



COMMONWEALTH OF AUSTRALIA

# Proof Committee Hansard

JOINT SELECT COMMITTEE ON THE RETAILING  
SECTOR

**Reference: Industry concentration in the retailing sector**

MONDAY, 12 JULY 1999

CANBERRA

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## JOINT SELECT COMMITTEE ON THE RETAILING SECTOR

Monday, 12 July 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:** Senators Boswell, Ferris, Forshaw and Schacht and Mr Baird, Mrs Elson, Mr Jenkins and Mr Nairn

### 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).

### WITNESSES

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<b>CHARALAMBOUS, Mr Christos, Area Team Leader, Franklins Ltd</b> . . . . .	<b>1066</b>
<b>CORBETT, Mr Roger Campbell, Group Managing Director/Chief Executive Officer, Woolworths Ltd</b> . . . . .	<b>1078</b>
<b>CORNELL, Mr Ian Grainger, Managing Director, Franklins Ltd</b> . . . . .	<b>1066</b>
<b>DUNN, Mr Ian, National Business Manager, Woolworths Ltd</b> . . . . .	<b>1078</b>
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<b>McKENZIE, Mr Alan John, National Spokesman, National Association of Retail Grocers of Australia</b> .....	<b>1030</b>
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<b>WAGSTAFF, Mr Alec, Corporate Affairs Manager, Australian Division of Coca-Cola Amatil</b> .....	<b>973</b>
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<b>WILLIAMS, Mr Alan, Managing Director, Coles Supermarkets</b> .....	<b>1102</b>

**Committee met at 8.37 a.m.**

**LOWES, Mr Jeremy Stephen, General Manager Sales and Customer Service,  
Australian Division of Coca-Cola Amatil**

**WAGSTAFF, Mr Alec, Corporate Affairs Manager, Australian Division of Coca-Cola  
Amatil**

**CHAIR**—I call the committee to order and declare open this public hearing of the Joint Select Committee on the Retailing Sector, and I welcome all witnesses appearing before us today. Today's and tomorrow's hearings in Canberra are part of the committee's inquiry into industry concentration in the retail sector and the last of our public hearings before the committee reports to parliament on 30 August. The committee has had a very successful round of hearings in rural and regional areas last week, visiting Launceston, Bendigo, Cooma, Dubbo, Bundaberg and Kingaroy. There is much interest in the inquiry, with over 300 submissions being received and hundreds of letters.

The hearing today includes follow-up hearings for Coles, Franklins, Woolworths and NARGA, all of whom have previously given evidence. I welcome Mr Alec Wagstaff and Mr Jeremy Lowes who are here representing Coca-Cola. I appreciate your time in coming here today, gentlemen. Obviously the merchandising of Coca-Cola has focused attention right around Australia so do not feel that you are being singled out unfairly. It is just that your name kept reappearing in the transcripts and because of that, if we are doing our inquiry effectively, we need to speak to you. So thank you for coming. I know there were some questions of whether it was appropriate that you should come or not, but because of the extent in which the name of your company has appeared, I think it is appropriate. And that was the view of the committee.

The committee prefers all evidence to be given in public. However, you may at any time request that your evidence or part of your evidence 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. I also remind witnesses that the giving of false or misleading evidence may constitute a contempt of the parliament. The committee has before it submission No. 314. Is it the wish of the committee that we receive the submission and authorise its publication? There being no objection, it is so ordered. Are there any alterations or additions you wish to make to the submission at this stage?

**Mr Lowes**—No.

**CHAIR**—I now invite you to make an opening statement and at the conclusion of your remarks we will proceed to questions. Thanks very much, Mr Lowes.

**Mr Lowes**—Thank you. The responsibility of the General Manager Sales and Customer Service within the Amatil Australian business extends to all those interfaces which relate to the customer, the provision of product and the service agreements with our customers. Coca-Cola's business objective is one of growth and we understand that we can only achieve our growth aspirations by nurturing successful commercial relationships with all of our customers. We deal with 114,000 customers across Australia and we value the diversity of

that customer base. It may surprise you to hear that we do less than half of our business with the major food stores.

Our marketing strategy is based on a unique understanding of customer needs and specifically how those needs differ in different channels. We grow our business by providing the right products and the right packages at the right price, presented in the right way, in each and every retail environment. Customer needs are very different in various channels. We define the market into two, what we call, macro channels or macro retail environments—one of food stores and one of cold drink. Because customer needs in these environments are so different the product differings are very different. In food stores the primary products sold are what we call multiserve packages, or packages from which multiple servings can be made, and these packages are sold primarily at ambient temperature or warmth; 97 per cent of all volume sold through food stores is sold warm. Alternatively, in the cold-drink market, most of the business is in immediate consumption packages, individual serving packages, and more than 90 per cent of this business is sold ice-cold for immediate refreshment.

CCA's pricing strategy is built on two fundamentals: (1) the cost of doing business in a particular environment and (2) achieving the marketing objectives based on those principles of differing consumer needs which I articulated just a moment ago. Thank you.

**CHAIR**—Mr Wagstaff, did you want to add to that?

**Mr Wagstaff**—No, thank you, Chairman.

**CHAIR**—I think we should kick it off by saying that the recurring theme which we have had—and for those who have been following the wagon around Australia—is that the small retailers are very often unable to buy their product from Davids or AIW for the same price as they can get it for retail through the supermarkets and, as a result, they feel unfairly discriminated against. Many of them say that they go to the supermarkets to gain the supplies for their own small retailer. I wonder how you could explain how this occurs, because it seems that the small retailers around Australia are saying to us, 'Look, this is an example of why we have problems. We can't buy it wholesale for a cheaper price than they can sell it retail. What hope have we got in the marketplace?' Could you explain to us about questions such as volume discounts, terms of trade? We had Rothmans last week and we want to have further discussions with them because they said, 'Everything's the same. No worries. It's all even,' and then we find from the smaller retailers that they have terms of seven days and the majors appear to have terms of 90 days, which they did not share with us when they were actually talking to us, which is unfortunate and we will be going back to them and asking them that very question. Perhaps you could explain to us, bearing in mind that this is a parliamentary inquiry, as I referred to before; evidence that is not in line with what actually happens is seen as being contempt of parliament. Thank you.

**Mr Lowes**—We need to begin with the issue of Davids or wholesalers and then move on to the issue of pricing per se because they are interlinked but they in fact are two different issues. The Coca-Cola system invests significant money in driving category growth or creating new business and everyone benefits from that new business in the partnership. We benefit of course, the Coca-Cola company benefit and in turn our retailing partners. That investment extends to advertising, et cetera, but also to a significant investment in cold-drink

equipment in the marketplace, primarily outside of food stores. We have 140,000 pieces of cold-drink equipment—vending machines, glass fronted refrigerators, fountain equipment—and that investment at purchase cost is valued at half a billion dollars.

We further invest \$50 million a year in servicing that equipment on behalf of our retail partners. We believe that we can get the best return on our investment by dealing directly with our customers. Wholesalers supply the same customer base, but we prefer and elect—therefore, we have chosen—a direct supply route and our pricing reflects this. Wholesalers supplying our customers is not our preferred option and the pricing reflects that. That is the issue of Davids per se. We do deal with Davids, though, in the food store segment. So we do deal with Davids and deal with them to service their grocery customers.

The reason we make that point of difference is that in their food stores competitive set they are competing directly against Coles, Woolworths and Franklins. Coles, Woolworths and Franklins each have set up their own distribution centre and, to ensure that those customers can play on a level playing field, we do provide product through Davids but primarily to the food stores and targeted to the food stores.

There is also very little cold-drink equipment invested in the food store channel. Less than five per cent of that \$500 million's worth of cold-drink equipment is in the food store channel; it is mostly outside of it. We prefer to deal directly with customers outside of food stores. In fact, we prefer to deal directly with everyone, but we understand that consumers in food stores are price focused and for the Davids food stores to be able to compete in that market they would need to get the economies of scale that come through dealing with that wholesaler.

Consumers in the rest of the market are focused on issues other than price. There is a price element, of course, in any purchase, but by far other marketing elements—the element of availability, temperature, ice-cold availability—are more effective in non-food stores than price per se.

I will move on to this price issue. The example you gave is a very clear one and a real one but it is only real on a selected number of packages. It is not real across all the packages provided to these alternative retailers. In these other channels, as I mentioned in my introduction, immediate consumption packages, particularly served ice-cold, is the bulk of the business outside of food stores. These packages are not available cheaper in grocery stores than they are from us—effectively we are the wholesaler—but this does occur in the overlap products, the multiserve products. Those products are designed specifically for food stores. There is an element of that market outside of food stores, but it is not the core of the business.

