether you accept your definition of what is a corner store supermarket or whether you accept the definition of selling just dry goods. Your peak body, Narga, has submitted to us that the big three currently control more than 80 per cent of the food market, but that research is based on only packaged dry goods. We heard from Woolworths yesterday that the ABS statistics—which are based on your definition of what constitutes a corner store supermarket and, I must say, also mine—indicate that the three major players hold just over 43 per cent of the market. So if we were to institute a cap at 80 per cent, what it would mean effectively is that the big three could virtually double the number of retail supermarkets that they currently have in Australia before they would be capped.

Mr Jones—You could cap them at 43.

Senator FERRIS—Maybe, but that was not the policy that was put to us yesterday by your peak group. I find it very interesting that your definition of what constitutes a corner store supermarket is the same as Woolworths say constitutes a corner store supermarket or a supermarket. Yet, the data that your peak body Narga has used is that it only includes dry packaged goods. Therefore, the big three could double the outlets base they currently have before they would hit the cap that your policy is asking us to agree with.

Mr Jones—I read in their submission that there were two figures quoted, one by AC Nielsen which is the one I think you are referring to at the moment—

Senator FERRIS—Yes.

Mr Jones—and the other one that was done by the industrial sector of JB Were, which also showed the same figures. I do not know whether they have adjusted theirs or what the source of their information was to arrive at that percentage.

CHAIR—We are going to clarify it through ABS. We are going to specifically request them that they clarify these figures. There is a definitional problem.

Senator FERRIS—This question of milk I find very interesting. Looking at the Trade Practices Act, it very clearly shows that that would be a case of misuse of market power under section 46 of the Trade Practices Act. I am just wondering whether your peak body either here in Victoria or your national body has ever thought of taking these sorts of things on. Yesterday we were asked by Narga to toughen the Trade Practices Act and yet Guy Barnett who was a consultant, admitted that the current provisions of the Trade Practices Act have not been tested in this way. This question of market power, which is an area that I am very interested in, seems to me to cover precisely the experience that your supermarket and surely many others have found and yet it has not been taken up by the peak body. I am wondering if there is a reason for that?

Mr Jefferies—It only happened in the last few weeks.

Mr Jones—It came to light to me last week when I was putting my submission together. I thought it was interesting and that you should hear about it.

CHAIR—Will you be taking action under that?

Mr Jones—I am going to follow it through with Mr Jefferies, yes.

Senator FERRIS—It is very clearly a case of misuse of market power. I for one would be very interested to see it being tested to see whether the provisions that currently exist in the TPA are strong enough, as they stand, or whether as your peak body has put to us they need to be toughened further.

Mr Jefferies—I do not know the answer to that.

Senator FERRIS—No, I do not either.

Mr JENKINS—My short question is about the use of the TPA. In the example of the florist that has been given, undoubtedly there seems to have been an effect of a pricing battle. One of the real problems in that case is that if it had been tested under law, it would have had to have been shown that the purpose of the pricing war was to put that florist out of business. There have been suggestions put to other inquiries that in fact the test should be just based on the effect which was that because of the pricing war, the business went down. I am wondering whether, as individual business people or the peak body on behalf of those business people, there has been consideration about a change to the Trade Practices Act to lessen the need for a purpose test and replace it with an effect test.

Mr Veal—It could have been a genuine discount flowers pricing policy and you cannot prove that it was a predatory action until after the other florist has gone broke or closed down. By then it is too late.

Senator BOSWELL—I have come a long way and I am not going to be part of this if I get one question. That is all I have had. We were pursuing a line of questioning before. I gave the floor to people that wanted to come in on my questions, which is the right thing to do. This is a very important inquiry. Time is important but it is not the essence. The answer is the essence. We have got to get to the bottom of the inquiry. I want to pursue a line of questioning with these—

CHAIR—Senator, just a moment. We have not finished with Mr Jenkins yet.

Senator BOSWELL—I am quite happy to yield to Mr Jenkins.

Mr JENKINS—I will be very quick. I understand an individual store owner having that attitude. I can appreciate that because you are in the business of day-to-day living. Can I take it to the attitude of a peak body where there should be, as Senator Ferris has said, test cases on some elements of these types of behaviour? The taking out of test cases may in fact modify the behaviour of whoever is using their unequal power.

Mr Jones—I visited the ACCC probably about six to seven months ago here in Victoria and discussed amongst other things a problem which had occurred down in the Gippsland area where a supermarket owner was purchasing certain liquor items from Safeway because it was cheaper to buy them from there than it was for him to buy it through his wholesaler. He spoke to the supplier direct and no matter how much of this particular item he bought he could not buy it at the price that Safeway were retailing it at. There has got to be some predatory pricing there because, if this guy had bought a semitrailer load of this particular scotch, he could not have bought it at the price at which Safeway were retailing it. I was told that there was no predatory pricing situation there. Safeway can basically do what they want to. It was an item, by the way, which was advertised as a main leader throughout the state. It was not just

happening in that particular town. By their desire to grab the market, they can do those sorts of things. Whilst I have made approaches and I will follow the milk item through with the ACCC anyway—

Senator FERRIS—Can you let us know how you get on?

Mr Jones—I will do that.

Mr JENKINS—Is cost a blocker? Is definition of aggrieved party a blocker? What are the impediments about action being taken or should we go back to a recommendation of the Reid fair trading report which was that the ACCC should be allowed to take representative actions and in fact seek damages?

Mr Jones—That is what they said to us, ‘You give us the evidence that will prove that we have got a case that we can basically win.’ They are not interested in going in to bat if there is a chance of losing. ‘We will take action. It will not cost you anything. Supply the evidence of a prima facie case and we will take it on.’

CHAIR—It is a problem for this committee because we hear various stories that come through from the groups. We have read submissions over Easter. It is very hard to find whether Narga or other groups have actually taken action under the current provisions. If you have not proved that the current provisions fail, it is difficult for us to then say you need more or the current provisions need strengthening.

Senator BOSWELL—We pursued Coles yesterday and Mr Williams is down there from Woolworths at the moment. Both of them said that they were not interested in predatory pricing. The policy of both their firms was to meet competition but not to drive competition from small business down. I pointed out that a firm in another chain drove the price down in Queensland. It started off with eggs and one side dropped the price. The small business dropped the price and the other dropped the price again. In the end, to make a point, the small business person started giving the eggs away. I have I had someone ring him up to get him to appear before this committee, just to make the point, he put the eggs out and said, ‘Come and get the eggs. We will give them to you for nothing.’ That is predatory pricing.

What I am asking you, Ray, is, ‘In the case of the florist, was there a forcing down of the price?’ Did Coles set the price and when the florist matched the price, it went down further and further? That is clearly predatory pricing.

CHAIR—It is important to remind you that this is a parliamentary inquiry and, while you have privilege, you also have obligations to provide the right answer, otherwise it is seen as being misleading of the parliament. I just remind you of that.

Senator BOSWELL—I am sorry. It was Safeway. I will correct that.

Mr Veal—I do not believe they did go into a price war and continually step down. I believe the florist stuck to their price as long as they could. It was not economically viable for the amount they were throwing out.

Senator BOSWELL—Where is that florist now? Is she out of the game?

Mr Veal—I believe she is working part time arranging flowers for another florist in the town.

Senator BOSWELL—Yesterday we heard similar complaints. I have been in small business, as have some of my colleagues, and I know what you are going through. I want to ask two questions.

CHAIR—Senator Boswell, we do have a time constraint. Can you make this the last question?

Senator BOSWELL—I know we have a time constraint. How can you compete? What do you need to compete with Coles and Woolworths? Who actually does your promotions? Who does your advertising? Who does your buying? Is that side of the business sufficiently strong to make you competitive?

Mr Jones—The stores that I represent are all parts of banner groups, as you have heard descriptions of before. Whether they draw from AIW or Davids, there is a banner management structure in place. The committee is formed of retailers themselves. They form the group that makes the decision as to what is going to be on special and what format it is going to take. Then each of the warehouses, most definitely in the case of Davids, has a group that is dedicated to that banner—it puts together promotional activity, does the television ads, does the catalogues, et cetera.

The amount of money that has been taken out of the independent sector wholesale value wise in Victoria—this is on the figures I have that have been provided by NARGA—is about \$145 million. That obviously lessens the buying power of the warehouse. All of a sudden, you are negotiating for a lot fewer goods than you were a year ago. That itself, I think, has a natural price effect increase. I think the banners are as strong as they can be. I think they are very competitive.

Senator BOSWELL—Let me follow this question up. Because the independents are losing market share and Davids are losing market share, what would the attitude of your shopkeepers be if we were to say to AIW or Woolworths, ‘You are either a retailer or a wholesaler, but you are not both, and we want you out of the market’? That would pour more money into Davids. It would give you more buying power but then you would not have any competition. You are giving us the problems. We are trying to pass back to you what we have to face.

Mr Jones—I do not know whether you are being asked to say to AIW that they should be put out of the market.

Senator BOSWELL—You are making a statement that your buying group, Davids, is losing market power because it is losing throughput. One way to restore that market power is to go back to Woolworths and say, ‘You’re a retailer or you’re a wholesaler, but you’re not both.’ I am asking you, Mr Jones: what would the attitude of your storekeepers be if we took that right of competition away from them, if your storekeepers were denied that competition between Davids and AIW?

Mr Jones—There would be a percentage that would not like that to happen, that would like the status quo to remain. There would be a bigger percentage that would probably like it to go back to the way it was because of the numbers that are, by their choice, drawing out of AIW at the moment. In numbers it is less. If you looked at the entire 700 stores that are supplied by either warehouse in this state, a big bulk would have decided to stay with Davids because they are happy with what is happening there. But there would be a percentage that would say, ‘No, I want the status quo to remain. I do want some competition in the market.’ I know it is not probably the answer that you wanted, Senator Boswell, but it is about the best that I can give you.

Mr Veal—I just wanted to say that, in that scenario prior to AIW coming in, there was Composite Buyers and Davids. Davids put in a bid for Composite Buyers and the ACCC actually approved it. They were happy for there to be only one independent wholesaler. It was the ACCC itself that was prepared to accept that situation.

Mr FITZGIBBON—Mr Jones—to assist the chair, just answer yes or no, if you do not mind—the big players can be fined up to \$10 million for breaches of misuse of market power to the detriment of a smaller player. Is \$10 million a sufficient disincentive, given their size?

Mr Jones—I would say no, with the billions in turnover that they have.

Mr FITZGIBBON—Thank you.

CHAIR—Thank you, gentlemen. Obviously, you captured the attention of the interviewing panel and of the inquiry. Thank you for your contribution, for speaking from the heart and speaking openly about some of these issues. Obviously, there are some areas of real concern, especially when we hear about small retailers being forced out of business by the majors. I think that strikes a chord with everybody on this committee. That is what we are concerned about. We would like to see evidence of what happened in the past, when you took action against the majors when that occurred. We know about your involvement in the community, what you have done in that regard, and your assistance to people in the community. We really value your contribution. Thank you for coming today.

Mr Jones—I would like to thank the committee for giving us the time today.

CHAIR—Thank you very much.

[10.24 a.m.]

REITZER, Mr Andrew, Chief Executive Officer, Davids Ltd

CHAIR—Welcome. The committee prefers all evidence to be given in public, but you may at any time request that your evidence, part of your evidence or answers to specific questions be given in private. The committee will consider any such request. I point out, however, that evidence taken in camera may be subsequently made public by order of the Senate. The committee has before it submission No. 166, dated 25 March 1999. Are there any alterations or additions which you may wish to make at this stage?

Mr Reitzer—No.

CHAIR—I now invite you to make an opening statement. We have received your submission; it is extensive and we thank you for that. It is a very good submission. We look forward to what you have to say and then we will be taking questions.

Mr Reitzer—Thank you, Mr Chairman. I will just talk for three or four minutes on certain points that are not in the submission and then I will leave it open to questions and discussion.

Just to remind the members of the committee, I am the CEO of Davids, which is a wholesale distribution company. Our turnover is in the region of \$4½ billion a year. One must remember that is wholesale turnover so, if you compare it to the chains, inevitably retail turnover is always approximately double that. We employ 6,600 full-time employees. If you then add in all the casuals and part-timers, it comes to about 10,000 employees.

We serve, through our wholesale distribution, 4,000 independent retailers across the eastern seaboard and southern Australia. Through our cash and carry operation, which has 33 outlets—and it is wholesale cash and carry, so it also only sells to businesses—we service approximately 15,000 smaller businesses that do not qualify for delivery and credit from the wholesale distribution. The 4,000—this is a guess—independent businesses—retailers—that we serve employ approximately 70,000 people.

Our submission was totally in support of the efforts of NARGA. We have said it in our submission and I will say again that it is purely out of self-interest that we make our submission. Our business is inextricably linked to that of the independent retailers. Without them, we do not survive; without us, they do not survive. So whilst we could be perceived to be big business, we are totally and completely linked to the small independent retailers of Australia. We both need that certain critical mass, that certain critical volume, to survive.

I would like to correct a perception that I felt was incorrectly put across—but perhaps it was more from an emotional side—in the press this morning. Our customers are not all small independent corner stores. Our customers are a whole spectrum of independent retailers from a small corner store—literally a small corner store which perhaps does not offer all the fresh offerings such as butchery, bakery and fresh fruit and vegetables—through to what could be called a full service supermarket that, because of the independent ownership, has exactly the same offering as, if not better than, any one of the two major chains in this country. We also have owners of multiple supermarkets that are independent retailers who would own three or four supermarkets—I think our biggest one owns approximately 10 supermarkets. So it is not only the small corner store that we represent.

The one thing that I would like to point out is the job that we do—or that I do—as a wholesaler. There might be a perception that the only thing we do as a wholesaler is buy goods from a manufacturer and deliver them. It is not. There are three distinct things that we do as a wholesaler. The first thing we do is deliver goods to the independent retailers at the lowest

possible cost. What we do is take the muscle of the 4,000 independent retailers that I buy for, put that together, negotiate as hard as we possibly can with the manufacturers and pass that on to the independent retailers. But that is only one third of our job.

The second part of our job, and perhaps the most important if we are talking about survival, is that we do the marketing for the independent retailer. Once again, we utilise that volume, that critical mass, and we put together promotions and advertising for the independent retailers. This includes TV advertising, newspaper advertising and handbills. We pull all that muscle together and are able to do that, firstly, by collecting the money from manufacturers to pay for that and, secondly, by actually organising that to get the pricing right and the photographs, et cetera.

The third thing we do is that we almost fulfil the role of the head office of one of the two major chains for our independent retailers in that we provide a number of services that the independent retailer perhaps could not get on his own. If he could get them on his own, then he would not be able to get them at that price because, if there is a price to be paid for some of them, it is really just to cover some of the costs.

For example, just to enlighten you, I track the prices at Franklins, Woolworths and Coles in each state every single day of the week and I record them on our computer. I then utilise that information for what we call host support—the computers of the majority of those 4,000 independent retailers are linked to mine. And the retailer can say, 'I've got a Coles next door to me, I've got a Safeway next door to me and I want the same selling prices as they have,' and then that gets done automatically through the computer. So I provide that service just as one of the chains would provide their service for their stores.

We have a training university—we like to call it a university, but I guess it is just a training school—where our independent customers can come and receive all sorts of training, from how to pack a shelf to how to do cash flows, balance sheets and more sophisticated stuff. We run 'planograms', so just as one of the major chains' head office will tell their schools exactly how to lay their shelves out, our customers can link on to the Internet and from the Internet say, 'I have got this sort of shelving and I am about to re-lay the coffee section,' and we will tell them exactly from a merchandising point of view how best to re-lay that. We have re-lay teams, so that if a store is really a bit run down because the independent is not up to date and he wants to re-lay the whole store for whatever reason, we will go in there and re-lay that whole store for him.

We do store development, so we are continuously on the lookout for new sites. We try and negotiate with landlords on behalf of our independent retailers. We will do the whole store development; we will do the whole project management and the layout. We will go to tender for his computers, for his shelving. Independent retailers come to us and they say, 'The drycleaners next door to me is for sale. What I want to do is also sign for that lease, knock down the wall and expand my store. I want to put in a deli. I want to put in a bakery.' That is all provided by us as the wholesaler.

We provide a retail accounting service. So if the independent retailer wants a professional accounting service that pays his bills, runs a payroll for him, does his tax returns, produces his balance sheet and everything like that, we provide that service. His computers are linked to us. I just want the committee to understand the role of the wholesaler and the sorts of things we would do. If we were not there, who would do them? I do not think the independent retailers could do those things on their own.