**CHAIR**—What are the products that are only available for the food stores? You are admitting basically that that is quite likely.

**Mr Lowes**—Yes.

**CHAIR**—And it occurs with what products? I wonder whether you would mind showing us, Mr Wagstaff, just briefly which ones you are talking about.

**Mr Lowes**—This phenomenon—while Mr Wagstaff is taking those out—occurs from time to time on specific packages.

**Mr Wagstaff**—That is a multipack made only for food stores. That is designed for the consumer to pick up off the shelf and take to the checkout.

**CHAIR**—And that one as well—the large bottles?

**Mr Lowes**—Yes.

**Mr Wagstaff**—That is a two-litre bottle. That is what Jeremy would refer to as a crossover product. The vast majority of it is sold in food stores. A very small percentage of it might be sold in cold drink. There is another one slightly smaller than that, a 1.25-litre bottle, and that is really it.

**Mr NAIRN**—The 1.25 litre is only for food stores as well?

**Mr Wagstaff**—Yes, it is designed for food stores as well.

**Mr NAIRN**—I will just give you an actual example because you did say that less than 50 per cent of your sales are to grocery stores: how can you have a situation where a 1.25-litre bottle bought directly from Coca-Cola by one of the convenience stores is \$1.80, but you could go into a Coles, Woolworths or Franklins almost any day of the week and buy it for \$1.30? It is a pretty drastic difference.

**CHAIR**—Do you think that is fair to small retailers throughout Australia? I spoke to Mr Wagstaff, I think, over the phone and the impression was ‘Why are we being called?’ Does this not go to the very core of it? Here you are, a very large multinational, one of the biggest in the business, doing special deals for the majors that the small retailers around Australia, often battling to survive, cannot achieve. Why is that? Isn’t there meant to be equality? Why should the small guy in Kingaroy have to go up to Coles or Woolworths in order to buy the supplies? Don’t you think that is unfair?

**Mr Lowes**—No. We need to understand the whole business picture. In fact, I would like to say that we create a very viable commercial environment for all our customers. We should not take exceptions at the extreme as being mainstream—

**CHAIR**—No, but let us cut to the chase here.

**Mr Lowes**—Sure.

**CHAIR**—You have just shown us products that you can only get for favourable prices at the majors. Do you consider that fair?

**Mr Lowes**—Yes, I do, because these products are not the core products for the customers that you are talking about. For their real business, for their core business we provide products designed specifically for them which offer them very healthy margins and



in fact allow them to differentiate themselves—sorry, if the marketing jargon gets a bit much just pull me into line—allow them to be different to the food stores.

**Senator BOSWELL**—Sorry to interrupt. We are talking about an IGA supermarket or a food store that competes against Woolworths and Coles, not some drink stand at the football.

**Mr Lowes**—IGA have three banners: the grocery banner of IGA buys at exactly the same price as Woolworths, Coles and Franklins. Prices are phased and differ from time to time for all of them.

**CHAIR**—So all the other sizes, like the ones in front of you, are the same price whether you are a supermarket or not?

**Mr Lowes**—Yes.

**CHAIR**—You hesitated.

**Mr Lowes**—These products are not discounted. I hesitate because pricing is a function of the volume potential and the investment we make with a particular customer.

**CHAIR**—That should mean that there is a difference. If you talk about volume, then clearly that is going to advantage the majors.

**Mr Lowes**—No, because the majors are not into these products in a big way. In fact, those middle order IGA customers—IGA Everyday, IGA Express—sell more of this product than would Coles, Woolworths and Franklins.

**CHAIR**—Do they also get discounts because of where the product is displayed on the shelves?

**Mr Lowes**—The majors?

**CHAIR**—Yes.

**Mr Lowes**—No.

**CHAIR**—There is none? So the fact that you are always right up near the front—how does that occur with supermarkets?

**Mr Lowes**—That occurs through the influence we can bring to the table in our negotiations; the value of the brand, the potential the brand has to grow their business. We bring that potential to the table.

**CHAIR**—The ‘influence’. What if they say, ‘No, we’re going to put you down the back of the shop’? What happens then?

**Mr Lowes**—Yes, that may happen.

**CHAIR**—Is that reflected in terms of prices which—

**Mr Lowes**—No. We do not pay for shop pricing. That phenomenon occurs in the States, I believe, but I have not come across it in the grocery industry in Australia.

**CHAIR**—You have not seen shelf pricing discount.

**Mr Lowes**—No. You pay for position.

**CHAIR**—That seems to be contrary to the evidence that we have had.

**Mr Lowes**—I have not seen anybody paying for particular shelves in supermarkets.

**CHAIR**—Discounts.

**Mr Lowes**—Or paying discounts to get a shelf position, no. Paying discount to get a retail price on promotion, yes.

**Senator FERRIS**—What about credit lines? Obviously the cost of a product is related to a number of elements within the product. Supply is one and wholesale price is another, but terms of trade is very significant. We have heard evidence—and I must say I cannot recall off the top of my head whether this is Coca-Cola, but it is certainly with a number of large organisations such as yours—of people needing to pay at seven days, when they have a small supermarket, and others getting credit of up to 60 or 90 days.

**Mr Lowes**—Yes.

**Senator FERRIS**—Clearly that affects the profitability of product and the price at which they are able to sell it. You have just told us that you create a very viable pricing environment for your customers, but what you have—

**Mr Lowes**—Could I just interrupt, because it is an important issue. We have no influence over the retail price. We can create an environment—

**Senator FERRIS**—No, I am not into that. What I am trying to explore here is what other benefits are offered by your company. You have just told us that you do not give shelf discounts.

**Mr Lowes**—Yes.

**Senator FERRIS**—How much credit do you give to a major in relation to a small supermarket and is that negotiable? The chair asked you a moment ago a question related to shelving arrangements and you said it is part of your negotiation. If you supply everyone at the same price, what are the elements that contribute towards the negotiation? Are terms of trade, credit arrangements, one of those elements? If so, can you explain to us how they work?

**Mr Lowes**—Yes. We do not supply everyone with the same price, so we would need to work through the understanding of that. Credit is a benefit but it is not reflected in the price per se.

**Senator FERRIS**—It is in the retail price. Goodness me! Some of our people talked about having to pay cash. Cigarette companies demand cash on the delivery of the product; others have seven days to pay. They were able to tell us of 60 days or 90 days' credit. That is a very significant part of the profitability for a small retailer.

**CHAIR**—Also, Mr Lowes, in business you would do a net present value and you would discount it back for 90 days and you know it is a cheaper price by definition.

**Mr Lowes**—Correct.

**Senator FERRIS**—Could you just take us through that?

**Mr Lowes**—Yes, sure. With reference to credit terms, we either provide credit or we ask for cash. We do not have a sliding scale of credit terms. If your credit risk is in the parameters that we are prepared to accept, we will offer you credit. I am not sure of the days; I think it is 35 days from date of statement.

**CHAIR**—For the supermarkets?

**Mr Lowes**—For everyone; everyone who is able to open a credit account with us, which would be by far the majority. Seventy per cent of our customers would have credit with us. It is fair to say though that, when averaged, the supermarkets' days outstanding are better than the small customers. Therein is the cost of doing business and ensuring that our collections are efficient and to our terms. We have to invest more labour in collecting money from non-food stores than we do from food stores. As for pricing, we have a price that everyone starts at.

**Senator FERRIS**—Just before you move off, is that all you were going to say about credit? I would like to know how you determine who moves from cash to credit and what credit arrangements you make when somebody first opens a new store. Do people who open a new Woolworths store in a shopping arcade immediately go on to 35 days, or do they have to go on cash and do they have to work through? I would like a bit more explanation about this.

**Mr Lowes**—Sure.

**Senator FERRIS**—I think the nub of the argument in this is the competitive ability of small business—not what they charge but what is charged to them in one way or another through, what you call, hidden negotiation. You may disagree, but I can tell you that we had evidence from a small tobacco retailer in Kingaroy who has to pay cash for his cigarettes because he is small and he does not buy at a big enough quantity. You must have the same difficulty.

**CHAIR**—Was that seven days?

**Senator FERRIS**—Yes, he either had to pay cash or had seven days, depending on who the wholesaler was. You might shake your head and think it is not an element of profitability, but I can tell you the evidence suggests otherwise.

**Mr Lowes**—Our decision to either advance credit or provide a credit facility to a customer will be made on our assumption as to the risk involved. That assumption will include the previous relationship we have with the customer. If we have an ongoing relationship with a customer and that customer has demonstrated a reliability in this regard, the likelihood is that we will grant them credit. If we have no relationship with the customer and the customer is not able to provide us references that give us an indication that our risk is reasonable, we might elect not to provide credit. Seventy per cent, though, of our 114,000 customers have credit and those credit terms are equal to the credit terms made available to the food stores.

**Senator FERRIS**—Are you suggesting that the big supermarkets, who can sell at significantly below what the smaller ones can buy at, are making coke a loss leader? Is that what you are saying?

**Mr Lowes**—No.

**Senator FERRIS**—Let us get to the nub of this. A small supermarket is prepared to open seven days from 8 a.m. till 8 p.m.—let us disregard the shopping hours question, although it is significant; it is a state issue. Why do they have to go and buy their coca-cola—your product—along the road at Woolworths because they cannot buy from their wholesaler at a price that they can compete at? You are telling us that it is a pretty even playing field; the evidence suggests that it is not. Somebody is misleading somebody. If a small wholesaler has to go and buy coke from Woolworths to try and compete with Woolworths, there is something wrong in the system. I want to know what it is.

**Mr Lowes**—Sure. I would like to continue working on this too until we get—

**Senator FERRIS**—Your company has been named in almost every place we have gone to as being a price manipulator in one way or another. That is bad for you.

**CHAIR**—Yes. You also have a major share of the market. It is not as if you are a small player.

**Mr Lowes**—No, sure.

**CHAIR**—You are one of the bigs.

**Mr Lowes**—Yes. We need to keep working on this today until we get to the bottom of it because this is very important for everyone. It is important for our customers.

**Senator FERRIS**—I am most interested to hear what you have to say.

**Mr Lowes**—It comes down to what business people are in. Those customers you are talking about—the equivalent of that tobacconist in selling soft drinks, and hopefully that

tobacconist sells soft drinks, too—more than 80 per cent of the products they sell—and if it is down that end, it is probably 99 per cent of the product they sell—they cannot buy cheaper at a food store than they can buy it from us. That is an absolute fact. The products that are designed for those customers are 390 mls of coca-cola—

**CHAIR**—Can we have a look at the size of that?

**Mr NAIRN**—Can we use this example I gave? I cannot name names but it is specific evidence of a small store that could buy a 1.25-litre bottle of coke from you for \$1.80. But it was for sale week after week after week at all of the majors for \$1.30.

**Mr Lowes**—Yes, that is right.

**Mr NAIRN**—In the context that you are giving your explanation, can you please explain how that circumstance can actually occur?

**Mr Lowes**—Yes; 1.25-litre cokes would not be that customer's core business.

**Mr NAIRN**—But so what?

**Mr Lowes**—That customer's core business would be other products and those products will provide a very healthy market for that customer.

**Mr NAIRN**—Therefore, if you have to supply 1.25-litre cokes, which is not their core business, they are going to have to pay a premium for it.

**CHAIR**—Mr Wagstaff, could you go back and show us the 1.25. I would also be interested in the size of the 1.25 in the pack you have over there. While you are doing that, I will just read a quote from some of the evidence. It says: 'So the cheapest you can buy it from the sole wholesaler is \$1.80. Question: This is what size? Answer: That's the 1.25 size. Question: And that's the big one? Answer: No, not the huge one, the medium one. And they are selling it for \$1.30.' And it says: 'There on the shelf price their normal price is \$1.69 but one week Coles will have it on special for \$1.30, the next week it will be Franklins, then it will be Woolworths. It goes in a cycle. It is on special every week at one of them.'

**Mr Lowes**—As I have explained before, that customer's core business would be one of the small packages and that customer will have a very viable business in those small packages. In our pricing strategy we ensure that those packages cannot be sold cheaper elsewhere. The market will charge the price the market determines it will charge but there is a very viable and robust market.

**CHAIR**—If you have a family of two or three, with two adults, isn't the large size the one that is most popular with families?

**Mr Lowes**—Yes, purchased in food stores primarily.

**CHAIR**—Purchased in food stores?

**Mr Lowes**—Yes, primarily.

**CHAIR**—So there is a differential there. And the 1.25 size is which one?

**Mr Lowes**—It is not here but it is slightly smaller.

**CHAIR**—The second one?

**Mr Lowes**—Yes.

**CHAIR**—You do not have it?

**Mr Lowes**—No, I do not have it here. It is also purchased primarily in food stores warm. I will go back a bit and chat about our promotional strategy and that will help explain this pricing variance.

**Senator FERRIS**—Just before you move off that point, are you telling me that because a weekend sales food store might normally sell that small bottle and you have determined that is the most demanded and therefore most profitable for them to sell, you do not particularly want them to carry the next size up? You do not want them to carry the 1.25, whether they want to carry it or not, so you do not want to supply it to them.

**Mr Lowes**—It is not that we do not want to supply it to them but in meeting customers' needs, consumer needs, the company focuses on—

**Senator FERRIS**—But why don't they decide that?

**CHAIR**—I think Senator Boswell has a question on his lips.

**Senator BOSWELL**—I do not know whether you are doing it deliberately but you are trying to confuse food stores with some tobacconist or some little dad and mum corner shop. We are not talking about that, we are talking about people that are competing with Coles and Woolworths in supermarkets. We have heard evidence right around Australia and coke keeps coming up all the time. It is not from the little dad and mum store or the corner store, it is from people that are in IG stores. My question is this: do you sell at the same price to Davids as you would to Coles and Woolworths? I know there is a figure that it would be, and it would probably be in confidence, but what about when you net it right back to the basics—when you take your distribution costs off and your settlement discounts and the five, six or seven discounts that you give—is Davids paying the same price as Coles or Woolworths?

**Mr Lowes**—Yes, I think I can understand what you want to get at here. Davids has three different banners; there are three groups of customers. One is a food store, the other is what we call a top-up shop, and the other one is a down the street express store. There are two levels of pricing to Davids as there are two to the major food stores. There is their ongoing price, and they from time to time in certain packages are provided a promotional allowance. We would invest in a reduced price to them, and that is when you get the extremes of pricing. The promotional allowance provided to Davids for the use in their Foodstore

banners, in their genuine supermarkets, food stores, is exactly the same as it is to Coles, Woolworths and Franklins.

**Senator BOSWELL**—I suppose you deliver direct to Davids. You don't go out and service every little store, do you?

**Mr Lowes**—No.

**Senator BOSWELL**—Davids then would buy coke at a net price in the vicinity of what Coles and Woolworths are buying.

**Mr Lowes**—Davids buy coke at a price. For certain packages provided to their food stores on promotion they are given an additional allowance, just as Coles and Woolworths.

**Senator BOSWELL**—If you deliver a truckload of coke to Davids, who says where it goes?

**Mr Lowes**—Davids provide us with that information—withdrawals from their warehouse.

**Senator BOSWELL**—So you say, 'Only to these stores will you get this discount?'

**Mr Lowes**—Correct. As we say to Coles and Woolworths, 'Only on the scanned sales for these products during these weeks do you get this additional price.'

**Senator BOSWELL**—When someone buys a product, surely what they do with that product is their business.

**Mr Lowes**—No, Senator, it is not as simple as that, because there are other elements in the cost to serve. I would like to go back to this cold-drink equipment investment, the half a billion dollars worth of cold drink, the \$50 million we spend on sending servicemen out to service the cold-drink equipment on behalf of these other retailers. Remember that \$480 million of that cold-drink equipment sits outside of food stores; there is only a very small component in food stores. There is a cost to that. We have to provide that capital, we have to service that.

**CHAIR**—Just on that, do you insist that they should stock with coke? What is the requirement in terms of the percentage they have got to have of coke in that?

**Mr Lowes**—In that piece of refrigeration?

**CHAIR**—Yes.

**Mr Lowes**—We require a minimum of 90 per cent or they can have one shelf for other products. Sometimes the retailers are so small—

**CHAIR**—It is hardly the biggest deal in the world though, is it, if it is 90 per cent coke?

**Mr Lowes**—Let us look on the positive side. They get a piece of cold-drink equipment that is serviced 24 hours a day, seven days a week, that produces the product cold, that allows them to make a margin of between 40 and hundreds of per cents, whereas the food stores are operating in single digits selling ambient product. So it is a big deal; the fact that they do not have to invest in the capital, they can service it and they make really good margins. I would suggest the reason these retailers have mentioned coke so often is that we are such an important part of their profit mix today—even with these issues. These issues, I say with all respect, are on the periphery.