I guess the real issue that we are talking about is the survival of the independent retailer. The important part is at what critical mass, at what level, does this section of the industry survive? At what level doesn't it survive? It has got two parts to it. One part is that we need certain critical volumes just to be able to get the efficiencies out of a warehouse because, below a certain level, or if your orders are all small orders, you cannot operate the warehouse. You have to close it.

The second part is that you need a certain volume to be able to go to the manufacturers and say, 'Look, I have got so many customers. I can do the marketing and advertising for you, so please give me similar money to what you give the chains.' We will put handbills, TV adverts and newspapers together for the independents. If the volume drops below that, then they are just not going to do that, and that part of the industry will, therefore, not survive. Everyone says that competition is a good thing. The only aspect of the competition that we find in Australia that is of concern is the so-called chequebook acquisitions.

I am not a very well travelled person, but I have visited similar wholesale businesses in approximately eight or nine countries in the Western world. Wherever you go, you ask: 'At what level do independent retail shops change hands?' It is very nice if you are fortunate enough to have sons and daughters to take over your business but, if you do not, obviously at some stage you want to sell the business and enjoy life.

The standard formula is anywhere between five to eight times average weekly sales. If you have got a great business, if you have really built it up, you will get eight times your average weekly sales plus stock. If you have got a lousy business or it is a bit run down, you will get four to five times average weekly sales. Not a week goes by when an independent retailer of mine does not phone me because he has an offer on the table. The lowest is 15 and the highest so far is 18 times average weekly sales. The problem is the size of that offer. Five to eight is a good offer—it is good money—and is, I believe, just rewards for all the effort you have put in, if you get eight to 10 times average weekly sales. That is about three times the annual profit that that business would make.

Generally speaking, if you hear of businesses changing hands—even listed businesses—three times the profits that one would make in a year is acceptable. But if one were to double that, and if one were to think that someone would be able to afford to pay six times the annual profit of a listed company on the stock exchange, those deals just do not happen at that level. They are happening at the lower level.

Our problem is that in a number of instances we hold the head leases or in a number of instances, as happened last week, an independent retailer—they are our friends; we are in this war together—phoned us and said, 'I don't want to sell, but I've got a piece of paper, and you won't believe the number. I'll fax it to you now. But please, Davids, won't you rather sell it to an independent retailer because I'd rather have that.' You cannot fund an independent retailer into a deal at 15 to 16 times average weekly sales; you will never, ever make money. You just cannot.

So that is the real issue we have with—I am not quite sure what the right word is—the level of opposition or the level of attack on our market. One could ask, 'So, Davids, what are you doing about it?' We are doing lots. When we acquired the company—from my accent, you can hear that I come from South Africa. We are still world rugby champions, and they can record that!

CHAIR—Well, I could talk about cricket!

Mr Reitzer—No, we are not talking about cricket! We are on a global expansion path purely because we are trying not only to coordinate the muscle and the buying power within a country but also to actually combine the buying power from a wholesale point of view that we have in a number of countries and try and utilise that for the success of the independent retailer. That is why we are here as a global player and why Metro South Africa holds just over 70 per cent of the shares in Davids.

The other big thing that we are doing is we are getting out of retail: we had 130 company owned retail stores, and we are sending those to our customers to focus on wholesale because we believe that you should only do one—not from a legalistic point of view but just from a business strategy point of view. I think the single biggest thing—and the three gentlemen here were an example of that—is that previously the independent retailers in Australia used to advertise and promote through 29 banners and, for example, the Festival, the Welcome Mart and the Goodfellows names were among them. We are bringing those all down to three because we feel that, with more focused promotions and by putting the mustard into three channels as opposed to 29, you will get more marketing grunt for the money you spend.

So to answer the question: we are doing something about it. That is just a bit of a background and a little more detail than is purely in the submission.

CHAIR—Thank you very much, Mr Reitzer. That was a very comprehensive review, and as Chairman of the parliamentary South African Friendship Group, I am very happy to have you here. May I, with the indulgence of the committee, kick off for the group. Could I ask you a provocative question first: is it true that NARGA are the stalking horse of Davids?

Mr Reitzer—I am sorry?

CHAIR—Are you actually funding their campaign, and are they actually out there on behalf of Davids in this whole campaign to attack the majors?

Mr Reitzer—No, that is not true. This was initiated by NARGA; they are driving it and going full out on it. If you are asking the question, ‘Are we are funding it?’ We fund all customer associations to a greater or lesser extent.

CHAIR—Are you funding this particular campaign by NARGA?

Mr Reitzer—I would imagine that some of the money we are giving NARGA is going towards it, yes.

CHAIR—So a significant amount is being given?

Mr Reitzer—I cannot answer for previous years because I have only been in this job a year, but in other countries where we operate we always fund customer associations.

CHAIR—Yes, but I am talking about this particular campaign.

Mr Reitzer—I would imagine so, yes.

CHAIR—That you are funding it significantly?

Mr Reitzer—Yes.

CHAIR—You say in your executive summary about market failure:

The Australian grocery market is a text book example of market failure as a consequence of unequal competitive strength.

Why is this a textbook example? Isn't a textbook example of market failure when the consumers are very unhappy with the consequences when prices go above comparable levels in other countries? Neither of those cases is true. We have not had any significant complaints from consumers and the prices seem to be comparatively low vis-a-vis other OECD countries.

Mr Reitzer—We feel it is a case of market failure on two grounds. Firstly, you have a very high proportion of the market in very few hands. The market is essentially in two hands. It is controlled by two of the major chains. I do not have the exact statistics for other countries, but one country I do know is, for example, West Germany. There, measured in exactly the same way, 55 per cent of the market is in 10 hands—10 chains control 55 per cent of the market. Here it is Woolworths and Coles, and just over 65 per cent is in the hands of two. So that is why we feel it is a failure.

Secondly, one has to look at the way we in the industry measure whether it is a profitable industry to go into. There is one other Western country in the world where the EBIT and earnings of the major chains are higher than in Australia. That is the United Kingdom, and it is known in the retail and wholesale industry to be an exception. But with the EBIT margins approaching four per cent—and if I am not mistaken, one did announce four per cent—those are healthy margins, and someone is paying. In the United States, major retail chains barely go—

CHAIR—Wouldn't that normally encourage other entrants into the market, if you get the EBIT level as high?

Mr Reitzer—If there were not high level barriers to entry, yes.

CHAIR—My final question is: haven't you been doing quite a bit of the same activity as you accuse the majors of, which is takeover? There is an extensive outline in the summary of the extent to which you have taken over and acquired others. My colleague points out page 68, which says:

Dauids was floated in 1994 and has increased its market share in grocery distribution through a series of acquisitions, particularly in South Australia, Victoria and Queensland. In addition, Dauids has expanded into retailing and food service activities.

Then on the next page you talk about ALM as one of your subsidiaries—Australia's largest wine and spirit wholesaler. Haven't you been in fact doing what you are accusing the majors of?

Mr Reitzer—Yes but in the wholesale market and purely for survival. Dauids is a 90-year-old business. Up until a year ago it was a family controlled business. The business was built up and was only located in New South Wales, and it became the dominant wholesaler in New South Wales. My understanding of the history is that, as the independent retail market shrank, in each of the states it got down to a size such that it could only sustain one.

John David then went on the acquisition trail to get and to maintain critical mass because his market was shrinking the whole time because of the growth of the independent retailers. He acquired other grocery wholesalers in Queensland, Victoria and South Australia. So it was growing the wholesale business just to be able to keep it up. If you look at the pure wholesale distribution we have about \$2.3 billion. Of the \$4.6 billion, about \$2.3 billion is the wholesale distribution business. So his acquisition was just to be able to survive as a wholesale distributor and to be able to maintain buying volume at manufacturers.

With one or two of those acquisitions, he obtained retail stores. One of his major customers in New South Wales wanted to sell to one of the chains. It was approximately 50 per cent of his turnover, and in hindsight it was an error he bought those retail stores. We are in the process of selling those off now, and we are focusing as a wholesale distributor.

Mr FITZGIBBON—Andrew, I think it is fair to say that the chairman's initial question to you was fairly damaging—I do not want to say to your credibility in this case—to your argument. It might go to Dauids's motivation for your participation in this inquiry. It does not

necessarily undermine the reason for having the inquiry—that is, an obvious increase in growth in the share of the majors. Can I invite you to respond further to that question, because I think it would be helpful to both you and the committee?

Mr Reitzer—My customers are independent retailers. They work very hard in running their businesses. You heard the one gentleman say that he has not had a chance to take leave. Some of those are good businesses. A lot of them are very good businesses but it is hard work. The only way they can beat the chain is to offer superior service—because, at best, their prices are the same—and customer-friendly attention. That is their edge over the chain. They are very busy people and many of them are not proficient or perhaps educated or have the right background to operate at a higher level. They therefore rely on the wholesaler for many things. I think I went through the three big areas that we help them with.

We also help them on perhaps what could be called the political front, which is to lobby for certain things and to get certain things through government. We assisted them to try to argue against the change in the late trading hours. I do not think any of those issues where the wholesaler stands behind its customers are immoral. I have absolutely no problem in answering that first question. We operate with two other wholesalers from other parts of Australia in an association and we are always looking for opportunities to make sure that the independent retailer survives and grows. So we have no problem in backing them with that.

There are certain changes in one of the states that have to do with liquor and, yes, we are assisting them with that. We did certain desktop research for them. We showed them how it operates in other states and in various other countries. They are independent business people. They do not have the power, the money, the knowledge and the people sitting in the backroom offices who can supply them with the right arguments to be able to go to government and get things done.

We believe that in terms of the independent retailer, it has gone over. There is always a balance and who knows exactly where the balance is. But we believe strongly with our international experience, having come here, that it has gone past that. We have spoken to people in various other countries. As with my West German example, it has gone over that. We believe very strongly that something should be done to restore the balance to independent retailers. So we have absolutely no problem in supporting them to the hilt in anything they want to do.

If I may make another point, in the previous presentation—I was fortunate enough to listen—the point was made: why didn't they do anything about the milk issue and why didn't they operate according to the Trade Practices Act? Who is going to do that for them?

Senator FERRIS—Why wouldn't you be doing it?

Mr Reitzer—What will happen now is, through either the Master Grocers Association of which Alan Jones is the boss or through NARGA, we will do it. The very first question will be, 'We need a lawyer. We need this. We need that. It is going to come to \$5,000. As independent retailers, we don't have it.'

Senator FERRIS—But if you are funding NARGA's campaign for reasons that I fully accept, why wouldn't this also be seen as equally critical in the market power dominance area of this public debate?

Mr Reitzer—My answer is: yes, we would fund it, and we have no shame or problem in doing it because we believe it is a just cause. Yes, the argument can be made that, 'You are big business, so you are only funding it to look after your own pocket.' That is also true and

we do not deny it. I said that in my opening statement of my submission. But there are two sides to it. There is a moral issue and there is my bottom line as well.

Senator FERRIS—But you appreciate that NARGA is asking us to tighten the provisions of the Trade Practices Act and yet the peak body yesterday and the earlier witnesses today agree that they have not actually tested the provisions that have already just been put in there. I am very pleased to hear you say that you would consider that also to be quite appropriate for you, on behalf of all of your clients, to fund a test case. That is very reassuring.

Mr Reitzer—I agree.

Mr FITZGIBBON—Mr Reitzer, the object of this inquiry is to ensure that the smaller end of town can compete fairly in the retail market. I hope we can make some recommendations at the end of the day to ensure that. There is nothing inherently bad in the attempt by the independents to gain market share and to become, if you like, the fourth major. There is nothing inherently bad about that whatsoever. But given that the strengths of the existing majors are their size, their purchasing power, their economies of scale and all of those things, isn't it true that to become a big player again you need to go down the same path? Therefore, aren't you going to be just another large retailer which will jettison the smaller players that do not fit into that economic strategy? How can you, as a fourth major player, ensure the survival of those smaller retailers that you represent?

Mr Reitzer—If there is enough of a market size, I can do a great job for them. I cannot go down the same path because my mission says that I am a wholesale distributor, and nowhere in any part of the world do we own retail stores—except in Australia, and that is only until October of this year, by which time I will have sold the last one. I could not go down the same path as Woolworths and Coles because that would mean opening retail stores.

Mr FITZGIBBON—I do not mean to interrupt, but given you are so intricately involved in their marketing, the refurbishment of their shops and the purchasing of their sites, aren't you effectively a retailer now as well?

Mr Reitzer—Most definitely not.

Mr FITZGIBBON—But in effect you are?

Mr Reitzer—No, I am a wholesale distributor. I beg to differ.

Senator MURRAY—It is like a franchising—

Mr Reitzer—There is a new franchising code in Australia, but, in theory, of the 4,000 independent customers I have, only about 700 belong to banners. I have taken those banners from 29 to three. I would like to franchise them to me according to the new franchising code, but that is a process we would have to go to. But I am not a retailer; I talk on behalf of retailers.

Mr FITZGIBBON—I would not be suggesting that you are a retailer, but you are close to the retail end of the market in the way you interact with them.

Mr Reitzer—And we are totally driven by them.

Senator MURRAY—I was interested in your EBIT remarks. I seem to recall it was page 48—I have not got it in front of me—of the Woolworths submission. They indicated that the EBIT of other countries was much higher than Australia's. Quite frankly, I smelled a rat, from what I know of retailing worldwide. I would like to ask you, on notice, to go back to the Woolworths submission, have a look at their EBIT table—and they had two tables, one for EBIT and one for EBITDA: before depreciation and amortisation—critique that for the

committee and come back to us with a view as to why either Woolworths or your earlier statement was wrong?

Mr Reitzer—Yes, I will.

Senator MURRAY—How many wholesalers of your kind are there in South Africa?

Mr Reitzer—There are six of significance.

Senator MURRAY—Of the nine countries you have had experience of as a businessperson visiting them, is the wholesale sector by and large a fairly large one? Would they have six, seven, eight or more wholesalers?

Mr Reitzer—Yes.

Senator MURRAY—Australia is very unusual in having just three wholesalers, isn't it?

Mr Reitzer—Yes.

Senator MURRAY—You have discussed with us—without using the terminology—the question of vertical integration. Backward vertical integration is where the retailer owns the wholesaler; forward vertical integration is where the wholesaler owns the retailer. You have clearly indicated to us that you believe the wholesaler should get out of retail.

Mr Reitzer—That is correct.

Senator MURRAY—Do you also believe that the reverse should happen—that where you have somebody with major market power such as Woolworths, it is undesirable in terms of a balanced and competitive market for them to control one of the only three wholesalers available?

Mr Reitzer—Our strategy to only focus on wholesale distribution is purely a business strategy. It is not a legal strategy or anything like that. We feel that, as a businessperson, you should have focus and that, being a wholesale distributor, your focus is different from being a retailer. They are different skills.

Senator MURRAY—Let me add to my question if I may. I do not know which of the nine countries you are referring to, but my understanding is that some countries in the world prohibit ownership between wholesale and retail.

Mr Reitzer—That is correct.

Senator MURRAY—So from a competition point of view, it is desirable that each sector of the channel be vibrant and competitive. Therefore I am asking you, is it desirable that, where there are only three wholesalers, one of the three major retailers should own it?

Mr Reitzer—I really find difficulty in answering the question; maybe I can answer the question another way. As a pure wholesale distributor, having AIW control by Woolworths is extremely difficult for us.

It is a little bit like fighting with one hand tied behind your back because they link to such a big retail chain. Anything you want to do or anything you plan, given that their muscle is considerably bigger than yours—although on the wholesale side they are much smaller than you—it is very difficult to compete. Whether it should be changed or not or whether legislation should be brought in, I really cannot comment. I would not know.

Senator MURRAY—The reason I ask this question is that NARGA put a set of recommendations to us as to ways in which market power can be restrained and divestiture is one of them. But they have not attended to divestiture of the wholesaler ownership, which

in itself restrains market power, because plainly Woolworths owning a wholesaler increases its market power.

Mr Reitzer—Yes, that is correct. I think the reason they did that is that they really focused on the retail side. That is why their submission was on those lines. We really would not have a recommendation on that. We welcome wholesale opposition and we know how to handle it. We believe that wholesale opposition is strong and there should always be a choice for everyone, including an independent retailer, who should be able to go to more than one wholesaler.

Senator MURRAY—Yesterday Senator Boswell asked questions about critical mass which were good questions, in terms of what critical mass was necessary for a wholesaler. It would seem to me that three wholesalers is the minimum for a competitive market and, in fact, it would be desirable for there to be more wholesalers. But to have more wholesalers your point would be that there needs to be more independents, which is the business of putting back the market share of the majors. Isn't it the case, though, that where you only have one wholesaler the independents have very limited choice? They are almost forced to deal with one person and that puts you in a very powerful position—almost as a monopolist in some states.

Mr Reitzer—It would put Davids in a powerful position but our pressure is determined by the pressure the chains put on our customers. Our customers are always coming back to us and saying, 'The chains are selling this particular product for \$1. I need to be able to sell it for \$1 and make so much margin so the price you must therefore charge me is \$1 minus X.' That is the real thing that drives our margins—keeping our customers competitive. If we became fat and lazy and said, 'We could not get the price or that is the price so take it or leave it,' we would be forcing our own customers out of business very quickly.

Senator MURRAY—You regard your competition as not other wholesalers but as Coles and Woolworths?

Mr Reitzer—Yes. From a grocery point of view, if we decide that our customers must sell a bar of soap for so much to be able to compete then we work backwards from that. That is why we track the selling prices of Woolworths and Coles so that we can work backwards from those and that gives us our starting price.

Senator MURRAY—This is my last question. Back to Senator Boswell's question: do you have any idea of what a critical mass is in terms of numbers of units for a wholesaler to survive profitably in Australia?

Mr Reitzer—I know at the ACCC inquiry into one of Davids's acquisitions—I don't know which one—in one of the states they said that approximately \$2 billion would be the critical mass for a wholesale distributor. Our wholesale distribution does about \$2.4 billion or \$2.5 billion, so I guess it is near that.

Senator MURRAY—Is that about 2,000 stores?

Mr Reitzer—About 2,000 independent stores?

Senator MURRAY—Yes.

Mr Reitzer—It would be a little bit more. It would be closer to 3,500 independent stores, if I use our current averages. I think the really important thing to judge that is when you take the buying power of the critical mass and you go back to the manufacturer and say, 'Please support the segment of the industry. Please give us promotional money. Please allow us to advertise.' You try to put pressure on that manufacturer and he then turns around and says, 'The turnover you guys are doing as independents is marginal. I am not prepared to invest.'

I am not prepared to give you marketing money and I don't want to be part of your TV advertising. It is worthless because the volume you are going to do as a result of it is nothing.' I think we are very close to that in this country at the moment.

Senator MURRAY—Thank you.

Mrs ELSON—Mr Reitzer, before you stated that there are some independent bodies being offered 15 or 16 times their average weekly takings. How many are actually taking up that offer? Do Davids have any control over that decision—of whether they can or cannot sell—and do the independent retailers have to pay out Davids a certain amount of money to get out of a contract that they may have with you?

Mr Reitzer—The process is an ongoing process. In the state of Victoria last year, \$160 million worth of retail turnover—that was either us or AIW—was bought by the three chains. That is just in the state of Victoria, to give you a feel of the size of it. We would only have a legal point of view where we hold the head lease. With a number of our independents, when they go into a shopping centre or even a strip development, they can only get the lease if Davids signs the head lease and they become our tenant.

In that case, where we are on the line as a head lease, because we have to pay the rent we would say that, if he sells the business, we have first right of refusal. We would only have a legal right where we hold the head lease. The customer has to phone us and say, 'I have an offer from X company. It is for so many dollars. If you are prepared to give me the same, you can have the store.' That would be the only time that we would have a legal binding on that, which is in the majority. But I would say in the greater majority of cases, even where we do not have a head lease, the customer would still phone us and say, 'Look, I have an offer. You do not have any legal hold over me, but if you want seven days to try and match it, you may.' Then we have seven days to try and find another independent who would be prepared to go in there.

Mrs ELSON—How many stores are actually closing down or taking that offer per month? How many independents are you losing from your books?

Mr Reitzer—An average of four to five a month, I would guess.

Mrs ELSON—Forty-five?

Mr Reitzer—No, four to five.

Mrs ELSON—I was going to say! We are closing down the industry quickly, aren't we?

Mr Reitzer—Sorry. It is my accent.

Mrs ELSON—Thank you.

Mr FITZGIBBON—Can I clarify that? What is the incidence of head lease ownership?

Mr Reitzer—If you want, I can go and find out exactly, but I would guess it is in the region of 200 to 300 stores of our 4,000 customers.

Mr FITZGIBBON—Thank you.

Mr Reitzer—If you want me to double-check on that, I can.

Mr FITZGIBBON—No, that is fine.

Senator BOSWELL—What share of the market have you got? What are your comparative shares?

Mr Reitzer—I think if we talk about the market that Nielsen measures, my understanding of the market that it measures is that it takes the turnovers of Woolworths, Coles and Franklins, the turnover of FAL in Western Australia, Davids, AIW, and TIW in Tasmania.

Senator BOSWELL—Let us exclude Western Australia and Tasmania for the sake of the argument, because they are not there.

Mr Reitzer—Maybe I can answer the question that way and then come back. If we take all of that, the independents hold 20 per cent, Davids hold 14, our customers hold 14, FAL customers hold four, and I think the last two per cent is divided between TIW in Tasmania and AIW.

Senator BOSWELL—FAL?

Mr Reitzer—AIW are the Woolworths—

Senator BOSWELL—What percentage are AIW holding in the wholesale market?

Mr Reitzer—Of the wholesale—

Senator BOSWELL—Of the wholesale market. That is where you are coming head-to-head.

Mr Reitzer—Yes. Can I do some sums quickly?

CHAIR—Approximately.

Mr Reitzer—About 12 per cent.

Senator BOSWELL—You are holding about 20 per cent and they are holding 12 per cent?

Mr Reitzer—Of the purely wholesale market. What I have done is add up my guess at the turnover of AIW, FAL and Davids—the formal wholesale market in Australia.

Senator BOSWELL—So they are holding 12 per cent?

Mr Reitzer—Twelve per cent of that.

Senator BOSWELL—What are the other composite three holding?

Mr Reitzer—FAL hold about 20 and we hold the balance.

Senator BOSWELL—Of the total Australian market?

Mr Reitzer—Yes, including Western Australia.

Senator BOSWELL—So it is 12 versus 20, is it?

Mr Reitzer—Yes, AIW hold 12 per cent; FAL in Western Australia hold approximately 20 per cent.

Senator BOSWELL—I am not interested in state breakups. I want the national breakup.

Mr Reitzer—Of the total national market, AIW hold approximately 12 per cent, FAL 20 per cent and we would hold the difference—about 67-68 per cent.

Mr NAIRN—You mentioned earlier, Mr Reitzer, that you do price checks around Coles and Woolworths, which all your independents can have access to. Is that right across the board or selective checking in the various states?

Mr Reitzer—No, it is across the range in all states.

Mr NAIRN—It is a sample, not every single store?

Mr Reitzer—No, we would do one store in Victoria, one in Queensland.

Mr NAIRN—Do you find dramatic differences between city and rural?

Mr Reitzer—We do not track it for that purpose. We track it as a service to our customers. I cannot answer that question. We do not analyse the data.

Mr NAIRN—It would be interesting to get hold of. A number of independent people have commented that they often cannot buy a particular product at as cheap a price as Coles or Woolworths are selling it retail. I cannot understand how that circumstance can come about if it is a product by the wholesaler, because presumably you are competing very well with AIW in a wholesaling sense—you are not being done over by AIW or the other wholesalers in that respect. So how can that circumstance come about where one of your independents cannot buy—I think earlier this morning we heard a liquor example; you are pretty heavy in the liquor area—

CHAIR—There is also Coca-Cola.

Mr NAIRN—Coco-Cola is one. What I am trying to find out about is the circumstances where you are buying direct into the retail from manufacturers and you cannot match that. I am really at a loss as to how that particular circumstance can arise.

Mr Reitzer—We never have that complaint from another independent that is buying, for example, from AIW. So we never have a complaint where one of our franchises would come to us and say, ‘There is a FoodWorks customer’- which is the banner of AIW—‘and they are selling cheaper than us.’ We can always get to that price or that margin. We often have cases where we just cannot come anywhere near the price being sold by Woolworths and Coles. We get hold of the manufacturer and get one of a myriad replies. It is very often the case—and the examples quoted are like part of our daily lives—where we just cannot get close to the price that is being sold or that is being advertised by one of the three major chains. It could be one of two things—I do not know which one it is. It is either that they are buying better or that they would be cross-subsidising and putting money into that product. It can only be one of those two—or they are selling it below cost, which I do not think would be the case. But they could be the only reasons. That is a day-to-day occurrence.

Senator MURRAY—Or it is discriminatory selling?

Mr Reitzer—What does discriminatory selling mean? Sorry, I do not know.

Senator MURRAY—When they preferentially price to one buyer as opposed to others.

Mr Reitzer—Yes, I suppose so. Yes, I understand.

Mr NAIRN—The liquor example that was given to us this morning—I think it was whisky or something like that—was from one of your independent stores. They said they could not buy from you for the price that Safeway—I think it was—was selling that whisky. Clearly, Safeway would have to be selling it at below cost or else somehow or other you are not competing from a wholesale point of view.

CHAIR—Or lead loss market.

Mr Reitzer—It could be a lead loss or they could be buying it cheaper.

CHAIR—But just in summary on Gary’s point there, do you believe that Coca-Cola is able to sell directly to Coles—seeing that we have them sitting here today—at a cheaper price than you are getting them at? Would you believe that to be the case or not?

Mr Reitzer—One of the problems where the comparison is made is promotions, and perhaps that is the case with Coca-Cola because I do not think that is true generally.

CHAIR—So it is lead loss again, is it?

Mr Reitzer—No. Or Coca-Cola would come along—that is a bad example—a manufacturer would come along and say, ‘On this product for this month it is chain A’s chance to get \$5 off a case and to have a promotion. But, chain B, it is your turn next month, and chain C, it is your turn the month thereafter.’ So our customers will then phone us and say, ‘Hey, chain A is selling it for \$5 a case cheaper. Get us a price.’ We would phone the manufacturer and say, ‘Yes, but you know in two months time it is your turn.’ So the Coke example could be that it is just the price; it is their turn for a promotion.

CHAIR—Senator Ferris has the last question.

Senator FERRIS—Would it be accurate to describe a typical client of yours as one who sells some delicatessen items, some meat, some small vegetables? Would that be a typical client of yours as a supermarket—somebody who would sell a little bit of each of those things?

Mr Reitzer—If you were to look at the number of customers, the biggest portion of the number of our customers are in medium-sized stores which would have—just to paint the picture—three or four stores and would have a bakery, maybe a bake off and not a full bakery, and it would have a bit of a butchery.

CHAIR—Fresh fruit as well?

Mr Reitzer—Yes, they would have fresh foods. They would have a small deli department, a small cheese range, and they might even have things like fresh flowers and so on. If you look at the volume and the money side, the majority of our business goes to big full service supermarkets because they are the ones that do the volume. They have exactly the same offering as anyone.

Senator FERRIS—The answer to my question is very interesting because what you have just confirmed for me is that the analysis done by Nielsen—which showed that, in fact, the big three supermarkets have 80 per cent of the food retail sector—does not take into account what is your typical customer. It simply takes into account dry food packaged and sold in a supermarket. If all of the dimensions of a supermarket are taken into account, as you have described them as being your typical customers, then, based on the ABS household expenditure survey data, the three largest players do not have 80 per cent; they have 43 per cent. What Davids have been doing is financing NARGA’s campaign on this to cap those big three supermarkets at 80 per cent, which would mean that they could double the number of retail outlets they have now before that cap would come in if we were to implement NARGA’s policy. I just wonder whether, in financing that campaign—and let me say I am not in the least critical of your decision to do so—you were aware that the data that the campaign was based on is not representative of a typical Davids client at all.

Mr Reitzer—I totally disagree with the second definition of the market. The issue that faces this committee, we believe, is what is the dominance of the chains in terms of where the housewife goes to do her shopping. In Australia, the choice of the housewife is one of the three chains or a number of independents. Therefore, the market has to be defined as everything those three chains sell, added up all together, and everything the independents sell, added up all together—be it flowers, fruit and vegetables, meat.

Senator FERRIS—But that is what you have just said were your typical clients.

Mr Reitzer—If you would allow me to finish, if you do that arithmetic, the three chains have 80 per cent of that defined market and that is the problem.

CHAIR—This is critical for us as a committee because the AC Nielsen one, which is so often quoted by NARGA—and you have been involved in their campaign—only restricts itself to one—

Senator MURRAY—Mr Chairman, I am getting irritated with this ‘involved in their campaign’. Is it any different him paying for NARGA for Coles making substantial donations to the Liberal Party? Does that prejudice your chairmanship? It is an outrageous implication. They pay the Liberal Party hundreds of thousands. Am I going to say you are therefore not an objective chair? It is outrageous.

CHAIR—Can we have time out on this? I have no idea which of the major chains have contributed what to the Liberal Party.

Senator MURRAY—I have.

CHAIR—I do not have a problem with them contributing to the campaign.

Senator FERRIS—Senator Murray, I never said that I was critical of it either. I find the suggestion that I might have to be quite misleading.

CHAIR—It is quite normal, having come from a trade association myself, for majors in an association to pay for particular campaigns. That is not unusual. No-one is being critical of it, but I think it is important to see who the players are behind particular campaigns.

Senator FERRIS—I see this issue as being quite critical—that is, the extent to which the three large retail food outlets are in fact dominating the market. Is it, as the ABS figures say, 43 per cent, or is it, as AC Nielsen say, on a narrower base, actually 80 per cent? If it is only the ABS figure that is critical here, then any suggestion that it be capped at 80 per cent would mean that the big three could double their market dominance before the cap would kick in. That is all I was trying to draw out.

Mr Reitzer—I agree with the senator that it is absolutely crucial that we define the market correctly. Obviously someone has been briefed to do that. The market is the choice that the housewife has. That has to be the market. Is that being unfairly or disproportionately dominated or not? The way I do my arithmetic is that I get the balance sheets of the three chains. I get their published figures and add them up. I know my turnover and the FAL and TIW turnover. I double it to get the retail sales. I add them altogether, and the three chains are 80 per cent of that which balances back to Nielsen’s.

CHAIR—I think we will take your comments into perspective when we ask for official advice from the ABS on this thorny issue.

Mr JENKINS—For fear of getting the wrath of the whole committee given that Mr Reitzer has been with us for an hour, I am coming to grips with what Davids is actually in the business of. I have a couple of questions to try to help me. I do not think it is a problem with your presentation; it is probably me trying to get my head around it. You have reduced the number of banner groups that you are involved with to three. Are they different forms of IGA?

Mr Reitzer—Yes.

Mr JENKINS—So what are the three?

Mr Reitzer—There were 29 banner groups and within each banner group previously we never had homogenous stores. So you would get a banner group like Festival which would have stores in it that were big stores doing \$200,000 or \$300,000 a week and you would have stores doing \$50,000 a week. You could not market that because how do you put out marketing for different sized stores? So we have gone to three channels. We like to call them

three tiers. The first one is IGA supermarkets—that is, the Independent Grocers of Australia supermarkets. Those are the big stores—full service stores. They offer the same as a Woolworths or a Coles. The second banner is IGA Everyday, which is the three to four stores still offering the full range—in other words, all the fresh departments but not that big. It is a smaller sized store. The third channel is called IGA Friendly Grocer, which is a smaller store purely for convenience. It inevitably will not have all the fresh departments. Those are our three clear channels. Our strategy is that when we market that to the consumer and we say it is either a supermarket, an Everyday or a Friendly Grocer she knows exactly what we mean. That is the reasoning for doing that.

Mr JENKINS—Of your clients, there are 700 that are involved across the banners?

Mr Reitzer—Yes.

Mr JENKINS—But you have overall—

Mr Reitzer—Four thousand customers.

Mr JENKINS—Are some of the other 3,300 operating under banners?

Mr Reitzer—No, they are all either unbannered stores or not retailers. There are certain organisations like an RSL club or something like that.

Mr JENKINS—Do the ones that are not the banners get the full range of services that you provide?

Mr Reitzer—The big difference if you are unbannered is that you get no marketing support; in order to survive you have got to join a banner otherwise you do not get any marketing. But an unbannered customer can come to us and say, 'Please help me re-lay my store. Please help me lay it out.'