In terms of their real business and in terms of providing them with a product and a service system that allows them to run a commercially attractive business, we deliver, and the evidence is the fact that 114,000 of them deal with us. So depending on what channel you are in, whether you are in education, catering or a tobacconist, we are a significant amount of their profit, and that is only possible because we help them to operate a different cold-drink market to that of the food stores. It is only possible because we make that possible. It is only possible through our understanding of the consumer and what the consumer's expectations are, and helping them to deliver on that expectation, that they are able to get the volume and the margins and make the profit that they make out of cold drink. That is reality.

**Mr NAIRN**—One would say that they are a fairly ungrateful lot if they are making so much money from coke and they all complain about you.

**Mr Lowes**—By and large they do not. As I said, we are talking not of these, but of exceptions.

**Senator FERRIS**—They may not to you, but with the opportunity to do so with the protection of parliamentary privilege then they do.

**CHAIR**—Why wouldn't you in fairness and equity terms allow them to sell the pack at the same pricing? Why is it that you don't?

**Mr Lowes**—Sorry, I did not—

**CHAIR**—There is a pack that is available only in the supermarkets at those discounted prices. Why?

**Mr Lowes**—Because we do that MPV. We do need to get a return on the investment we made in the customer and that return is a function of volume and margin.

**CHAIR**—I understand that in straight marketing terms you do it on the basis of volume and the fact is that it is the majors that volume. But if you are an example of one type of manufacturer that does these types of deals, it is no wonder we have small retailers going out the back door as fast as they are.

**Mr Lowes**—We are keeping them in business. This is a responsible comment I am making, not a marketing comment. By Coca-Cola's system of understanding of consumers and ensuring that we understand the nuances—and I will talk about those nuances in a



moment—we are able to provide vibrant commercially viable businesses across a whole wide range of channels. If we took an approach where we introduced price as the key marketing element across all channels and we raised the consumer awareness of price in every environment, we would absolutely destroy the cold-drink margins of these customers. They would be competing head on against food stores which are not in fact their competitors.

**CHAIR**—Let us have a look at the generosity of it. How much does it cost you in real terms, in actual terms, for the unit that is actually installed in the average small retail? How much does that unit cost?

**Mr Wagstaff**—It is around \$3,000 each unit.

**CHAIR**—What is the life of the product—five, six or 10 years?

**Mr Lowes**—Five or six years.

**Mr Wagstaff**—Then there is a service cost associated with that depending on the reliability—

**CHAIR**—How often do they go out to be serviced?

**Mr Lowes**—For a piece of glass fronted merchandiser, 0.9 times a year, for a vendor 2.7 times a year and for—

**CHAIR**—So that is less than one. So the servicing costs are not great.

**Mr Wagstaff**—They sum up to \$50 million a year.

**Senator BOSWELL**—The evidence we are getting is not jelling with what you are telling us. What we are hearing is that it is very difficult—I am not talking about the dad and mum stores, I am talking about the independent chain stores—for them to compete. The question I ask you, and I want you to be very careful when you answer this, is: the netted down price—I am not talking about the price, I am talking about the net, net, net, net price—

**Mr Lowes**—Yes, net cents per litre.

**Senator BOSWELL**—For the same price, for the same quantity and the same volume delivered at one stop, Davids are buying at the same price on all products—on the two litre, and the 1.25 litre and your 24-can pack—as Coles and Woolworths.

**Mr Lowes**—For their bona fide grocery food stores, yes.

**Mr Wagstaff**—Given that that of course varies on the promotional time, but over time it is the same.

**Senator BOSWELL**—No, I am just saying that they can get the same promotion price and they are offered the same promotions?

**Mr Lowes**—Yes, absolutely.

**Senator BOSWELL**—If Woolworths or Coles will get three promotions a year or four promotions a year, Davids will get four promotions.

**Mr Lowes**—Yes, Foodstores. It is in our interests to have—

**CHAIR**—You have not mentioned about cans, Mr Lowes, which do not appear in that line-up. What is the marketing arrangement with cans?

**Mr Lowes**—Would you mind if I just take out those products for a minute, just to make a point, and then we will put them away again. I need to explain how the market has evolved over time and where cans currently fit.

**CHAIR**—All right.

**Mr Lowes**—It will be very brief. The consumer preference for different kinds of packaging evolves over time. As I said, we go about understanding what the consumer preference is and then go about meeting those needs to ensure that we provide them with what they want and therefore they purchase more. You can recall when glass with the crown seal was the preferred pack. That market evolved then into glass with a plastic cap that was resealable, and then cans was the primary offer. The preferred offer in today's market is resealable PET and it is preferred because it is portable, does not break and it is resealable. That is what consumers prefer and that is where we are taking the market.

In terms of the preferred immediate consumption package in the market, today it is either this package—390 resealable PET—or 600 resealable PET. Those are the products that consumers want to buy and part of our responsibility is to work with the retailers to help them understand what consumers want to buy so that they can provide it, grow their business and make more money. We are taking cans primarily out of single serve and putting them into what we call those multipacks. The consumption occasion there is in home or through home—two very different markets, and our pricing reflects this. We are premium pricing single cans because we in fact want to take them out of the market and we are working very hard to establish an in-home market for cans because they stack well in the fridge at home.

**CHAIR**—Where are the cans available?

**Mr Lowes**—Many of the customers you are talking about are going to the food stores to buy cans.

**CHAIR**—Back to the pricing: the box of cans which is available in the supermarket, is the price at which that is available the same?

**Mr Lowes**—No.

**CHAIR**—They are not? Again it is the pricing differential.

**Mr Lowes**—Yes. We charge a premium in the markets where we are trying to encourage people to stock the right products.

**CHAIR**—To summarise the way I see it—and we have gone way over time—is that you do provide volume discounts for the take away packs, the cans, the larger bottles and the pack that is right there in front of us because you want to establish the business with the supermarkets and a way of getting the product out. Then for the smaller retailers you provide a different size of product, where there is a strong consumer preference, and you provide them up-front with the refrigeration equipment, the servicing of that equipment and you assist them because they do make quite a reasonable margin on those products.

**Mr Lowes**—A very good margin.

**CHAIR**—I think I get the thrust of it. Mrs Elson may have a question and I know Senator Ferris has one.

**Senator FERRIS**—One of the other areas that we have heard constant criticism of as we have gone through the smaller centres has been corporate philanthropy. The smaller supermarkets have told us time and time again how they are approached by the small organisations, the charities in the town, to provide I suppose what you would call corporate philanthropy, and each time we have been given evidence that the large supermarkets always say they have to refer back to head office. What is Coca-Cola's policy on corporate philanthropy? Do you allow local or regional supermarkets which stock a certain amount of your product to have the ability to offer your product for corporate philanthropy reasons? Do you have a policy which enables regional towns to understand that Coca-Cola are good corporate philanthropists? Could you explain to us how you, if you like, reinvest in those regional centres where you encourage people to use your product?

**Mr Wagstaff**—Thank you, Senator. We have two levels of approach in this one. We have a central corporate level which is done for nationally based projects and then we leave discretion in local management for support at the local level. Instead of taking the approach which I think you suggested about allowing supermarkets to sell at a different price—

**Senator FERRIS**—No, I was suggesting donate the products.

**Mr Wagstaff**—Quite often we actually will do that directly ourselves. In a sense we are saying if Coca-Cola is going to help, which it does in many circumstances, we will do it directly. Our local management have got the authority to donate product for fundraisers, charity dinners—those sorts of things—and we do give special pricing for nonprofit organisations directly. Rather than go through a supermarket, we do that directly, because I suppose we believe that we are the people who are investing in the community rather than the supermarkets.

**Senator FERRIS**—How would the local footy team know about that?

**Mr Wagstaff**—They would know about it from approaching the local coke manager—and I can assure you they do regularly. That is not to say that we support every one of those. There always has to be a balance, because I think you will find coke is always first on a list.

**CHAIR**—They are pretty good. They gave half a million dollars to Sydney's Olympic bid, for example, so they have been pretty good.

**Senator BOSWELL**—That is a personal view!

**Mr Wagstaff**—In terms of that regional thing, the national thing, just to give you a very small example of a project which we are supporting at the corporate level which has a distinct focus in rural areas, there is a project called Reach Out—I am not sure if you are familiar with it—which is a youth suicide prevention project and targeted specifically at regional areas and we are supporting, with a number of other companies, a regional ambassador who visits country towns to motivate the local communities to become aware of the problem and solve those things. We do share your concerns that that level is given widely.