Mr JENKINS—In your evidence, you said that Davids acts as a sort of head office for those stores.

Mr Reitzer—Yes.

Mr JENKINS—To me it is a bit beyond just being a wholesaler. It does mean that you have an involvement in their retail.

Mr Reitzer—Yes. I am trying to develop their businesses so that they survive and then so will we.

Mr JENKINS—In the hypothetical case of a cap, whatever figure we set for the cap and however we define your portion of the market, the Davids-serviced stores would fall outside the cap because they would all be considered to be individual. Do you think that would be fair? Given the nature of the four pillars and things like it that have been suggested to us, the consequence could be that Davids' share of the market could go beyond a figure but, because each of the independents are independent, there would be no comeback by other players?

Mr Reitzer—I cannot comment as to the mechanism that the committee has to achieve its objectives. I really would not know what would be fair or unfair. But if you were to cap the markets, the independents are not going to grow beyond 100 per cent minus the cap. There is no way they would do that because the chains would be operating at whatever that cap is, however it is defined.

CHAIR—There is one question Senator Ferris has suggested I ask you that I thought was worth while. What evidence do you see of the deregulation of shopping hours having an impact on the independents' share of the market? Have you evidence in that regard?

Mr Reitzer—I can go and dig out the exact figures for Victoria. But it has a severe impact on our market.

Senator FERRIS—Can you supply that to the committee? It would be very interesting.

Mr NAIRN—Can you clarify something, because it is quite critical. You were talking before about the percentage of the wholesale market. Of the figures you gave, Davids have 68 per cent of the wholesale market.

Mr Reitzer—It is 20 per cent and 12 per cent, which is 32—

Mr NAIRN—So it is 68 per cent of the wholesale market.

Mr Reitzer—Sixty-eight per cent, yes.

Mr NAIRN—But you do not sell to Woolworths and you do not sell to Coles. Do you sell to Franklins?

Mr Reitzer—No.

Senator BOSWELL—But that is 68 per cent of the wholesale market.

Mr NAIRN—I realise that. A very large part of your wholesale market is going outside your definition of the supermarket aspect. It is going to single shops and all sorts of other things.

Mr Reitzer—Independents, yes.

Mr NAIRN—But you are wanting to exclude that part of the market when it comes down to determining market share. It just does not match.

Mr Reitzer—Could I clarify that. Two questions were asked. The one question that I think we have been discussing is defining the retail market. If we define the retail market as fast moving consumer goods sold by either the three chains or the independent food retailers, then the three chains have 80 per cent of that market and the independent retailers have 20 per cent and our service section of that 20 per cent. If we look at the wholesale market in Australia, we exclude the major chains because when they are buying to a distribution centre and send it to their supermarket that is not wholesale; it is just a logistical method of getting the goods to their supermarket. I do not count that as wholesale.

Mr NAIRN—So the wholesale part of a lot of that operation is not included in your 100 per cent.

Mr Reitzer—It is just a distribution job. I am only taking the turnovers of Davids, FAL in Western Australia, TIW and AIW, which happens to be part of Woolworths, but we can ignore that. They are serving 20 per cent of the end market. If you bring them back to wholesale, how is that divided up? I have got 68 per cent of that.

Senator BOSWELL—Andrew, you have said that you do a lot for the independents: you do their buying, advertising and store refurbishment. Why can't you cut the mustard? Why aren't you up there with them? Why are they beating you off the pace? What advantages have they got?

Mr Reitzer—There are two reasons—and one is evident; it is in the press. Davids, over the last three to four years, was not a well-managed business. Our bottom line is the result of all those decisions and bad management, or whatever you want to call it, which we are trying to rectify. The real issue is critical mass.

Senator BOSWELL—So your critical mass is at a break-even level?

Mr Reitzer—Yes. We believe we can still make money, which is why we made the investment, and we think we can still run a healthy wholesale distribution company. With that, we can get the retailers that we have to grow. In terms of critical mass, it is touch and go.

Mr JENKINS—I would like you to take this on notice. You mentioned the franchise code's effect on the arrangements that Davids has. Could you supply us, in writing, with the movements and whether it is going to mean that Davids will have a different relationship with its clients.

Mr Reitzer—Historically the banner relationship was a very loose one. It was, 'Yes, I want to join the banner and I will promote,' and there were no ties. We believe that to be able to offer the manufacturer value for money—in other words, to get the manufacturer to invest marketing funds in this channel—you have to have discipline. Discipline means that, if the manufacturer gives you a price off, you pass it on to the retailer and, if you promise a manufacturer, 'If you give me money and if we advertise this, I will have it on a gondola as the customer walks in the front door.' This can only be achieved if you tighten up the way we deal with that.

We were about to do that, and then a new franchising code came out—a new agreement was written—in about October last year. So that all has to be rewritten to make sure that it applies with that code, and then we are going to go to the 700 customers, not to the 4,000. It is a method of forcing them, from a promotion and marketing point of view, to behave like a chain: if we decide that tomorrow the price of Coca-Cola in all the IGA stores across all three channels is going to be \$1.99, that they will all advertise it. If you advertise on TV and the customer comes in and it is \$2.25, you have got a problem.

CHAIR—Is it likely to have an effect on the service fee?

Mr Reitzer—No. It just makes the rules tighter.

CHAIR—Thank you very much, Mr Reitzer. You have been very patient. Your knowledge of the industry and the depth of your experience have been very valuable to the committee. We compliment you on the way in which you have been able to present to the committee and the way in which you have been very open and forthcoming in your answers. You have provided a different perspective on the market as a wholesaler and major player and it may well be in the interests of this committee to see you once more, but let us wait and see how we go. Good luck with the cricketing scores from South Africa. We welcome you here. With Coles Myer up at the back, you never know, they may make you an offer you cannot refuse! Thank you for coming.

Mr Reitzer—Thank you very much, Mr Chairman. I will answer those two questions from the committee.

Senator FERRIS—And also the question relating to the experience of Victoria's deregulated shopping hours.

Mr Reitzer—Yes. If there are any further questions, you have my number.

CHAIR—Thank you for the very professional way in which you have done this.

[11.31 a.m.]

BARNETT, Mr Guy, Consultant, Mitre 10 (Australia) Pty Ltd

BERWICK, Mr John Stewart, General Manager, Marketing, Mitre 10 (Australia) Pty Ltd

RUTHERFORD, Mr John Paul Christopher, Director and Chief Executive, Mitre 10 (Australia) Pty Ltd

CHAIR—I would like to welcome representatives from Mitre 10. We have taken longer than we thought we would and we apologise for that. From our point of view, there was a lot of interest in following the issues through. The committee prefers all evidence to be given in public, but you may at any time request that your evidence, part of your evidence or answers to specific questions be given in private and the committee will consider any such request. I point out, however, that evidence taken in camera may subsequently be made public by order of the Senate. The committee has before it submission No. 230 dated April 1999. Are there any alterations or additions you wish to make to that submission before we proceed?

Mr Barnett—No, there are not, Mr Chairman.

CHAIR—I now invite you to make an opening statement and then we will follow that up with questions from various committee members. Thank you.

Mr Barnett—Thank you very much, Mr Chairman. With your forbearance I will begin with the opening statement and pass to John Rutherford and John Berwick for further preliminary statements and then we will be pleased to answer questions.

Mitre 10 is Australia's market leader in hardware and home improvements retailing, and we recognise the vital social and economic role of small business in Australia. Mitre 10 believes continuing social cohesion and economic viability of the Australian community, as we know it, and particularly the social and economic viability of rural and regional Australia depends on a fair go for individuals, for families and for small business as well as big business.

As a socially responsible cooperative group of independent small businesses, Mitre 10 rejects the win at all cost philosophy demonstrated by many of the big nationals and, unfortunately, by some of Australia's large public corporates. Mitre 10 suggests that Australia's local governments, state and federal governments should be alerted and concerned by the tactics and philosophy of any major corporate player, whose managing director is of the philosophy and inclination to make statements such as:

We believe there is plenty of money for both of us if we attack the weak and defenceless and not each other.

That is a quote from Dr Ken Moss, Managing Director of Howard Smith/BBC Hardware, commenting on Australia's other major corporate hardware chain, Wesfarmers Bunnings Hardware, and that is from *Inside Australian Hardware*, August 1997.

Mitre 10 is now the biggest hardware retail brand throughout Australia, with 890 individually owned home and hardware stores throughout Australasia. There are 720 stores Australia wide and 170 in New Zealand. Of those 720, 270 are in metropolitan areas and 450-odd are in country areas, meaning two-thirds of its members, which are predominantly small businesses, are in rural and regional Australia. The group is servicing all hardware market segments, with stores operating under the banners of Mitre 10, Mitre 10 Home and Trade and True Value Hardware.

Mitre 10 store chains are also unique in that they are the only national hardware group which is wholly owned and controlled by private and independent operators. They represent, in particular, family owned and operated businesses which breathe life into the rural communities. The income and profits made are most often reinvested locally. Mitre 10's member stores provide a whole range of social and community services in addition to selling a single product. They provide a de facto bank for local residents, particular assistance to the elderly and commitment to the community. Small businesses are providers of local jobs and local cash flow. They are community stalwarts, social workers, tourist information providers and much more than people who simply sell a product.

We say our government should learn from the painful lessons of the overseas evolution of retail hardware home improvement stores. John Rutherford will comment on this very shortly from his recent experience in the US and the UK and his knowledge in that area. We should establish a regulatory regime to prevent anticompetitive market dominance and abuse of market power. We need to look to the UK and the US in that regard.

We say that Australia's retail hardware sector is presently poised on the brink of a precipice from where it will plunge into the same anticompetitive and unhealthy environment in which Australia's present grocery retail sector is forced to operate. We do not want our industry to be dominated in the same way as Australia's retail grocery sector is dominated. John Rutherford will also comment on the history of the retailing sector, and John Berwick will comment on the increase in the market dominance of B&B and Bunnings. In this regard, I simply note that, in the next two years, there is planned a 200 per cent increase in stores by those particular companies and a 500 per cent increase in turnover over the next many years.

In summary, Mitre 10's corporate philosophy embraces a level playing field, fair and free competition as a means of ensuring optimal benefits for consumers, suppliers, owner-operators, employees and the Australian community as a whole. We wish to also differentiate between the socially responsible corporate philosophy of Mitre 10 and the big end of town corporate philosophy of the emerging hardware duopoly in Australia as exemplified by the statement of the Howard Smith managing director.

It is clear the federal parliament should legislate to stem the growing stranglehold of the major corporate chains in, firstly, the retail grocery market in Australia and, secondly, the home and hardware sector to ensure it does not reach the same dangerously high levels as that particular sector. Our recommendations are designed to pre-empt the looming diabolical problems in our industry. We have regulations and laws relating to banking and cross-media ownership, and we need laws in this regard as well.

Finally, Mitre 10 seeks, as a primary objective, to establish a limiting threshold of the major chains, market share, market dominance and anticompetitive practices by the more rigorous enforcement of a greatly amended Trade Practices Act. In the alternative, we recommend that the federal parliament pass a series of antitrust or anticoncentration style legislation. I will now pass to John Rutherford and then to John Berwick for their opening comments.

Mr Rutherford—Mitre 10 has been operating as an Australian organisation for 40 years, having commenced in Melbourne in 1959. It started with just eight people who had no thoughts of it ever getting out of the greater Melbourne area. Over that period of time, it has grown throughout all the states of Australia and exists also in New Zealand.

We love vigorous competition. We are not afraid of that. We are a marketing oriented organisation rather than a buying oriented organisation. We do both, but one was a corollary rather than an objective. We like to be out in the marketplace and we like to be competing.

As Guy has said, we really want in this submission to draw attention to the dangers that we see further down the track for small businesses who are engaged in the independent hardware industry and to observe also what has happened in some of the other countries in the world, including North America, both the United States and Canada, and the United Kingdom.

I would not like the committee to feel that Mitre 10 has come along with a submission simply to put our hand up and ask for protection. On the contrary. As an organisation we have done a great deal for many years—and continue to do a great deal—to try to ensure that our members are in the best possible position to continue to compete vigorously in the marketplace.

Specifically, we are nearing the end of a complete restructure of the Mitre 10 organisation, which previously operated through state or regional companies which were quite autonomous, each with its own board of directors. We are in the final stages of bringing those six into being just one. The reason for that, primarily, is to give us speed to market so that we can be innovative, even more so than now, so that we can react quickly to what our competitors are doing out there in the marketplace. It is also important nationally to ensure that we are the most cost-effective structure that is possible in today's competitive world. So within months—and before the end of this year—Mitre 10, after 40 years of operation, will be in a better position than ever to compete even more vigorously in the marketplace.

Another major project which we are in the midst of at the moment is what we call a tiering and branding strategy. In other words, we look at the marketplace in Australia and in the world to see how the independent sector can best address the competitive pressures of today. We are examining how many segments of the market we should be addressing, with what style of stores, with what format of stores, how they should be branded and how those segments come together under the umbrella of the very powerful brand which has been established over the last 40 years—Mitre 10. We anticipate that that study will be concluded so that the results of it can be implemented in the year 2001.

Together with all that, we are conducting a very intensive review of the supply chain, from the manufacturer right through to the consumer, to ensure that with the new Mitre 10 organisation that will very soon be in place we will have the most cost-effective and competitive distribution system possible. All this is to put members in the position to compete vigorously. So we are not, in any way, afraid of competition.

One of the great difficulties that we have in bringing together so many independents, family businesses and small businesses is that their access to capital is very much more difficult than access to capital by the large public companies. We accept that, but the great difference is that, when we operate in any market for goods throughout Australia, that site and that small business has to make a living from that particular site, and they do not have the opportunity to amortise operations such that they can take a decision to take a loss for a period of time and to operate in a way that enables them to take control of that particular market. This centres around the fact that they are family businesses and small businesses confined to that site of operation.

Having just returned from the United States, Canada and the UK, it is quite obvious that the concerns that we have have occurred over there over the years. There is an organisation called Home Depot, which started the warehouse style of operation back in 1978. They are very dominant and many others have followed them into the warehouse style of operation. As we speak, the latest numbers indicate that Home Depot has a turnover of \$US29 billion within the United States alone. To put that in some sort of perspective, that represents about

25 per cent of the industry, which is the same percentage which is held by all the independents with a turnover total of \$29.3 billion.

In the UK, effective independent hardware merchants are virtually non-existent. Yes, they are there, but they really do not have a place in the industry. Their stores are inadequate and not of today. Some of this is very much their fault in that they did not take the marketing steps and the structural steps to align themselves with marketing groups such as Mitre 10. That, combined with the European trend—as in America—to warehouse retailing has virtually spelt the demise of the independent family style businesses in the United Kingdom.

Our submission also seeks to draw to your attention that, as family businesses, our members are part of the fabric of the communities in which they operate. It seeks to advise you that they are very much a part of every local community right throughout the whole country, both in terms of their commitment to what is required in the town and their participation in all manner of ways, including Rotary and so forth. Our whole *raison d'être* is to give these people everything they need to be able to continue to compete vigorously against the larger warehouse stores. Our problem, of course, is that they have access to the sort of capital that we do not and therein lies our particular problem. Having said that, at this stage I would like to hand over to John Berwick, who is the General Manager of Marketing for Mitre 10 South West Ltd.

Mr Berwick—Firstly, I would like to pick up on John's point about us very much subscribing to a free and open competitive environment in the marketplace and pick up on a couple of key issues about what is happening globally in terms of capital investment in our industry sector. A back-of-the-envelope type exercise would support that something like the independents across the nation—not just Mitre 10 but all independents—would have invested something approaching \$1.8 billion. That is a fairly traditional investment that has been in place.

In contrast, the two major corporates—the duopoly that we have referred to—have spent about \$800 million since the commencement of building warehouse sites in 1992. It is \$14 million a site and they have 65 sites on the ground at the moment. That is approaching an \$800 million figure with another 53 sites planned by 2001—just three short years away. The corporate sector of our industry will have invested in the order of \$1.6 billion in new facilities—if you like, an equivalent amount of capital that our whole independent sector has employed. In fact, the rate of investment has escalated such that in 1998, the calendar year just completed, there were some 25 warehouse sites established across Australia, mostly on the eastern seaboard. At \$14 million apiece that comes to \$350 million or \$1 million a day being invested in building these types of sites. Clearly, with that sort of investment going in our industry, that is our big handicap. It is not the fact that we are afraid of competing or vying for the consumer's support in given markets, but it demands massive change and structural change in our industry.