**CHAIR**—It is an area in which we have a strong interest and, obviously, it is an area that is oft criticised in terms of the majors. Mr Jenkins, the deputy chair, now has a question.

**Mr JENKINS**—Would you accept the credo that like customers should get like terms?

**Mr Lowes**—Yes.

**Mr JENKINS**—Do you believe that your like customers get like terms?

**Mr Lowes**—Yes.

**Mr JENKINS**—Do you understand that there would be some discussion about whether your definition of 'like customers' is exactly right?

**Mr Lowes**—I think there would be some discussion as to a different way of grouping customers. So 'like customer' we would define a group; someone else might define that group differently.

**Mr JENKINS**—I think, in essence, this is what a lot of this discussion has been about today and out there in the real world that is what people do not understand—how they are classified in the way that you have adopted your marketing structure strategy into a different classification. A lot of what you have said today seems to be that you wish to direct the consumer into certain lines from certain points. What I am not sure of is whether it is consumer driven or driven by yourselves.

**Mr Lowes**—I can reassure you it is consumer driven. We are a growth driven company and we can only achieve our growth aspirations by understanding evolving consumer needs and meeting those needs; there is no question about that.

**Mr JENKINS**—The element that I do not understand is that the corner store, the mum and dad stores, will still be going to Coles, Woolworths, and I accept maybe IGA to buy a 24-can pack to go and put back in their store because that is the best price they can get. They cannot get it at the same price.

**Mr Lowes**—Correct.

**Mr JENKINS**—Yet you have told us today that you are trying to drive the single can out of the market. I would have to accept that the corner store is doing that because the consumer is coming to them wanting the single can.

**Mr Lowes**—Yes, there are some consumers going to them to buy single cans. The majority of consumers will be coming to buy PET and increasingly so. Cans have reduced in the top-up market—that is the market you are talking about where the definition may be different. Cans have reduced in the last three years from 18 per cent of their product mix to nine per cent and it will continue to do so.

**CHAIR**—What about garages and service stations?

**Mr Lowes**—A quick stop I think was mentioned earlier. Service stations are that type of top-up outlet. Cans are rapidly diminishing. In fact we need to help those customers understand that, unless they stock what the consumers want, the consumers will go and buy elsewhere. The reason some—I make this point—are going to the food stores to buy is that when they buy that can, break up that pack and use it for a reason it was not designed to be used, they opportunistically will make a very good margin, but over time in the next three years that market will be gone and the market will be the PET market. It is just a phasing issue.

**Mr JENKINS**—Finally, on the ‘like customer, like terms’, are you sure that you are offering like terms right through from the base price, the opportunity for discounts, the opportunities for in-service assistance, whether it be at the end of the cold market or the take-home market, maintenance of shelf space?

**Mr Lowes**—I am pleased that you mentioned all those elements of our relationship with our customers. Based on all those elements, yes, we have a level playing field.

**Senator BOSWELL**—Who delivers to garages?

**Mr Lowes**—We do.

**Senator BOSWELL**—So a garage will not buy from Davids?

**Mr Lowes**—No.

**Senator BOSWELL**—What about the smaller stores? Do they buy from Davids or do they buy from you?

**Mr Lowes**—The majority of the non-food store customers buy from us direct.

**Mr Wagstaff**—They may not all the time buy all their product range from us. As Jeremy has mentioned, if there is a particular example at a time, they are free to go and buy from that product.

**Senator BOSWELL**—Do you have a rep who goes around, or just a truck? Does the rep take the order and the truck delivers it, or do they buy direct from the truck?

**Mr Lowes**—We have a rep going around, which helps them present the product, take the order, manage their inventory. We have a manager working with that rep to address particular needs. They may want a new piece of equipment, to move the equipment around. We have a delivery contractor; Linfox or Toll deliver the product from our warehouse. We then will have—

**Senator BOSWELL**—Do you have a minimum delivery amount on that?

**Mr Lowes**—Yes, we do. It differs by states.

**Senator BOSWELL**—What is the minimum?

**Mr Wagstaff**—It varies by state. I think in some states it is five cases, so it is not particularly large.

**Senator BOSWELL**—No, it is small.

**Mrs ELSON**—I apologise for being late. I had a constituent problem first thing. I do not know if this question has been asked. During the inquiry we have heard statements that, should an independent grocery store run a special on coke, then pressure is put on Coca-Cola by the majors removing their stock from the front of the shop to the back. Is there any truth in that?

**Mr Lowes**—I read that example in the *Hansard*. I have not come across that kind of issue. We deal, as I said, with 100,000 customers. There are times when there are issues between ourselves and customers and all kinds of customers will take some kind of action from time to time. But I have not come across that particular kind of behaviour in the food stores. We are a very powerful brand so we are able to negotiate strongly with the food stores and I have not experienced that kind of thing. I read that example but do not know about it.

**CHAIR**—Will you be supplying Aldi when they set up in the market?

**Mr Lowes**—We received a call from Aldi and we will be talking with them.

**CHAIR**—Do you supply them overseas?

**Mr Lowes**—I believe they sell only their own brands and we do not produce own brands. If they are going to sell only their own brands in Australia, we will not be dealing with them.

**Senator FORSHAW**—I apologise. I did not hear the first part of your evidence. You may have already covered this when you were talking about promotional discounting. When, for instance, Coles or Woolworths or Franklins have a full page ad and they are advertising

these at \$13.97, do you have a special arrangement with the company to underwrite the cost of that advertising or is that purely their own?

**Mr Lowes**—Good question. In establishing a price with a customer we use two criteria. We have a base price list that everyone works from. Then based on volume potential and based on the market support package that we put together for that customer, we will strike a price. That market support package differs in its construction in the different channels. In a top-up shop it will be heavily weighted to cold-drink equipment, signage in and outside of the store, consumer promotions. In food stores a large component of that package is dedicated to price reduction investment, so we will not put in the cold-drink equipment. Our service costs for reps, et cetera, are much less per unit case. As part of that agreement there will be a percentage that is to pay for a business plan and that business plan may include that kind of advertising.

**Senator FORSHAW**—Are you able to give us a figure of Coca-Cola's proportion of how much that is worth to the supermarket stores over a year?

**Mr Lowes**—I cannot give you a figure because it is not constructed in that vein. What we do is agree a figure for a total business package with Coles, Woolworths and Franklins. In that business package there will be a number of elements. We will have the number of price reductions and the number of ad features, and they are all put together. Based on that marketing plan, we agree on a price for the year. So there is not actually a price for that particular element, although I do believe that my previous company did pay for each of those.

**Senator FORSHAW**—That is worth a lot to your company's advertising, isn't it? The only way Coles or Woolworths can advertise, I suppose, is to have an ad which has a picture of the product and the price special this week.

**Mr Lowes**—Yes.

**Senator FORSHAW**—But the spin-off to your company is getting that plastered across full pages in the *Daily Telegraph*.

**Mr Lowes**—In my view, the value of that picture itself is more so to the food store. The value we get is that the food store needs to display our product prominently when they advertise like that and then we get the take off.

**Senator BOSWELL**—And Davids and Coles, Woolworths and Franklins?

**Mr Lowes**—Foodstore and Davids—exactly the same.

**CHAIR**—Being 20 minutes over our time, we need to let you off the hook.

**Mr Lowes**—Thank you.

**CHAIR**—Thank you for coming today. Obviously the committee is particularly interested in the evidence you give. We thank you for your frankness and the fact that you

are quite happy to say it all in public. It is important, so we can all understand in marketing terms. We fully understand what you are saying. This is what we have suspected was the situation all along but, given the market size of the majors, what does that mean for the small retailers? We need to understand the marketplace and what you are doing. There is nothing wrong with what you are doing but it does have an impact on the smaller participants.

**Mr Lowes**—Sure.

**CHAIR**—We thank you for your patience with the committee in explaining it all to us and thank you for coming today. We really appreciate it. It assists us in an understanding of what the retail market is like in Australia today. Yours is a very successful company, one with a big international name, so we thank you for your involvement today.

**Mr Lowes**—Thanks for the opportunity.



[9.35 a.m.]