The other factor there is the market share that that will drive. Some of the comments made earlier about the food industry were interesting because it depends on the definition of the market. Our projections are that the total market is assessed at something between \$16 billion and \$19 billion. That is then discounted back for the market that our retailers and our competitive retailers, particularly the corporates, are vying for. The figures vary between \$8 billion and \$10 billion for that component of the industry. The industry that we are vying for is an \$8 billion to \$10 billion market size. We see, with the sort of investment being made, that a 25 per cent to 30 per cent market share will be achieved within three short years by the corporates combined.

However, if you do a deeper analysis, those stores will only service about 50 per cent of Australia's population. Therefore, if you like, in individual catchments where their stores are, their market shares can be as high as 60 per cent. Certainly 50 per cent is readily achieved. For instance, we believe that in the Melbourne market—which is an area where there has probably been the greatest concentration of investment—the figures are probably approaching the 50 per cent mark now.

The other key point I would like to make is the squeezing of wholesale margins. We make comment in our document that the distribution needs and structure are critical aspects of how the hardware and home improvement sector functions. With a business that is as diverse as our business—with something like 50,000 products in the range—and that is geographically very diverse—we have mentioned the 800 independents we represent and then there are many more—they are very reliant on wholesalers or a centralised distribution facility for a wide cross-section of their needs. Whilst the industry has eliminated the wholesale distribution in the areas where products can be efficiently shipped direct—high volume, bulky type products—the reality is that both suppliers' and retailers' needs are met through a very few strategically placed distribution centres, not unlike Davids wholesale operations throughout Australia.

As an observation, the big box retailers aim to strategically bypass this function through their capacity to buy larger unit volumes per site and with simple logistics of only a few urban delivery points. Their aim over time is to erode the functional margin for distribution through a range of trading term demands which, in recent times, have also included consignment stock. We think the flow-on impact to the wholesale distributors, independent merchants and the consumer is obvious, particularly the far-flung rural type businesses. They are reliant on those sorts of wholesalers.

To sum up, we think the key is market share balance so that the balance of power in the buying process is maintained. Then we have to be good enough, in the selling sense, to compete alongside all competitors, including our corporate competitors.

CHAIR—Thank you very much.

Mr NAIRN—Unfortunately, we have had your submission only since this morning, so I have been doing a bit of speed reading here. Forgive me if I am misinterpreting something, but could you help me? On page 13, you have a break-up of the market, which shows Mitre 10, including True Value, with 21.7 per cent of the market share. But on page 26, the merging duopoly, you talk about Mitre 10 along with Danks Home Hardware—which, on the other one, has 7.8 per cent—having around 20 per cent in the year 2000. You have got 21.7 and 7.8, so there is 29 per cent there. Can you just explain?

Mr Berwick—The key thing there—and I think we have addressed it in that market share section or sales profile section, which starts on page 10—is that there are differing views on the size of the market.

Mr NAIRN—So we are talking about two different markets there possibly?

Mr Berwick—Yes. The total market is in the \$16 billion to \$19 billion, but the market that we are really operating in is this \$8 billion to \$10 billion range, which will explain some of those sorts of variations.

CHAIR—What are we talking—millions or billions?

Mr Berwick—Billions.

Mr NAIRN—There is another thing I would like to ask. In your recommendations—we are talking about caps here as well, similar to what we discussed in the retail grocery area—you are suggesting a cap of 25 per cent, but you want to apply it to only the corporate chains; you do not want to apply it to yourselves. If Mitre 10 is effectively operating, it may be family businesses but you have got the power of a group, and that is why it comes together as a group. Given this other one here, you have already got 21.7 per cent. It would not take too many of the other so-called independents to change their banner and cross to Mitre 10 and you would be well over that 25. Why should something like that be considered, whereas the so-called corporate is restricted?

Mr Barnett—Mitre 10 has an open mind with respect to exactly whom that 25 per cent applies to. There is a very strong argument, we believe, that because it is an amalgam of independently owned and operated family businesses—small businesses primarily—that it is not relevant to them. But if the structure changed in some way that made it into a corporate entity where you could transfer income from one side of the country to the other and it had all the aspects and descriptions of a major corporate entity, then of course it should apply. So there is no problem there. There is an open mind. But at this point in time, the way it is structured, there is very good argument to say that they are an amalgam of small independently owned and operated businesses.

Mr NAIRN—Yes.

Mr Barnett—They cannot do the same things as a corporate chain can as far as having certain prices here and other prices there and transferring income one to the other. It is not that sort of entity.

Mr NAIRN—What effect, though, does that have at the wholesale end? How is the wholesale market broken up currently? You were mentioning the wholesale and the big sheds going around some of the normal processes. But, effectively, what is happening at that wholesale end overall right across the market?

Mr Berwick—There are very few wholesalers. They are exclusively really servicing the independent sector of the market. Corporates are operating on a direct supply basis. Essentially, there are two organisations involved in wholesaling. One is Mitre 10, but we do that, we think, to support our business, not as the reason for it.

Mr NAIRN—So Mitre 10 is a wholesaler.

Mr Berwick—Yes, we operate distribution centres.

Mr Rutherford—Only to the extent that we supply our members exclusively.

Mr NAIRN—Exclusively?

Mr Berwick—Yes.

Mr NAIRN—And your members can only buy from you?

Mr Rutherford—They can buy elsewhere but the vast majority of the purchases are derived through Mitre 10 either through our distribution centres or by what we call direct shipment—depending on the style of merchandise and the quantity—from suppliers to their store.

Mr Berwick—And the other major wholesaler public company, John Danks and Sons, operates genuine wholesaling facilities in three states.

Senator BOSWELL—So there are only two wholesalers left?

Mr Berwick—Two major wholesalers with significant coverage. Then there are some smaller ones in Western Australia and in a couple of other states, I think.

Senator BOSWELL—I cannot quite understand the market break-up here. What percentage have the independents got and what have the corporates got? It seems to me that the independents have got 45 per cent and the corporates have got 22 per cent.

Mr Berwick—That is correct. On page 11—

Senator BOSWELL—I am on page 13.

Mr Berwick—That is correct, page 13. That is a consultant's assessment of the split of the market.

Senator BOSWELL—So the independents have got 45 per cent and the corporates have got 27 per cent.

Mr Berwick—Yes, that is correct.

Senator BOSWELL—You are in a reasonably healthy position, aren't you? How much market share are you losing per year?

Mr Berwick—We are not questioning the healthy state of the independent sector at the moment. What we are trying to highlight is the trend we see emerging with the rapid investment of our two corporate competitors and the fact that that structure is destined to change.

Senator BOSWELL—In 1992 the big ones came in. How much market share have you lost since then?

Mr Berwick—I do not have that figure.

Mr Barnett—Mitre 10's view is that they want to increase their market share over the next few years.

Senator BOSWELL—So does everyone. That is a natural wish of all business—to increase market share. But isn't there a difference here where, in the grocery section, we are facing a lack of critical mass? If there is nothing done about it, then the critical mass goes beyond a level that they cannot exist. It would seem to me that, with a break-up of 45 to 27, the balance is the other way where you have got the critical mass.

Mr Barnett—Mitre 10, as far as the 45 goes, has 21.7 on that particular chart on page 13. So that is acknowledged. But the reason we are sitting here is to say let us look into the future, let us look at what is happening in the US and the UK. We are throwing out a warning light, a cautionary note to say that this is what is happening—the trend is moving this way. And it is more than a trend; there is evidence to say that the market share of BBC and Bunnings is going to be very seriously affected.

CHAIR—How can you say it is a trend if you cannot answer Mr Boswell's question about what is happening in market share since the majors started to go into it? What trend?

Mr Berwick—There are tricky issues. Firstly, the market is expanding by natural growth, and also is taking in more categories. So that is fuelling some of this growth that the investment is being geared at by the corporates. The other thing is that there is some shrinking of share amongst the collective independents. Mitre 10 has not experienced that. We are stable in terms of—

Senator BOSWELL—So you not losing any business?

Mr Berwick—No, not at this stage. We are stable. The key thing is to break down the brands. We still have a very broad industry, but there are probably really only three brands inclusive of Mitre 10 that have a presence in Australia. The rest fall away quite dramatically.

Senator BOSWELL—What do you mean by ‘three brands’—Danks, yourselves?

Mr Berwick—No. Mitre 10, Bunnings, BBC Howard Smith with varying strengths by state. But they are the major national—

Senator BOSWELL—What has happened to the minor chains like Thrifty Link, et cetera.

Mr Rutherford—Home Hardware and Thrifty Link are sponsored by the Danks company. They are wholesalers. They are still there. They have a relatively minor share of the market. There are no strong indications that they have prospects of any real growth. They might be able to maintain what they have got. The difference comes back to the different emphasis on marketing.

Senator BOSWELL—I was in the hardware game and I know a bit about it. You are coming here and saying that you could be in trouble in five years time or 20 years time, and you want us to intervene in the market. You are holding 45 per cent of the market.

Mr Barnett—It is 21 per cent.

Senator BOSWELL—No, it is not. It is 45 per cent that the independents are holding. I can see a point in the grocery trade where there is a problem. You are below the critical mass—there is a problem. If you go below that you cannot have an independent sector, but I cannot see the problem when you are at 45 per cent.

Senator FERRIS—I just want to clarify one point here. You say on page 13 that Mitre 10 is listed as 21.7 per cent and Danks is listed as 7.8 per cent. Then, when you turn over to the emerging duopoly, you include Mitre 10 and Danks as up from 18 per cent to 20 per cent, and yet, if you add together these other two figures, you actually get 29 per cent. Are you planning to take over Danks Home Hardware, Mitre 10?

Mr Rutherford—No.

Senator FERRIS—How do you get up from 18 per cent in 1996 on one page, and yet, if you add together the figures on page 13, you actually get 29 per cent?

Mr Rutherford—The submission would have been better had it concentrated on one set of market figures.

Senator FERRIS—I would agree with that.

Mr Rutherford—We are sorry for the confusion that has caused. The figures shown on page 13 are for what could be loosely described as the retail segment of the market. The market is about \$19 billion. The other numbers that you have just referred to are based on a subset of that \$19 billion, which we believe is the segment that we—with our competitors—are all chasing. That is known officially as the ‘builders supplies wholesaling industry segment’, which is about \$10.8 billion at the moment and is forecast to be \$13.2 billion. So in the attempt to demonstrate a subset known as retail on page 13, and then referring to the broader industry of presently \$10.8 billion and by 2001 \$13.2 billion, we have confused you.

Of that \$10.8 billion—to be \$13.2 billion—Mitre 10 nationally has about 14.4 per cent, which is a very different figure from the 21 per cent indicated on the shrunken or chosen retail segment. We are sorry for the confusion that has caused.

CHAIR—I presume you have finished, Senator Boswell.

Senator BOSWELL—No. You have not lost market share; you have increased market share.

Mr Rutherford—Marginally, yes, we have.

Senator BOSWELL—Where are you taking your margin from? Where is your market share increase coming from?

Mr Rutherford—In part from growth, which in part has to do with extended hours trading, as far as the industry is concerned.

Senator BOSWELL—So you are saying that extended hours is helping you.

Mr Rutherford—My personal view is that extended hours trading takes disposable income away from other sectors, including all manner of things: gambling, recreation, sport or whatever. Quite obviously, as primarily do-it-yourself retailers, the time that most people attend to what they need from us is on a Saturday and Sunday, where that is possible. We recommend to our members; we cannot tell members what to do, but we do encourage them to fully exploit the trading laws, legally. That has had the effect not only from Mitre 10's activities but also nationally—

Senator BOSWELL—So there is a growth in the market.

Mr Rutherford—There is a growth in the market which is in excess of natural growth.

Senator BOSWELL—Can you tell me, in the growth of these big stores—Bunnings or whatever—is there any predatory practising? Is there any unfair or market advantage that they get that Mitre 10 do not get?

Mr Rutherford—At the buying end?

Senator BOSWELL—At the buying end.

Mr Rutherford—We would believe not. John might care to comment on that.

Senator BOSWELL—Are you buying as well as them?

Mr Berwick—We are doing our best to do that, yes. I think we would draw the observation, though, that what we have seen, particularly overseas—and I made the point about this wholesale margin squeeze—

Senator BOSWELL—Yes, but, honestly, we are not looking overseas. We are on an Australian market.

Mr Berwick—Sure.

Senator BOSWELL—Are there any advantages that they have that you do not have?

Mr Berwick—Yes. They have very few sites doing a very large volume, as opposed to our organisation. Where we want something delivered to our stores, we say, 'Mr Supplier, would you deliver to 800 addresses for us?'

Senator BOSWELL—Don't you put everything into a warehouse and then deliver it?

Mr Berwick—We do that where it is appropriate, but there is a cost associated with that.

Mr Rutherford—Around 40 per cent of activity goes through distribution centres, but there would be near enough to 60 per cent still going direct from suppliers to stores.

Senator BOSWELL—So they are buying without a warehouse?

Mr Rutherford—Yes, because of their volume. Yes, they do.

Senator BOSWELL—Because you are putting everything into one store and you are buying under one name—in other words, you are giving an order for a couple of thousand bins to be distributed out—aren't you getting a better price by putting it through your warehouse? By centrally buying, isn't that giving you a price advantage over them—that is, having stuff delivered to one or two sites?

Mr Rutherford—We would contend that it can be a disadvantage because of the costs associated with that.

Senator BOSWELL—Then why did you put the warehouses in?

Mr Rutherford—Because of the nature of our small business groups who cannot take the same quantities as the large corporate retailers. They can buy in pallet and multipallet lots. We are dealing with 720 stores that cannot take anything like that quantity and actually need, for 40 per cent of their activity at least, to have a centralised inventory that they can draw from weekly, otherwise they cannot afford to be in business, with the cost of inventory.

Mr JENKINS—Isn't this sector an example of the changing way in which consumers look upon the way they want to go and purchase goods? Won't you survive because you will provide niche markets; you will provide the expertise, rather than people just walking into the big barn warehouse and serving themselves?

Mr Rutherford—We would hope so. Certainly, there was a lot of discussion back in 1992-93 as to whether or not the culture of large warehouse stores would ever be accepted throughout Australia. Quite clearly, with those that are on the ground already and those that are planned, it has been. To take up your point, Mr Jenkins, there are still a lot of Australian consumers who, rather than walking up and down canyons of pallet racking, prefer to go to a more traditional style of hardware store and get service and advice and all that goes with it.

Mr JENKINS—These warehouses took a while—Magnet, McEwans, with the big players then coming out and buying them out. McEwans went out of shopping centres and things like that. There has been a radical change in the way it has been perceived.

Mr Rutherford—Yes. Bunnings are the people that, having purchased McEwans, are taking those smaller convenience stores out of the shopping centres in favour of the larger warehouse stores. I know that Senator Boswell said, 'Let's not be too concerned about what happens overseas.' Home Depot, having reached 25 per cent of the market in their own right in the United States, are now proceeding with that program. In addition to that, they are developing what the Americans are calling 'infill stores'. In other words, they want a large share of what they call the mom and pop market as well. They are developing, in addition to their warehouse stores, stores of around 35,000 square feet. The first is to open in New Jersey in June and they are going to go right throughout the United States infilling between the warehouse stores these 35,000 square feet mom and pop hardware stores.

All the people over there who have geared up and fought and have done reasonably well in competing against the warehouses are now faced with the same organisation standing toe to toe with them on the same style of store that you are referring to, where you do get the additional service and advice. They are called Villager and, to all intents and purposes to the consumer, they will be mom and pop hardware stores.

CHAIR—It sounds like a marketplace.

Mr JENKINS—What does the American experience then say about their anti-trust laws? What are we supposed to get from this evidence that you—

Mr Barnett—I am not familiar with exactly what the law said with respect to growing market dominance in the home and hardware sector in the US. I cannot comment on that.

Mr JENKINS—You mentioned planning laws. This is slightly different from other aspects of the retail sector, given that these warehouses have a planning use under industrial areas and things like that. It just seems even a harder call to try to get the states to change their attitude,

although I take the point that all you are saying is that there should be some sort of economic or social impact statement, which is, I suppose, what you want to stress to us.