**BASTIAN, Mr Robert Andrew, Chief Executive Officer, Council of Small Business Organisations of Australia**

**CHAIR**—I welcome Mr Rob Bastian. Dr Kim Houghton is ill. Is that right?

**Mr Bastian**—That is correct.

**CHAIR**—The committee prefers all evidence to be given in public. However, you may at any time request that your evidence or part of your evidence be given in private and the committee will consider such request. I point out, however, that evidence taken in camera may subsequently be made public by order of the Senate. I also remind witnesses that the giving of false or misleading evidence may constitute a contempt of the parliament. The committee has before it submissions Nos 14O and 14A. Are there any alterations or additions you wish to make to the submissions at this stage?

**Mr Bastian**—Not significantly.

**CHAIR**—Then I invite you to make your opening statement. At the conclusion of your statement we will then proceed to questions.

**Mr Bastian**—Just to repeat Dr Houghton's apologies, he was stuck down with the flu yesterday. COSBOA was established in the 1970s, when the Trade Practices Act came online, specifically to address almost the central issue that is being discussed here today. We would wish to emphasise three major points. One is that the principles at stake in your deliberations are not in any way limited to retail. I think quite a lot of people are watching your efforts on retail because of the principles which will apply in many other industries, concentration of ownership being that central issue. Secondly, the cost of not finding practical solutions to provide a balance between large and small firms is horrendous. The third point is that we would like to help in any way we can to expand on what Australia might interpret to be the public benefit. The definition of what is public benefit is central to competition policy. It is a term oft used but I think little understood in a practical sense.

I would like to make a couple of points. In the entree to our submission we made a couple of points quite strongly. I am sure you have read thousands of submissions, so I will just reiterate those:

It is COSBOA's belief—

and I would like this really understood—

that any and all intrusion into market activity must be justified in terms of benefit to the economy at large.

That is incredibly important. We are very often portrayed as interventionist and a little bit blind, but any support given to small firms as a result of your hearings must be justified as an investment, not a gift. I continue:

We also feel that whilst consumer opinion is important—

and it has been cited this morning—

it is invariably selfish and a poor foundation for genuine economic planning.

Consumers, by their nature, must pursue their own interests like any other part of the equation. Their interests are a guide but cannot be cited as the foundation for economic planning, and certainly not for the government's responsibility. Competitive efficiency has become confused with economic efficiency. Very often, competition in the marketplace is mixed up in public dialogue with what is good for the economy at large and it is the difficult task of government to make that balance, not the marketplace.

I have talked about public policy. The other focus of COSBOA's submission is on better information. We as a sector are a little bit disadvantaged in our capacity to maintain or to mount extremely complex economic arguments. That is something which we would suggest is the government's responsibility or a public responsibility, and we have asked in four of our five recommendations that better information be generated on an ongoing and permanent basis from public resources. With those opening remarks, I would like to field any questions you might have.

**CHAIR**—Thank you very much, Mr Bastian. We have had your comprehensive submission. There are some interesting comments there. I will let my colleagues to the right, if they would like, to open the batting.

**Mr JENKINS**—A lot of what we have heard in evidence goes to some dramatic interventionist type proposals, capping being an example that may or may not have some justification. The other element is that the present trade practices legislation has a number of provisions that perhaps have not been used or tested. One of the arguments that is put is that small business really is at a disadvantage because they do not have the resources or the wherewithal to take action under the present legislation. Part of it also could be a lack of understanding by small business people about what their rights are or what the opportunities for redress are. There are some notions about having such things as an ombudsman or a small business office that might be able to take action or give advice. Do you think that there is a need for those types of things or do you think that the present legislation has not been tested enough?

**Mr Bastian**—In the present legislation, in terms of concentration of ownership or capping, or maybe a divestiture clause, it is my understanding that those sorts of provisions in the act have been changed in the last four or five years to consider new mergers, but they do not have the power to consider an existing scale of an industry and take action to divest or break it up. I think that is a matter as read. It is not something which I can change, other than to press for the capping solution and perhaps a greater analysis of the real impact of the current size of the larger, particularly retail, structures. The act is not, as I understand it, capable of breaking up what exists. It is only capable of stopping it merging. Growth within an existing structure seems to be the focus of this inquiry's concern about size.

Something which is not on the public record yet is the longitudinal study produced through the ABS by the Office of Small Business which showed very clearly that the new start-ups are the ones that create much of the growth in employment. I am going to keep coming back to employment. As far as I am concerned, the only issue at stake here that is about public benefit is employment, employment, employment. When we try to make a judgment on the morality of these decisions in business, we get onto very slippery turf. The public benefit that I am going to be stressing over and over again is the creation of jobs.

**CHAIR**—You say in your submission, when you talk about employment, that each job that is taken from the majors and given to the smaller retailers creates 1.7 jobs. What basis do you have for that? Do you have firm evidence?

**Mr Bastian**—Yes, without question. That evidence is referred to in our submission and also in the report ‘Jobs in our region’ which was tabled.

**CHAIR**—Would you take me through it.

**Mr Bastian**—I certainly will.

**CHAIR**—I think it is important in terms of employment.

**Mr Bastian**—You will be aware that Dr Houghton was the person that was going to deliver this one because we predicted it as being a central question. The reason we sought to produce a quantitative figure is that, in the argument which preceded the approval of the development at Manuka, Woolworths was running the line—a fairly traditional line—that the creation of that development would create jobs. We were at the time dealing with a shrinking economy in the ACT, a finite amount of bread and loaves and milk, and the argument was being mounted by a large—

**CHAIR**—I understand that.

**Mr Bastian**—I want to get this onto the public record because it is germane to your question. The argument was being put that the creation of a focused retail distribution point at Manuka would create jobs. By any commonsense argument, in a shrinking economy with the same amount of consumption, the reduction of distribution would have to cost jobs. We sought then to attempt to measure the actual loss of jobs. We obtained the annual company reports of Coles Myer and Woolworths for the years 1992-93 to 1995-96. Franklins’ data was not readily available as it was headquartered in Hong Kong. We focused on the supermarket components of these companies and averaged the number of employees per dollar of turnover, both full and part time combined, at \$145,000 per year for 1995-96.

Data on small firms was not available from the ABS sources directly for comparison, but useful information was obtained from the last retail census of 1992. The retail census does not allow identification of particular stores, nor does it provide separate information for small retailers, but it does show turnover and employment levels by store type in different regions. We used local knowledge to identify the small regions where there was only one supermarket or grocery store and averaged the turnover in employee figures to estimate that small supermarkets typically employ one person per \$85,000 of turnover, as adjusted for

inflation. These estimates suggest that a small store employs 1.7 people for every person employed in a large store. That is only in food.

**CHAIR**—I think it is interesting, but I would not exactly call that hard data. It is an interesting set of figures, but I would not regard it as being something I would want to stake my career on. As you say, their figures are not directly available and so you have a lot of suppositions from the marketplace. It is a constant theme that is referred to by NARGA, by COSBOA, by the coalition against the majors, et cetera. I think it is interesting, but it is not in my book hard data.

**Mr Bastian**—Could I reverse the question and ask you whether you believe—

**CHAIR**—No, I am sorry, I am not here to answer questions.

**Mr Bastian**—Let me place a hypothetical on the table then.

**CHAIR**—I regret to say we are—

**Mr Bastian**—Do you believe that the concentration of ownership occurring in retailing is not costing jobs?

**CHAIR**—It is not my job to answer the questions.

**Mr Bastian**—On the contrary, it is. You represent the government here and I am trying to say—

**CHAIR**—Mr Bastian, this is an inquiry into what is happening. You have made allegations and this is a strong assertion. In the same way as we have given Coca-Cola a hard time, so we have to make sure that the information you provide is hard data. All I am saying is that you have made so many assertions in that model that, while it is interesting, it can be put as no more than that.

**Mr Bastian**—Could I ask you then—

**CHAIR**—Sorry, Mr Bastian—

**Mr Bastian**—No, I am trying to answer your question. Could you tell me which part of those assumptions you do not agree with and then I can answer them all.

**CHAIR**—You said yourself that the ABS stats are not available. You have used what is there to make assumptions and right the way through you have qualified stuff there.

**Mr Bastian**—But I said it does show turnover and employment levels in stores by different regions. I am simply saying that we had to use a different set of stats from the ABS—

**Mr JENKINS**—But, Mr Bastian, the conclusion was that larger stores have fewer employees per turnover than smaller stores. It did not really go to ownership, did it? If an

independent was a large supermarket, it would have a similar type of employee ratio. Is that what your study has shown?

**Mr Bastian**—No. In fact, as I said, it shows that for a small store the turnover per employee is \$85,000, and the turnover for the larger store is \$145,000.