Mr Barnett—Yes, absolutely. The thrust of that would be to say, ‘Let’s have a look at the economic and social consequences that flow through from one of these big box warehouses going in.’ It is all well and good perhaps in the short term with jobs that are established in building the warehouse or what-have-you. In the longer term, the social consequences of other small businesses disappearing and jobs being lost—those sorts of costs—need to be taken into account. We want an encouragement and would like, in particular, local government to make sure that those studies are done before giving the green light.

Senator MURRAY—Do you believe that franchisors can control the market?

Mr Berwick—With some difficulty, I would say.

Mr Rutherford—We are not franchisors. Whilst we are structured as an unlisted public company, in essence we are a cooperative, owned by the members. Our revenue comes from the members. We do not have a franchise as such where we own sites and we derive great profits from the retailers. Each of our sites is licensed to use the Mitre 10 system, symbols and programs on that particular site. The revenue is in large part derived from add-ons to the passage of merchandise through the Mitre 10 organisation both on a direct supply basis and through the distribution centres. At this stage we are essentially a not-for-profit organisation. We are not really a franchisor.

Senator MURRAY—Your recommendation 2 says that no major corporate chain be allowed to control more than 25 per cent of the total hardware home improvement market share. Of course that 25 per cent is being mentioned for other industries. The committee has to consider that to be either mean owned or mean controlled, which is the word you used. Sometimes franchisors can control the market. If it does not mean franchisors, the prospect faces us of, say, a Coles or a Woolworths being capped or restrained at a certain percentage but then being allowed to franchise if they wish. That is why I am asking you that question.

Mr Rutherford—We would regard that as unfair in that circumstance.

CHAIR—Thank you, gentlemen, for your forbearance in terms of the delays in your presentation coming on board. Thank you for the presentation and particularly widening out the area of discussion review. I appreciate your input.

[12.17 p.m.]

GERMANO, Mr Paul, Owner and Managing Director, Phillips and Stone, Bairnsdale

CHAIR—I welcome Mr Germano. The committee prefers all evidence to be given in public, but you may at any time request that your evidence, part of your evidence or answers to specific questions be given in private and the committee will consider any such request. I point out, however, that the evidence taken in camera may subsequently be made public by order of the Senate. The Senate has before it submission No. 94, dated March 1999. Are there any alterations or additions that you wish to make to your submission?

Mr Germano—No.

CHAIR—I now invite you to make an opening statement and then we will follow that up with questions.

Mr Germano—I was asked to come here to answer questions. I do not have a statement other than what I have put in my letter.

CHAIR—That is fine, Mr Germano. We always welcome that. The shortening of the process is always welcome.

Mr Germano—I am not quite sure that I can talk with the millions and billions of dollars that the other people before me have.

CHAIR—Who asked you to come today?

Mr Germano—Steve Curran from Canberra.

CHAIR—I invite members of the panel to commence questions.

Senator BOSWELL—Can you give us a background to your business? Did you say you were a wholesaler?

Mr Germano—I am in food wholesaling. I am a member of the Countrywide buying group.

Senator BOSWELL—Do you buy with Davids?

Mr Germano—No. Countrywide is an independently owned wholesaling group of 96-odd members around Australia who buy through the Countrywide group from the manufacturers.

Senator BOSWELL—I was not even aware that there was such a wholesaler left. I thought there were only three. So there is another wholesaler in Victoria?

Mr Germano—Yes. There is Countrywide and there is also NAFDA, which is another wholesale buying group which consists of—

Senator BOSWELL—And that is a food buying group?

Mr Germano—Yes. It is a food buying group, but it also sells chemicals and paper.

Senator BOSWELL—And you are servicing the motels and the hotels?

Mr Germano—Restaurants and hotels, yes.

Senator BOSWELL—So you are not buying the traditional lines of food? You are buying butter and toilet paper in little giveaway packs?

Mr Germano—Yes, that is right. They are small amounts or portion controlled amounts like you get when you go to a motel for a weekend.

Senator BOSWELL—So you are not in food retailing?

Mr Germano—Not as such, no.

Senator BOSWELL—I understand.

Mr Germano—Although what I have seen over the past year or two is that the chains have been selling in my area. In Bairnsdale, they have been selling products that I sell. For example, they are selling four-litre bottles of tomato sauce, which are usually only sold by wholesalers.

Senator BOSWELL—You are in a separate little business in a little box of your own. You have a van that goes around and sells to the—

Mr Germano—Yes. I have a sales rep and two storemen. There are five of us in the company, plus we have a contract driver.

Senator BOSWELL—How is market domination affecting your business?

Mr Germano—What I have seen is that the corner stores and the takeaways, et cetera, which used to buy a lot from our company, have now moved to buying from Woolworths or Coles, the large chains.

Senator BOSWELL—So you are not supplying the corner store. Who are they buying off now?

Mr Germano—Woolworths or Coles.

Senator BOSWELL—So they just go to a retailer to buy?

Mr Germano—Yes.

Senator FERRIS—They must be paying more.

Mr Germano—They have times when they supply a product for prices cheaper than I can. When you say they are paying for it, there are times when they do pay for it, but there are times when they do not.

I would rather leave the actual buying power of Countrywide until the proper submission is given because, although I have facts and figures from the managing director in Sydney, I am not really sure of the big dollar values.

Senator BOSWELL—The terms of reference of this committee are to investigate market domination and how it is impacting on other sectors of the retail area. What share of the business are you losing? What have you lost to Coles, Woolworths or Franklins?

Mr Germano—I think you will see in the letter that I sent the percentages of what I have lost from the small takeaway shops.

Mr JENKINS—Is that in part because those shops have disappeared?

Mr Germano—A lot of them have disappeared now, yes. But also the ones that used to buy a lot off me have told me that they will go and buy off Coles or Woolworths.

CHAIR—Why is that? On what basis? Is it price, service or range of product?

Mr Germano—Basically it is because of range of product and price, not service. No, it is not service.

CHAIR—And how many stores do you service?

Mr Germano—All up? How many customers do we have?

CHAIR—Yes.

Mr Germano—We have approximately 300 to 400 account customers a month.

Mr NAIRN—A lot of those ones that you are losing must be walking down the street and going into a Coles or a Woolies or whatever and making their purchases and then walking back to their takeaway rather than have you deliver the product to them?

Mr Germano—That is right, with the trolley, yes.

Mr NAIRN—They have to be buying cheaper to do that, because it must be a hassle for them running a business and also going out and walking the supermarket aisles?

Mr Germano—Yes, that is right. That is what I say.

Mr NAIRN—Is that because you are almost a medium level business between a wholesaler and the retailer effectively? You are a subwholesaler because you are buying from a wholesaler, Countrywide, are you not?

Mr Germano—I will explain Countrywide a bit better.

Mr NAIRN—Yes, if you could.

Mr Germano—Countrywide is made up of 90-odd independent owners who are shareholders of the company. Every Countrywide member is a shareholder of Countrywide. Whether it is from a small wholesaler like myself or from a large wholesaler such as general merchants in Melbourne—

Mr NAIRN—But you are buying direct from the manufacturer as a group?

Mr Germano—We buy at comparable rates, yes, at the same price. Countrywide buy at the same price.

Mr NAIRN—As a group you must be buying at a higher price than, say, Davids or AIW or whatever if you cannot then compete with the takeaway chicken shops and such?

Mr Germano—Correct. As I said, I do not really want to go into this because the managing director, Tom Bourne, of Countrywide Australia from Sydney and, I dare say, also NAFDA will present some of these figures to you.

Mr NAIRN—They are presenting a submission, are they?

CHAIR—I understand they are.

Mr Germano—I am not sure of certain little extras that Woolworths and Coles may get, but apparently there are certain percentage allowances which put groups such as ours at a slight or big disadvantage. I would rather not go into that. I am not sure of the facts. I only know what I have been told.

CHAIR—If you were in the position of this committee, what would you want to see happen in the marketplace?

Mr Germano—I know that the honourable senator over here before said we do not want to look into the future, but the way I see it going is there is a certain group which is owned by one of the major chains that is reaching out for the wholesale market which is going to affect my business. I can see in the future that they will have the buying power, which they have now, to be able to put me and my whole company out of business, I would say. I feel that is what will happen.

CHAIR—How many customers have you been losing a month, for example, on average?

Mr Germano—I have not got that information.

Senator FERRIS—You say here:

I estimate it's dropped to five to 10 per cent.

Mr Germano—That is of that section of the business, of the takeaway business, yes. We also have other sections which are the motels and restaurants.

Senator FERRIS—So the takeaway food shop business has dropped to five to 10 per cent of your total market?

Mr Germano—No, of my sales to those businesses. As an example, five years ago I was selling, say, a \$1,000 a month or \$1,500 a month to a certain takeaway customer. Now I might be selling him \$100 or \$200.

Senator FERRIS—Have you looked at the sorts of things that they have stopped buying?

Mr Germano—Yes.

Senator FERRIS—Can you tell us what those things are?

Mr Germano—Basically, as I said before, tomato sauce, the toppings—things like that. I have been to the retail chains and I have seen some of the prices that they offer. We can match them, but we are going to lose money on it.

Senator FERRIS—Those retail prices would be significantly lower than you are able to offer those clients as wholesale prices?

Mr Germano—Yes.

Senator FERRIS—How can that be? Have you tracked that back to the supplier?

Mr Germano—You would probably be better off talking to the managing director about that because that is as far as I have ever tracked it to.

Senator FERRIS—It just intrigues me that someone who is busy running a small business would go down to the local supermarket and buy a box of four-litre bottles of tomato sauce. The cost to them of not being in their shop working would suggest to me that the service you provide would have made up for any 1c or 2c discrepancy in price. Have you not being able to convince the clients that way?

Mr Germano—I have tried. I welcome everybody to come to Bairnsdale and have a look.

Senator BOSWELL—Isn't your problem that you have not got the purchasing power of, say, the Davids or those sorts of people, that you have not got the absolute critical mass that is required?

Mr Germano—Yes, I agree with that. I know that Coles and Woolworths have got huge purchasing power, and I think the reason that I am here is the question that was asked, 'Where do you want to see everything going at the end of the day?' At the end of the day, I do not want to be working for Coles or Woolworths because they have the biggest purchasing power.

Senator BOSWELL—So what you are suggesting is that you have a set wholesale price? It does not matter what you buy, there is a retail price with 20 per cent off, and if you are a wholesaler and you have a wholesale number you get that price. If you buy \$100 worth or \$10,000 worth, you get that price. I think this is where you are coming from. You are a registered wholesaler and you have a buying group, and you are saying that when you go to a manufacturer he should give you a 20 per cent discount so you can match Coles, Woolworths, AIW or Davids. Is that what you are saying?

Mr Germano—That is what I am saying, yes.

Senator BOSWELL—I now know where you are coming from.

Mr Germano—I will say another thing: at the end of the day, if that does not happen, there will only be two people buying off the manufacturer who will be able to practically dictate their price.

Senator FERRIS—Have you as a buying group ever considered checking on what price you could get if you sourced your materials through a larger buying group like say, Davids, so that your Countrywide buying group might, for example, take along your shopping list and

see what Davids could supply you at? It just seems to me that you lack the market power in your group to be big enough to give you the price leverage that you need to be able to compete. Have you as a buying group ever discussed that? Have the shareholders of the group discussed that?

Mr Germano—I am sure that the management has.

CHAIR—Have we got further questions from the panel? If not, thank you for coming here today. We have been very interested to hear what it is like at the grassroots and how you feel the majors are having a direct impact on your business. We appreciate that first-hand advice.

Proceedings suspended from 12.33 p.m. to 1.42 p.m.

MURDOCH, Mrs Barbara Joan, Proprietor, Chiltern Supermarket

CHAIR—I welcome Mrs Barbara Murdoch. The committee prefers all evidence to be given in public, but you may at any time request that your evidence or part of your evidence be in camera or be taken in private, and the committee will consider any such request. I point out, however, that evidence taken in camera could subsequently be made public by order of the Senate. The committee has before it submission No. 141 dated March 1999. Are there any additions to or deletions from that submission?

Mrs Murdoch—No, there are no deletions. I can add anecdotes to it.

CHAIR—We now invite you to make your opening statement and then we will follow with questions from the committee. We appreciate you coming and bringing your time forward.

Mrs Murdoch—When I get over my nervousness I will be all right.

CHAIR—We are an ordinary group of people. Don't worry about us.

Mrs Murdoch—To me this is a very important hearing, particularly for the livelihood of small businesses—not just the business that I am in, but small businesses in small towns in general. I would like to thank you for the opportunity to speak about the demise of the small independent supermarkets and the small shop owners, particularly those in small country towns, due to the effects of the relentless centralisation of the retail trade.

When I first started in this business in Ballan approximately 15 years ago, the independent share was, I think, around 30 per cent. It is now 18 per cent and rapidly diminishing, so I am told. We had a range of warehouses from which to draw. About 15 years ago there were about five but now we have only two, and one of those is owned by the major chains. This is all in the name of economic rationalism.

The independents, though losing ground, still had a major presence in most country towns or rural areas. When I first moved to Chiltern nine years ago there were two large independents in Albury-Wodonga and now there are none. One of those was taken over by Coles and the other one closed down. In Corowa we had one major supermarket and one independent. There are now no independents. Franklins have just taken over an independent. In Myrtleford one of the two independents has just been taken over by the major chains. I believe that Safeway is trying to get into Cobram, which I think will see the demise of both independents there. That is not competition—it is just the small falling by the wayside.

One of the other things that I would like to say is that we are not enhanced by a lot of the government regulations. Our trading hours make it very hard for us to compete. I am up at 6 o'clock in the morning and I get home at 6 o'clock at night. I stand on my feet for 12 hours a day. I cannot do it for 24 hours a day. With the red tape, in a big supermarket one person maybe could do enough for 100. But we still have to do that; just one person has to expand a little bit more to do a little bit more, and that takes a lot of time.

With regard to the contestability of electricity, we are the last on the line. Therefore, we are not competing at the same rate as what the majors are at the moment because our electricity is costing us a lot more. The HACCP legislation is going to mean a big compliance cost for us.

Senator BOSWELL—What legislation?

Mrs Murdoch—The health and critical control points legislation that has just been brought in.

Senator FERRIS—It is state legislation.

Mrs Murdoch—It is state legislation and it is something that is going to result in a lot of compliance costs, particularly to small business and small organisations. With regard to communications—the telephone, et cetera—have you ever tried to sort out what is the cheapest and best way to gauge what you should have for your business? You just do not have time to sit down and do that.

The rents for the larger stores are cheaper per square metre than for the smaller ones. As I have said before, there is also the buying power. Our local milk bar often comes and buys from us because he can get it cheaper from us than he can from his wholesaler. It worries me. How come a wholesaler cannot provide it cheaper than a retailer? Does that mean that the wholesaler is making more profit from us or them as small business and giving that little bit extra to the majors? I do not know.

We do worry about the banks and the four-pillar system. I read this morning that the majors were saying, ‘We are going to have a four-pillar system of retail grocerying if we have a cap on top of the retail system.’ I look at it another way. If you have a chair and you take away one of those pillars, it is not as stable. If you take away another one, it is even less stable. The small retailers would provide a lot of little pillars so that, if one goes, another one can come in and replace it. You take away one big one and it could fall over.

We have seen the restrictive trade and collusive activities already between Woolworths and Tip Top. They are going through the courts at the moment. Who is to say they are not going to do it again? Bread is another area where there are three major retailers. When we get our bread price rises, we get them within a week of one another and bread goes up by exactly the same amount with each wholesaler. It is very tempting, when there is a small number, to be a little collusive. I do not know whether they are or not—or is it just coincidence?

What of the small town if the independent goes? Are Coles and Woolworths going to move into our town? If they are, what are they going to replace it with? Will it be a convenience store? We do not take a lot and they are not going to put a big store in our town. If they do, they might put in a franchise convenience store. Coming down the highway the other day, I went in to buy some Oddfellows mints. They were 30c dearer in the convenience store, which would have a bigger turnover than our local milk bar. To me that is not a fair pricing structure, but that is what we are looking forward to if we are in small country towns.

The small retailers in small towns are committed to the community. My children have gone to school in the town. They have gone to Brownies. I have lived in other small country towns. I have been in Lions. I have been on the kinder committees and the school councils. Often I help if they have got a stall on. We often refrigerate their drinks for them, put their cakes in the fridge and all of that sort of stuff. It is all helping the community to survive. It is a small pie and we have all got to take a piece of it.