**Mr JENKINS**—But I have listened to the terminology and it is ‘large’ and ‘small’. The terminology is not that one is owned by one of the major chains or one is an independent. If an independent was a larger store, is your study showing us that it would have the lesser ratio of employee to turnover? That is all I am asking.

**Mr NAIRN**—There are some pretty large independent supermarkets around. Do they fall into the same category as Coles, Woolies and Franklins or is it only Coles, Woolies and Franklins that employ fewer people?

**Mr JENKINS**—Mr Bastian, I accept the employment thing, but this 1.7 is the figure that has been bandied around. If you are telling me that is the best summation you can have of the way the figure is arrived at and that is something between the ownership being either independent or in the majors, I am just a bit unsure. I have an electorate where, in different sectors of employment, people have had to undergo a great deal of change for a whole variety of factors. I know this argument about employment in a whole range of sectors.

I think we can accept that you are putting the case that one of the ways we can look at this would be on employment. I accept that. Whether we can satisfy you in an outcome that is just purely based on employment, I am not sure. However—and I have to get back perhaps to my original question—one of the reasons the small players feel they are not able to go about their business and provide the jobs is that the competition they are confronting is unfair. Therefore, we are looking for an environment which gives them a fair deal in the way they go about their business. Whether that is related to the size of their competitors or not is something we are trying to come to grips with, but if it is my concern is that the smaller players sometimes are scared out of taking action because either the legislative base is misunderstood by them or they do not have access to it.

**Mr Bastian**—The reason I was trying to stay with jobs was on that very point of access to the law. Your question was quite a long one and I was trying to get through the first half of it before we got to the end of the second half. The reason I was bringing the Access Economics information in was to try to demonstrate to you that the job growth in this country, the job creation, is extremely heavy in the very small—not the medium, not the small, but the very small, below five—

**Mr JENKINS**—Across all sectors.

**Mr Bastian**—Across all sectors, yes, though retail remains our largest employing sector. The point I was trying to lead to was at that very tiny range they do not take up this form of law. To say that they have options available to them is flying in the face of reality. They simply cannot get to the means we have to protect themselves from the larger players in the market. I am trying to say that in itself is a fact of life. To deliver the jobs or to help the jobs those people provide and sustain them, the public sector itself, the public process itself,

must take different approaches. That was the point I was trying to lead to. I would like to place on record that, in response to the chairman's question, the generation of the 1.7 jobs is the best we can do.

**CHAIR**—I understand that. It might be the best you can do, but if it is subject to a whole lot of questions then the law and the profits does not depend on it when you have not got some of the basic parameters—the definition of large and small supermarkets and all the other parameters we have talked about. It is interesting, and we note it, and we obviously have to do some more work on that, but that is all.

**Mr Bastian**—Could I expand it then. It is our belief that employment relates to turnover—and I think Senator Ferris was quite correct to address that point earlier on—more than capital. Much of the debate to date has been about the interplay between capital rich firms or capital intensive firms and labour intensive firms. Job creation is more about cash flow and revenue than it is about capital. That is an assertion, not necessarily a fact.

However, if we refer to my second submission, figure 4, which talks about the BRW's top 1,000 firms and the way their revenue has expanded by 7.9 per cent in the year 1997-98 whilst they have shed 1.4 per cent of their work force and the rest of the business community has only grown their revenue or their turnover by 1.96 per cent, that is a shade under two per cent and doubled their employment.

**CHAIR**—Mr Bastian, this is all very interesting as part of the rhetoric, but in cutting to the chase it does not really assist us in hard data in this particular inquiry.

**Mr JENKINS**—Can I just ask one question, which is I think a stand-alone question, and then we can all go on to other things. You raised the need for mandatory socioeconomic studies on future shopping centre developments.

**Mr Bastian**—Yes.

**Mr JENKINS**—That was something out of the Reid inquiry which we highlighted as well. That has really been thrown back because it is a state issue. Why is it, do you think, we are having such a problem in getting that up-front and getting the states to accept that there is a need? We were a bit surprised about the evidence we received in Queensland of the difficulties in getting any sort of intervention and another view about proposed developments, especially for the size they were. But it would appear that from state to state it is different, but this point does not seem to be getting through.

**Mr Bastian**—I come back to it again, and I guess in the chair's terms it is a cop-out. But this is bigger than I am. All I can keep doing is point to the numbers. In aggregate we have a serious problem in this economy. Wealth is going one way in the commercial sector and jobs are coming from the other. All I am trying to do is put the best information I can on the table. You asked me why. I am not one who subscribes to cynical and nasty plots. I think that large firms behave as best they can to increase their shareholders' profits, and that is a noble cause. They shed labour because they perceive that to be more efficient. All I am trying to say repeatedly is that is not what Australia wants any more. Australia basically

wants the jobs that small firms provide and it is looking to their governments to find ways of doing that and providing those jobs.

It is not a new argument, but it is a difficult question to resolve. We have put forward, like the smaller retailers, options that involve capping major change because we believe it is in the public benefit. We have suggested divestiture because we believe that growth is not in the public interest in some cases. I would add only to recommendation 5 that we are now more conscious of the implications of taxation reform, and they lead to the same thing. There is a danger, the way the taxation reform debate is going, of enhancing the value of capital. I think Woolies is on record as saying that they will make \$200 million out of the swift payment of their plastic money alone. Those issues are not issues divorced from this inquiry.

**Senator BOSWELL**—Just picking up your last point, how are Woolworths going to make \$200 million on their plastic money?

**Mr Bastian**—Their turnover is so huge and their capacity to acquire the money so quickly, a nanosecond, they can invest in the short-term money market large chunks of money for short periods of time. The *Financial Review* about six weeks ago ran a story citing \$200 million as being the return on that. A large portion of the government's assumption of the benefit to small business is that it can hold the money for a period of time—three months is the given for a small firm. The sad truth is that the quantities of money involved are such that small firms get very little benefit out of that. I am not making a moral judgment about the larger firms. I am trying to sell the case that a person employs another person based on their turnover and their retailer cash flow. You do not count your computers and desks, assess your capital and put on other staff; you do it because you have got money moving through the firm to do it.

We have evidence—not my own but from the ABS and the longitudinal studies—that the very small firms are the ones that are putting on employment. We have a statement from a public spokesman for Woolies that the change will make their capital more efficient and give them a \$200 million boost. I would say, to be fair, that observation was made before the Democrats changed the food, and I dare say there will be some change to that figure, but nevertheless a major shot in the arm in cash flow which of course gives them a stronger position in the marketplace.

**Senator BOSWELL**—I take what you say about employment, but I think there is even a bigger overriding consideration than that and that is market power.

**Mr Bastian**—Yes.

**Senator BOSWELL**—This is the point that concerns me, the market power. If the independents are not there—and we have got another player coming in now called Aldi—what position does COSBOA believe that the independent retail sector is at? Is it going all right? Is it facing a crisis? Has it got enough critical mass to keep it going? These are the questions we would like COSBOA's views on.

**Mr Bastian**—Without any question, COSBOA has a large contingent of smaller retailers in it and the feedback I get is that those retailers are under huge pressure, massive pressure. I think your natural interest as a body is to try to unpick some of the detail and try to make things a little fairer. You were asking very accurate questions this morning but, even should you get those aspects of the marketplace straightened out and operating more fairly, you put a small player in the ring with a big player and generally only one walks away. The issue is that the marketplace, even when you clean it up—and I really encourage you so to do—even once you have cleaned the marketplace up, the marketplace itself will generate this polarisation of commercial wealth that we are talking about.

COSBOA's position is that, in retail and in other areas of the economy, there is no solution but to restrain the growth of large organisations. I know that that means intervention, and that is actually against the philosophies of both sides of politics at the moment. Are we being off the planet? I can only say that in UK at the moment they have a stepped tax rate to help small firms.

**Senator BOSWELL**—I have never heard of that.

**Mr Bastian**—Firms with a profitability level of £250,000 pay 20 per cent flat, over that they pay 30 per cent, and they are bringing in a 10 per cent rate. Before the European Union at this time is a discussion paper, a proposal, to allow the 15 member states to split the VAT for labour intensity. What I am saying is that the UK has gone the way of helping small firms—

**CHAIR**—Mr Bastian, you have had your go before—

**Mr Bastian**—I am answering a question.

**Senator BOSWELL**—No, he is answering my question.

**CHAIR**—Yes, I know, but this is not a forum on the tax changes.

**Mr Bastian**—On the contrary, it is looking for solutions to the retail dominance issue. I am simply saying that the scale of solutions that we are talking about are being enacted in other parts of the world and we are still trying to come to grips with the need to do something of scale. I was just finalising that in the European Union at this moment—and I am not suggesting it is going to get up; there will be a heavy debate—is a proposal to allow the member states to split the VAT on labour intensive grounds, and the people pushing that inquiry are Kentucky Fried, Big Mac and the restaurants industry because they are labour intensive.