If there are no businesses in small towns, a car is a necessity. We have a town near us called Springhurst. It no longer has a retail store to even sell milk. It is 16 kilometres to Wangaratta, about the same to Chiltern and about the same to Rutherglen. So every time they want to go out and get something they have to travel. When we become unviable, so does the town.

When our traders lose business in small country towns, then the jobs go. I try to make it a policy that we employ from within the town, if it is possible, so that the money that comes around goes around. When our jobs go—and we do not have a lot—then they have to seek work elsewhere. If it is the case of young children, they cannot, because they do not have a car to travel. If it is the case of women wanting part-time work, again it is often not worth

the effort of driving the 30 or 40 minutes into Albury or Wodonga to get a job because the cost of petrol and travel time takes it away from them.

Often we are the money lenders in town. If you are short, you just go and ask, 'Can we book up for a couple of days until we get a bit more money?' You usually do it, not all the time, but it is a way of helping the community. In relation to the provision of banking services, we have EFTPOS. We have been very lucky. We are one of the first towns in Victoria to lose our banks—two of them within six months of one another. We have a credit union next door. Unfortunately, a lot of people were tied up with their loans elsewhere, so their banking is elsewhere. So EFTPOS becomes a necessity. With that, the majors get paid to have it, from what I have heard. We have to pay to have it as a service.

I also fear for the small manufacturers and suppliers. Healthy competition is good for them getting a better price. We have also got a case of if you want to start up a product, if you are an entrepreneurial type person, if you cannot get it into the major retailers, it basically does not get off the ground. Once upon a time, if you got it into a few of the little independent stores, yes, the new product would get off the ground or the new organisation would get off the ground. But I wonder whether that is going to be able to happen once we go.

In our town we have a retail petrol outlet. Many of the majors are now going into the supply of petrol. If that continues and we lose from the town our petrol outlet, that is going to diminish the town again because every time we want to go somewhere we are going to have to remember to get petrol from outside town.

When the big stores talk about having jobs—and I am not saying that I am any better at this present time—are they full-time jobs? When you talk about 150 jobs, is it really 150 full-time jobs that they are creating? I think that is something that has to be looked into.

Some of the things we have lost is the representatives from manufacturers. As the big three have gained more and more control, we are losing the representatives that come around and help us merchandise because they are too busy merchandising elsewhere. Besides, the bulk of their product goes to those places. So we find it a little harder to find out about new products. We do not have time to travel in and search around grocery stores to have a look at them, and looking at them in a magazine is not the same as what it used to be when people came around and showed you that product and showed how it worked. Consequently, you often do not get the deals that we used to get through the small stores.

The travelling salesman is a thing of the past. These are all jobs that are going too. Not only are we missing out but also the people who had these jobs are missing out. Travelling salespeople used to come around in vans with a lot of stationery and odds and sods that we could not pick up in the warehouse. I cannot remember the last time I saw those. And the other van sales such as Dandy, which is our wholesale smallgoods salesman, who has just gone to phone sales. Theoretically, he has not lost a job yet, but how long is it going to be before he does? Peters ice-cream is the same. We had a man delivering Mrs Harrison's cakes but it is not worth it. The smaller businesses are getting smaller. Those sorts of things are affecting small country towns because the bulk of it is going into the big three.

Davids has helped us with a bit of cross-stocking, which is where you can ring up and order frozen goods or dry goods from a smaller manufacturer who sends it to Davids' warehouse. Again, it is not that helpful in that we do not see the product first. I do not like ordering a dozen mud cakes when I find out that they are not what I anticipated. I think I ordered some Alpine mud cakes and they turned out to be white ones. That was a bit of a disaster.

If the aim of big business is not to close small business and they are to grow, where is that growth to come from? Or are they going to put their tentacles out—apart from the supermarkets—into other retailers, the newsagencies, the chemists, et cetera, and take their profitable lines? I have got a quote here about chemists from the *Retail World*, 20 July 1998. It was about Mr Brookes. I think he is one of the heads of Woolworths:

There was an ominous warning for chemists in something Mr Brookes said at the QGIA luncheon. Asked when Woolworths was "going to get serious" about getting into pharmacy, Mr Brookes recalled some advice once given to him by former Woolworths chairman, Paul Simons: "He said to me 'If you are going to knock off someone's fence, do not do it all at once. Take a paling at a time'," Mr Brookes said. "Slowly but surely we are getting pharmacy products. Berocca, contact lens solutions and condoms are three good examples. We are the largest retailers of condoms, outside the chemists. At the end of the day, all that the chemists will have, probably, is scripts."

To me that says where they want to get their extra business from. We cannot achieve advertising at the same cost as the majors. I think everybody has probably heard a lot about predatory pricing. It has been on the Ray Martin show and all of those places.

The other thing is the retail share, particularly the grocery side, that the major three draw from. They not only have the groceries but also have K-Mart, Target, Katies, Red Rooster to add to their profitability—something that we do not have. The thing that worries me a lot is that they do not have truth in ownership. We have Bi-Lo, Coles, Woolworths and Safeway. Bi-Lo and Coles are the same firm, and so are Woolworths and Safeway. Why is this so? Is it because we are distinguishing between two different tiers or is it because it gives the public the illusion of competition and choice? I could also say that with products. If they get control of our market, will they pass that saving from the bigger buying onto the customer? I think that is something that has to be asked.

I believe that, with this HACCP legislation that has come in, home deliveries have been stopped from the big stores. They may get round it, I do not know, but that is a big disadvantage to the old and the infirm. Have you ever tried to carry home a load of groceries? We provide a service if they want it. Quite often, if it is somebody old or infirm, we will take it to them. They can ring the order through or we have been known to pick them up and take them home. It is the sort of personalised service that you just do not get from the big companies.

There are lots of things that happen around towns. We have found that you do not get the personalised service from the bigger stores because, theoretically, they are responsible to their shareholders and the bottom line means a lot. To us, the bottom line means a bit too, but, as I said before, we have to live in a community. A couple of examples have happened in the last couple of weeks. We have had the local school come down and check out what is going on in the supermarket. I have allowed the staff to talk to the kids so they can see what it is all about and take them outside and let them have a look at the ordering machines. We have also had, a few times, young under achievers come down who are finding it difficult to manage money. We play through the act of 'How much have you given us?' and giving the right change and working things out. That is all part of a personal commitment that as small business owner we give to the community. If we go, and there is nobody there, that is not there. If we are taken over or replaced by a convenience store where the person is maybe not even living in the community, or is totally dependent on the bottom line, will our small communities survive? The car park business at Benalla I thought was mind-boggling, to say the least.

The other part of our small business in a small town is that we are the hub of the gossip centre. You come in and stroll around. We pass on the news—such as if somebody dies. The first place you go is to our place and we will soon tell you that there is somebody sick. It is a gossip centre. It is the hub of the community, the shopping centre—not just our shop but the other shops that would go if our sorts of stores went.

Finally, since living in small towns, I have seen the excuse of economic rationalism or ‘let the market decide’ mentality slowly cause the demise of these small towns. If you have a small and vibrant town with confidence that it is going ahead, then the whole community goes ahead. If our business sector is going ahead, then the whole community goes ahead with us.

I do not have terribly much more to say. Anecdotally, many years ago my father was a butcher. We had a shop near where the first Safeway store was established in Mentone, I think it was. I can always remember him telling me that the manager had said that their aim in those days was to have seven-day-a-week trading, 24 hours a day, and they did not care how long it would take. That was when I was a little girl—it was a long time ago—and it is here now.

CHAIR—Thanks very much, Mrs Murdoch. I have to say that if you do go out of business there is, I am sure, a strong career as a representative for various trade associations and spokespeople for you did very well. As the son of a retailer as well, I empathise with your experience. Senator Ferris will start with questions.

Senator FERRIS—Just to get a picture of the town of Chiltern, what is the population?

Mrs Murdoch—The population is 1,400.

Senator FERRIS—How far are you from, say, a major regional centre—the nearest regional centre?

Mrs Murdoch—We are 30-odd kilometres from Albury-Wodonga. We are about the same from Wangaratta. We are, I think, about 18 kilometres from Corowa.

Senator FERRIS—Do you have any shops in your town that have seven-day-a-week trading?

Mrs Murdoch—Yes. We have two milk bars and we have a bread shop which closes only on Mondays.

Senator FERRIS—Has that changed dramatically since the state legislation enabled seven-day-a-week trading?

Mrs Murdoch—I think seven-day-a-week trading is one of the forces that has pulled down small country towns, yes. I think that is probably one of the biggest forces.

Senator FERRIS—In relation to your own store, have you noticed any substantial change in your own turnover as a result of perhaps longer hours in the adjoining regional towns?

Mrs Murdoch—Yes.

Senator FERRIS—What percentage would that be?

Mrs Murdoch—I would say about 15 to 20 per cent.

Senator FERRIS—Quite significant.

Mrs Murdoch—Quite significant.

Senator FERRIS—I am assuming, because you mentioned Davids’ holdings, that you are actually a supermarket.

Mrs Murdoch—Yes.

Senator FERRIS—When you were talking before about brand names, would you think it would be more acceptable to the consumers if, for example, all the stores owned by Woolworths or Coles were known as Coles stores or Woolworths stores, in the sense of identifying them as part of that chain?

Mrs Murdoch—Yes.

Senator FERRIS—I ask the question because when we had Davids here this morning—you may have heard their evidence—they talked about there being 29 different brand names that they are taking down to three. When there were 29, the impression could have been given there that all 29 of them were independent when in fact they were all supplied by the same wholesaler. I am not critical of the process; I am just saying that, in the same way, in some ways it is misleading to have 29 different names that effectively come from the same pricing structure as well.

Mrs Murdoch—No. This pricing structure is totally up to us as independents. We work out our own pricing structure as such. We have to make it so that we can be competitive. The specials are worked out by the group that we are in, but the pricing structure that I have in the shop is my own.

Senator FERRIS—But it comes from a wholesale base rate?

Mrs Murdoch—They have a wholesale base rate, that is right, but we all work on that base. Even the milk bar works on that base, but we are independent. As such, we have to buy from somewhere. When I first started in business, we were with a group called Withers. That was bought out by Davids, I think, and then we went to Composite Buyers, because we were in a Budget Rite store at that stage at Ballan. I have not always had a soft spot for Davids. Withers were very good; Composite eventually became a very good wholesaler to its customers. I would say that, if I have to support anybody, I would well and truly support Davids over and above AIW, because AIW now has the sales records of the independents that are buying from them. I think a lot of the sales of those shops, since they have gone to AIW, to these big majors, have been AIW shops. That is a very dicey situation as far as I am concerned. Do you give your competitors a head?

Senator FERRIS—I wonder whether you are worried about the small number of grocery wholesalers.

Mrs Murdoch—Yes, full stop. There are only two and that is worrying. Just as an independent, I support Davids, unless they do something horribly wrong.

Senator FERRIS—If they did something horribly wrong, where would you go?

Mrs Murdoch—If they did something wrong, where have we got to go? Exactly.

Senator FERRIS—Are you the major supermarket in your town?

Mrs Murdoch—Yes. We are the only supermarket in our town.

Senator FERRIS—Has that always been the case?

Mrs Murdoch—As long as we have been there, which is nine years. In the old days, there were about three or four grocery stores in town.

CHAIR—Is that a monopoly position that you have in the town?

Mrs Murdoch—It is a monopoly position. Very good! We also have the milk bars but, by the same token, there is choice as well. People do vote with their feet, to a degree, and go to the majors in the bigger towns, because of the lure of really cut-price groceries.

I think one reason we have government is that quite often people do not realise what they are doing to their own towns. I try to buy everything I possibly can in town. I know that the money that goes around comes around—that it will provide local jobs and give to the community. But, unfortunately, these days, particularly these cash-strapped days, people are always looking for ways to save a little bit more. In the long term, I do not think it will be a saving; I think it will be a cost.

Senator FERRIS—Before the shopping hours change, was there a gradual erosion of your customer base to those regional centres, or do you think it was fairly stable?

Mrs Murdoch—We took over about nine years ago and we completely gutted the shop and started again. Our customer base was rising. Previous to that, we were in Ballan. Every year you would see that during the winter it would go like that; during the summer it would go like that—it was a continuous line. I do not know how far it would have gone and I do not know whether that has made the difference to Ballan, but I think it has because I have seen the odd figures. At one stage we were in the same group and they were on the same level as us.

Senator FERRIS—I am just trying to establish whether the emergence of the big groups in the adjoining town—leaving aside the question of deregulation of shopping hours—was making inroads into your business.

Mrs Murdoch—I think it was in its own way. You have got to take it another way: if there were independents there—and there were at the time—it probably would not have made a lot of difference. I think things were too far gone in the shop we were in for it to have made a difference. What I am trying to say is that a lot of times the shop was so far down that, to get that traffic back, we would have had to cut to the stage where we probably could not have survived. It is rather a difficult one to answer. It is better to ask somebody that is in a town like Kyabram, for instance, or one of those places that have got businesses that have been there for a long time.

Senator FERRIS—I guess the question in my mind is one that occurs whichever state I look at: what would be the effect on towns of your size, which I think lots of people would say is a very vulnerable population size, if a big Coles or Woolworths supermarket opened in a centre about half an hour's drive from where you are? That seems to be when the real price pressures are applied, particularly if that adjoining centre contains, for example, the doctor, the chemist and one or two other critical shops and is where people will make a day of it and do perhaps monthly shops. I was just trying to establish whether you saw yourself as being potentially in that position.

Mrs Murdoch—We are in that position—not potentially! Apart from in Rutherglen and Beechworth, all around us are the big supermarkets and they are closing in gradually—at Corowa; again at Albury-Wodonga; and at Wangaratta, where I do not think there is an independent any more either. They are getting bigger and they are providing, theoretically, a lot more variety. I often wonder about that. You know when a customer is finding it difficult to get a favourite product because they come to you; the big stores cut it out because it is no longer viable for them to have something that is not turning over at 100 miles an hour. Once upon a time, you used to be able to go and buy a nail. Try and buy a nail now; you cannot.

Senator FERRIS—I tried to buy a screw the other day and I had to buy a big box of them and none of them were right anyway.

Mrs Murdoch—That is precisely it. We have the illusion that we have a choice. You go and try and buy a button; you cannot. You have got to buy six. That is the way the majors

wish to do it. It is cheaper for them to do it that way than to go to all the trouble of doing it bit by bit.

I often think recycling is sometimes not getting off the ground because we put out an enormous amount of cardboard from soft drinks—Coca-Cola, et cetera, are the biggest sellers that you have in any supermarket. Once upon a time, the shops used to have crates and you used to return those crates. Imagine doing it to a big supermarket; I do not think they would be interested in knowing about it.

Senator FERRIS—Just one last thing, and that is corporate philanthropy. What we have heard from some of the other people who have been giving evidence so far is the extent to which a small shop like yours gives to the community—for example, sponsors the local footy team, helps the Red Cross or whatever. You mentioned storing cakes and drinks. To what extent does a store like yours also take part in corporate philanthropy, like buying the footy jumpers or something like that?

Mrs Murdoch—It depends on how you are going. We, as small stores, do not have a lot of profit to give around. I was going to say something about my travelling bug. We used to live at Longwarry, which is a small town in Victoria that has a population of 300 or 400. A friend of mine there did a little audit on how many charitable organisations there were in that town. There were 52, if you count schools, brownies, et cetera. Chiltern is a little bit bigger and probably has a few more. We give what we can. We usually give in kind a box of vegetables for the raffles. I mostly sell them soft drink at cost price, so that they cannot get it out of town any cheaper. In fact, I was quite disappointed the other day when somebody said, 'We went to Safeway and they can't get within a bull's roar of that.' They happened to be on special and I gave it to them at cost price. They were totally stunned. The illusion that they can get it cheaper somewhere else is not necessarily right.

For those sorts of things, you do as much as you can, bearing in mind that you have more than one organisation to help. Some organisations, like the local pub, do sponsor the football team. The local motel does sponsor the football team. We try to give as much as we can across the board in all kinds of ways—money or whatever. If there is a local little store, the first thing you do is go and buy a raffle. Who wants to win a box of groceries? That is really it. It is a never ending thing. You just keep trying to give as much as you can to keep the town viable.

CHAIR—Thank you very much. On our far left wing, Senator Boswell wants to ask one or two questions.

Senator BOSWELL—I wrote to every retailer in Queensland and asked them to put in submissions. One of the reasons I did that was I was looking for a submission such as yours today. I think you absolutely touched the heart of the matter. We have had the big end of town in here and we have had the independents, but I think you really hit the nail on the head in what is happening. I congratulate you on your presentation. In here we have got a problem; we have to come up with some solutions. I ask everyone this question. What would be your views if this creeping acquisition were stopped and you did not have the ability to sell your store to Coles, Woolworths or Franklins if they came and made you a very substantial offer?

CHAIR—Good question.

Mrs Murdoch—Good question.

Senator BOSWELL—The question is—

CHAIR—They are at the back, so please take note.

Senator BOSWELL—The question is: would you like to see Coles, Franklins and Woolworths unable to buy any stores?

Mrs Murdoch—As a small retailer, I never have any aspirations that they are going to buy my store anyway, but I cannot see how that makes a difference. If our store is viable and it is going, then there will be other retailers or other people who are starting out in business—and that is one thing I do not think I touched on. Where are our children going to start out in this life if they are always going to work for corporations?

Senator BOSWELL—I understand the philosophical arguments, but I am asking you a direct question.

Mrs Murdoch—I do not think it will make any difference. I think that there will be people around who will buy it; it will still be a viable business if it is making money.

Senator BOSWELL—What I am saying is that Coles, Franklins and Woolworths are coming in and, we have heard, the rule of thumb is five times the weekly take. Some of them are paying 18 times the weekly take. As a committee, one of our recommendations could be that we could stop and we could recommend that Coles Myer not be allowed to make any of these acquisitions. The reaction to that would be that no independent small business would be able to sell their businesses to Coles, Woolworths or Franklins.

Mrs Murdoch—I do understand, but what I am saying is: do we necessarily have to sell them to Coles and Woolworths?

Senator BOSWELL—No, you do not necessarily have to sell them.

Mrs Murdoch—You are saying that Coles and Woolworths can then, instead of acquisitioning, just open up in competition?

Senator BOSWELL—No.

Senator FERRIS—They would not be able to do that either.

Mrs ELSON—Sell your business if it was offered—

Mrs Murdoch—If it was to Coles or Woolworths?

Mrs ELSON—No, if someone came and said to you that they would buy your business for five times more than what it was worth, would you say ‘Yes’ or ‘No’ to them?

Mrs Murdoch—You would be very tempted, wouldn’t you?

CHAIR—One of the recommendations from NARGA is that we impose a cap so that Coles, Woolworths and Franklins will not, under that type of proposal, be able to offer to buy out your store, and therefore those possibilities would be removed. Do you feel comfortable with that?

Mrs Murdoch—Yes, I feel comfortable, provided they are not allowed to open up in opposition right next to me. If you had no choice, that would be a Buckley’s choice.

Senator BOSWELL—Let me put it to you this way. You want to retire, you want to get out, you have been working for six days a week, 12 hours a day for 30 years and you want to go and sit on the beach. The kids are off your hands; you are free. You put the business up for sale, and Coles come in and say, ‘Look, you are taking \$20,000 a week and we’re going to offer you 20 times \$20,000. That is \$400,000, plus your stock, fridges whatever.’ Mrs Bloggs who lives in Cheltenham says, ‘That’s not a bad little business; it has provided a living for the Murdochs for 20 years. We’ll offer her five times the weekly figures.’ You have to make the choice: either you sell to Woolworths at \$400,000 or you are going to take Mrs Bloggs’s offer of \$60,000.

Mrs Murdoch—If they are not allowed to do it, they will not come up. By the same token, I suppose somewhere in life you have to take a stand on principle. I am not saying if it were offered to me now and they are allowed to do it, but if the choice is not there, the choice is not there.

CHAIR—You were also making the added point that it would be acceptable if, by the same token, Coles Myer were not able to set up in opposition to you.

Mrs Murdoch—In opposition as such. If they are not allowed to buy us out and they are allowed to sit back next door to us, this is what the problem is now. You have a choice: you sell to them, or they can open up in opposition to you. What happens then? At the present moment, as a business, as far as I can see Coles and Woolworths are not going to buy us out. That is not an option for us.

Senator BOSWELL—No, it might not be an option for you, but it may be an option for a lot of your colleagues.

Mrs Murdoch—Yes, it may be. I cannot make that decision for them, but I would assume that if they are supporting NARGA and they are supporting their submission that they would agree on the cap.

Senator BOSWELL—You made the point that you did not think there were enough wholesalers. Of course, the reason why there is only one wholesaler left is that the independent market share has shrunk so rapidly that there is probably only room in the market for one wholesaler. The way we are going, we are reaching that critical mass now.

My question is to you, and I use you as a typical grocer. What would be the reaction if Woolworths were told that they were either a retailer or a wholesaler—obviously they are a much bigger retailer than they are a wholesaler—and were removed out of the market and you only had one wholesaler and that would be Davids? That would give Davids more critical mass to get more reductions than your purchases. What would your reaction be to that?

Mrs Murdoch—I suppose I would be very crook on Allan Fels, who let Composite and Davids amalgamate. It is almost no choice for me anyway. On principle, we have Davids. But, yes, I do catch the point that we do not have that and somehow or other there really needs to be another truly independent wholesaler. I think the sort of regulation we have now has just not helped the industry.

CHAIR—The other alternative is what Senator Boswell is talking about, that you don't have Woolworths—

Senator BOSWELL—You go back to one wholesaler.

Mrs Murdoch—I do not like that idea either. We have other wholesalers in other states that possibly could move in.

Senator BOSWELL—You don't, really.

Mrs Murdoch—Western Australia has Foodland.

Senator BOSWELL—Yes, they do, but they are not going to go in against another wholesaler. The point is that the market is not big enough for two wholesalers. That is your problem. The point I make is that by going back to one wholesaler you would get much bigger market power.

Mrs Murdoch—Yes, of course, which would drive the prices down, provided that that was done in an honest manner. That is what we hope for.

Senator BOSWELL—What is the minimum turnover of a grocery shop? I have a mental picture of your shop with five people working in it—husband, wife and three part-timers—

Mrs Murdoch—You are doing really well.

Senator BOSWELL—I am not asking for your turnover. How low can you go to survive?

Mrs Murdoch—There are stores surviving on a minimum turnover of \$6,000 to \$8,000—but that is surviving.

Senator BOSWELL—Is the fact that you are buying at a different wholesale price to Coles and Woolworths making a big difference?

Mrs Murdoch—It is very significant.

Senator BOSWELL—The sales tax on the additional link in the business?

Mrs Murdoch—Yes, the additional link. Being in small business you don't realise these things, and I didn't realise until a few months ago that we do have a difference in that their wholesale is paid at manufacture and ours is paid at wholesale. I believe that that is something like a two per cent difference, and having that corrected would be very nice. I am not saying I am going for a GST either, because I don't know what the paperwork and all that sort of stuff is like. But that is a significant difference to our trade, because buying is the business. Selling is the business if that is what you can do, but buying is the business. If you can buy right, you can sell right. What you can buy at makes a big difference to all businesses.

Mr JENKINS—You are under the banner group Goodfellows?

Mrs Murdoch—Yes, at the moment.

Mr JENKINS—How does that operate?

Mrs Murdoch—It is basically more like a cooperative. We buy out of Davids and we have our own little organisation within Davids with a CEO of Goodfellows. We elect our own committee and they set the prices for specials. They have buyers that buy our specials and organise with the manufacturers at what price, and they negotiate with Davids for us as well.

Mr JENKINS—How is it different from the way that Davids runs the IGA banner group?

Mrs Murdoch—I have not been under the IGA banner group, but we still have a committee the same. Basically, our group is formed by an amalgamation of Welcome Mart and Goodfellows. We still have a committee there. I am not privy to the committee and all its activities. Unfortunately, I spend a lot of my time in a little country town called Chiltern and allow them to do it. I am not 100 per cent sure how they work it, but it is mostly cooperative.

Mr JENKINS—There is no element of competition in the way that the banners operate? You have Davids as the wholesaler. What I am leading to is this: what element of competition is there as a result of different banner groups?

Mrs Murdoch—In Beechworth we have an IGA Everyday and one of their smaller stores is going IGA Friendly. They are still competing within the same town. There is a slight price difference volumetrically on how you buy, but then that is how you sell as well. You have to do it basically by yourself in those towns, how you sell yourself, how you sell the product. There is competition, but it is very difficult when you are both buying at the same price.

Mr JENKINS—Within Davids, is there any evidence that their price is dependent on whether you are IGA or doing your own thing as Goodfellows or whatever?

Mrs Murdoch—Not as such, to my knowledge. They have a volumetric pricing structure in that you buy at the same price but you pay so much percentage more or less for the handling. We pay more; the bigger stores pay less.

Mr JENKINS—In your briefing you glossed over predatory pricing. Do you want to say anything more or give any examples?

Mrs Murdoch—When I was talking of predatory pricing, I was thinking more of if you want to take over a business the best way to do it, if you have got a big backing behind you, is to cop the loss. In a small way we do it in our delicatessen. If we want to sell a new Continental sausage, when you first put it in the deli, people look at it and say, ‘What?’ The first thing you do is you give them a slice; you let them taste it. You carry it for quite a few weeks until such time as people decide that that is not bad, and then it becomes a product on your shelf. Basically, predatory pricing works much the same way, except they take the business away from somebody else until people get used to being with you. Predatory pricing is something done by a big company or another company to get rid of the opposition.

Mr JENKINS—Are you aware of any evidence in the general region of predatory pricing?

Mrs Murdoch—No direct evidence. I do not know about anybody else here but a few months ago Ray Martin showed it in Queensland with the fruit and vegetable shops. That is probably pretty indicative of it. A girlfriend of mine had a bookshop in Adelaide and she said that one of the hardest things was that when you got a line that was selling well you looked across the road and Coles had it. You could never quite get a real good little seller in the big shopping centres because when they discovered you were selling it they had it with bells on. That is a form of predatory activity, I think.

Senator MURRAY—I concur with the chair and Senator Boswell that your presentation is very useful for us in understanding where stores like yours fit in the marketplace and how they have to operate to be part of the community and make a profit. But arising from that I have made the assumption that a major chain could not operate a business like yours profitably.

Mrs Murdoch—No, I do not think so.

Senator MURRAY—That to me means that you would survive whether there is a cap or a restraint on market power or whatever, because there will always be businesses like yours, with relatively few staff, which have immense input from the owner-operators and are very much locked into a certain size market which will continue. Is your support for a restraint on market power for those majors philosophically based? Is it a desire for a few people not to own the world, if it does not actually affect your own personal interests?

Mrs Murdoch—Philosophically, yes. I do think there is a time when we may not be profitable. If enough of our business is dragged out of the town, then we do not survive. That is the other scenario: if enough of that business is dragged out of the town, then we do not survive—nothing survives, like in Springhurst.

Senator MURRAY—So price is the ultimate determinant?

Mrs Murdoch—Price is, basically, the ultimate determinant.

Senator MURRAY—More than range? More than choice?

Mrs Murdoch—Customers like to have choice. I suppose, if you got down to it and enough was dragged out of the town, then you would get only a milk bar convenience type store, which does not have choice. That compounds the problem again, because then there is no choice so they go somewhere else again.

Senator MURRAY—Do you own your land?

Mrs Murdoch—Yes.

Senator MURRAY—That means that you can operate competitively, doesn't it, because you do not have to pay a return to a landlord?

Mrs Murdoch—I will clarify that. I am in the process of buying the other half from my brother. At the present moment, we do pay a bit of rent for his half, although the business is operated by my husband and me. That is to change when they sort out the old time title, which is a pain in the neck. If you look at it from a business point of view, you have got money tied up that you could have elsewhere. That is how the chains look at it. You have still got that money that has to earn something, if you can see what I mean. If I did own the land and was not paying rent, that money should be having a return on it.

Senator MURRAY—But as a businessperson, you regard your investment in your business and your investment in your land as a total investment on which you are looking for a return, or do you separate out the two?

Mrs Murdoch—As a total, but we have quite a lot of money invested. Theoretically, if it were in the bank, you would have to get that, plus what you get for working in it and operating it.

Senator MURRAY—That is all I have.

Mrs ELSON—I have a quick question. You have described what is happening with your town. I have a number of small rural areas in my electorate where I see exactly the same thing happening. Also, going back a number of years, I think you stated earlier that there were three small grocery stores in your town?

Mrs Murdoch—Yes, I believe so.

Mrs ELSON—The same thing happened to me years ago. I had one of those little corner stores; then an independent store like yours came in and we all closed up. I think that is evolution. I believe, in a small country town, you are providing a better variety of service. I would like to get some practical things from you about what you think. You are saying that the state government is putting more controls on you, which is going to cost money. Can you give the committee some suggestions of what we could take off your back to make sure that you are viable and can stay alive in those small towns and compete with the ones that are further away? I know that, for someone who lives in a country town, 20 minutes travel is now nothing to go to a major regional area where they have a variety of shops. Maybe what we should be looking at is how to keep your doors open in a smaller country town and keep that centre there.

Mrs Murdoch—I think a lot of that is also education and, unfortunately, the education that people get is mainly from those people that advertise, and the price is the absolute.

Mrs ELSON—You did say something before about electricity, that you have to pay more for it in your area than they do—

Mrs Murdoch—We have a contestable situation here in Victoria. I think it went in about four stages, but I am not 100 per cent sure. The bigger manufacturing areas got to contest the electricity market and beat down the price, and then the next tier came in. I am not sure whether we are on the same tier as the householders or just slightly above them, but I know we cannot contest it until the year 2001.

CHAIR—I think it is an interesting point, because electricity is not the biggest component. Can you get, for example, through Davids the market advantage of size, or are you just billed according to your store as a sole trader?

Mrs Murdoch—From what I can gather, we are billed according to our store as a sole. But, when it comes to contestability, Davids—and we have already applied for it—will apply as a group so that they have more clout to maybe get a little bit more for us. As an example, I think we use about \$12,000 or \$13,000 worth of electricity a year. I think the cap is about \$14,500 or \$15,000—the figures are a little bit rusty.

It is almost worth while my leaving the doors open and using up the little extra to do it, which is not really viable. That is how close sometimes we can get to it. There are smaller businesses than we are and they have no chance. In the end, we are still not going to be able to get the prices. A uniform tariff puts us on a level playing field. Anything that is uniform puts us on a level playing field.

Mr NAIRN—I was going to ask about electricity as well, but you have answered that. The other one you mentioned was EFTPOS. Are you saying that the larger stores have EFTPOS put on by banks for nothing?

Mrs Murdoch—Yes, as far as I know. At the present moment, we pay \$100 a month to have the EFTPOS in the shop, which is \$25 a week. Plus, if we have credit, which we are getting on, we have to pay about 1½ per cent. That is a rather difficult thing because if somebody buys on credit that is 1½ per cent of your profit down the drain. Often when somebody stops for petrol at the garage across the road and they don't have any money, they come to us to use the EFTPOS machine. At times I really feel quite angry that we are providing a service for the banks and paying to do it.

Mr NAIRN—Is that anecdotal evidence? Are you certain that that is the case?

Mrs Murdoch—Yes.

Mr NAIRN—Once again, I wonder whether there is an opportunity within the independent group—

Mrs Murdoch—The independent group negotiated that price for us. That was the best they could do. To be fair, as I said, we are starting on a new one. That was with ANZ. I think we are going through St George with the next one when they finally get it into the shop and it will be a bit cheaper. But we are still paying and this is what happens to small businesses all the time.

Senator FERRIS—Is the charge based on turnover?

Mrs Murdoch—No, ours isn't, apart from if you get credit facilities. Ours is a set rate, which is quite good because that is what our group did barter for us.

CHAIR—There being no further burning questions from the committee, I would like to thank you for your presentation today. I thought it was excellent. It also gives us a real flavour to the problems being experienced in small country towns. We are going to regional centres around Australia following this. But I think you, in appearing today, represent a whole lot of people who are in the same situation. It does give us the opportunity to hear from you first-hand. I think Coles and Woolworths, who are here represented today, would do no worse than to have you at a board meeting to explain what faces you in rural towns. There are obviously opportunities for people to specialise and so on, but I think you have given us the opportunity to see the problems that you face at the moment. Thank you for coming today and for spending the time with us.

Mrs Murdoch—Thank you for having me. Could I reiterate that it is very important to the small businesses that something comes out of this?

CHAIR—Thank you.

Committee adjourned at 2.43 p.m.