My purpose in raising this is simply to say that everybody in the world is trying to deal with this problem. This is a retail inquiry, but in my opening remarks I said the points and the attitudes you take send signals to other inquiries. I do not know that I can answer it much more than that. I am not a retail specialist. You have far more expert people sitting behind me.



**Senator FORSHAW**—Does what you have just put then suggest that capping and divestiture really are not solutions, if the approach that is being adopted in Europe at least is to look at the tax system as some form of—

**Mr Bastian**—No. Senator Boswell and I have discussed this on many occasions, and sometimes in the Senate. The issue of competition policy and the issue of using other means are not mutually exclusive. There is no reason why we cannot cap the size of large retail chains. There is no reason why we cannot seek divestiture provisions within the act to actually address the status quo, which they cannot do at the moment. And there is no reason why we cannot use taxation reform to help the same problem. It is not this or that.

**CHAIR**—Do you prefer that to capping or divestiture?

**Mr Bastian**—If you were to ask me what I would like to do personally, I would like to answer that question. Basically, we have a taxation system in this country which favours the use of capital over the use of people, and I have suggested to you that in both Europe and England the taxation system itself is being used to try to balance the marketplace.

**CHAIR**—You would prefer something with the taxes rather than the cap. That is interesting from our point of view.

**Mr Bastian**—That is not what I have said.

**CHAIR**—You have said you would prefer it.

**Mr Bastian**—I have not said that. I have said I personally would prefer it. COSBOA's position is that the two positions are not mutually exclusive.

**CHAIR**—You want them both.

**Mr Bastian**—Exactly, and more.

**CHAIR**—And more? And the world!

**Senator FERRIS**—And a membership drive! A number of elements have emerged in this inquiry. At least three of them concern areas where an organisation such as yours could already have been active, and I am interested to know whether you have any comments to make on them. The first one is shopping hours. Given that shopping hours is a state issue, we will set that one aside. I do not give the three others to you in any preference or priority order, simply as issues that have been raised. The first is credit arrangements for small business versus large business. You heard me questioning Coca-Cola on that this morning. The second is predatory pricing. There are examples of people who, flagrantly wearing Woolworths badges, go into a small business—and we saw a video of it last week—take down the prices in that small business and then go back and either adjust or lower their prices. The third is leasing arrangements, particularly in shopping centres, where small businesses take a lease and then find that the major chain expands its range of goods to the extent that the small business no longer has a market. That is particularly the case with

butchers and with fruit and vegetables. I refer particularly to Franklins there and their move into Franklins Fresh.

Issues of credit, issues of predatory pricing and leasing arrangements seem to me to fall within a small business lobby group's areas of policy. I would be interested to know whether you have ever done any work on those issues with the ACCC or with governments. If you have, what advice can you give the committee in those particular areas? If you have not, why haven't you?

**Mr Bastian**—We have on all of them and, to some extent, you have really underlined the lateral nature of your inquiry. Shopping hours is a state matter, that is correct, and it has been examined to death. There is more evidence on shopping hours, not only at the state level but at the federal level, than you can poke a stick at. It started with Beddall and there has been a series of inquiries since. But I will leave that to one side.

**Senator FERRIS**—It is clearly an element in this whole issue.

**Mr Bastian**—Absolutely. Might I say it is a bias towards small business which we have sought to maintain, and we have sought to cobble together public benefit arguments to support it and it always comes back to employment.

**Senator FERRIS**—I am interested to know what your organisation, the peak group covering this area, has done about those other three things: credit lines, predatory pricing and leasing.

**Mr Bastian**—Credit arrangements is a many-faceted argument. We were responsible for getting an inquiry into banking up, which was done by the Industry Commission. The simple truth is that that was at the tail end of the eighties when very high interest rates were being run. Right smack in the middle of the Industry Commission's inquiry was a statement: 'We support COSBOA's position in that we, the Industry Commission, do not have the capacity to demand of the banks data to justify the very high margins that small firms were paying.'

**CHAIR**—Mr Bastian, I think the specific question was on the terms of credit.

**Mr Bastian**—I am talking about margins. I am saying that small firms are paying higher margins and that there is no data available to justify that. That was the Industry Commission's statement, not mine. Credit arrangements with companies I gather you are talking about. My apologies, I misunderstood the question.

**Senator FERRIS**—I am talking about cash versus seven days versus 90 days.

**Mr Bastian**—COSBOA is a grouping of groups, and the discussions we have on that subject are probably anecdotal but the stories that I have heard, repeatedly so and this morning, are that very small firms are very often given the option of taking a delivery and paying cash or not getting the delivery. To some extent I think you repeated that this morning. The other one is seven days, very quickly, a very quick turnover. It is my understanding that certain large firms—and I am not comfortable to name them because this is anecdotal—have a very firm policy that they will not pay a small supplier, bearing in

mind that we are not necessarily all in retail, in less than 90 days and, if you deal with them, bad luck.

The other thing which pops up, and which may be a consumer benefit, is that very large organisations with extremely deep pockets say, 'Thou shalt buy from us and you don't have to pay for six months.' That is the marketplace at work, and it is perfectly fair, but very often very small firms do not have the capacity to do that. The issue that has not popped up in my awareness so far is the impact the GST will have on this.

**Senator FERRIS**—Mr Bastian, you and I were part of a committee that looked into that, and we are already over time and other senators and members have questions.

**Mr Bastian**—Okay, predatory pricing.

**Senator FERRIS**—In addressing credit lines, you did not tell me what your organisation or your umbrella of organisations is trying to do about that.

**Mr Bastian**—We work through the public sector. I am here now to talk to you and try to express our point of view. I could go back, if you wish, and dig out the fairly numerous submissions we have already made; you can do that too. The issue of credit and the timing to pay was absolutely germane to our success in getting the quarterly PAYE and sales tax systems through. Central to extending the small firms to a quarterly sales tax payment and raising the initial threshold from \$25,000 up to \$50,000, which was part of that decision, was totally and utterly instigated by COSBOA—if it does nothing more than demonstrate our longstanding concern on that issue. There is a pile of paperwork there.

**Senator FERRIS**—I am tempted to say you will be pleased that provisional tax is going, but I will not stray out of that area.

**Mr Bastian**—We claim some credit there. Predatory pricing?

**Senator FERRIS**—Yes.

**Mr Bastian**—The problem with predatory pricing, as I understand it, is in the proof of it: getting enough information or even getting some poor person to come forward and argue the case, knowing full well that they might win the battle and lose the war. Predatory pricing was a concern when COSBOA was established in 1979 just after the Trade Practices Act came along. It is still a concern.

**Senator FERRIS**—Have you as a body ever offered, or have any of your members ever offered, to run a predatory pricing case on behalf of members? I do take your point about the difficulty, first, of evidence and, secondly, of getting somebody with enough courage to come forward.

**Mr Bastian**—The whole use of the Trade Practices Act, predatory pricing, definition of a market, are the issues that quite frankly make that, sadly, an almost impractical approach.

**Senator FERRIS**—But it must be elementary to your work as a peak lobby group.

**Mr Bastian**—Yes. I wish we could get people to come forward. I think people are coming forward with greater frequency now, but it just seems that cases such as predatory pricing are difficult to prove.

**Senator FERRIS**—What about leasing arrangements?

**Mr Bastian**—I believe there was one—Star Pickets—when BHP was foolish enough to leave their whole game plan lying around, but that is a rare occasion. Leasing arrangements? Crikey, this has been flogged to death on previous inquiries.

**Senator FERRIS**—Mr Bastian, it might have been flogged to death in your opinion, but I can tell you that in regional Australia we have heard heartbreaking stories. We heard some just last week from butchers and greengrocers who went into shopping centres and did not realise that Franklins were going to put in Franklins Fresh. In fact, not only did it destroy these people's businesses within weeks but I have no doubt it destroyed their families. One person had a nervous breakdown.

This question of advising your members and your peak bodies membership's members of the need to be cautious about leasing and to make sure in leasing that there are very transparent arrangements is surely something that you as a lobby group should be able to get your members to better understand, because I think it is a question of 'Let the buyer beware'. It is no good saying it has been done to death, because in regional Australia, and perhaps in the urban areas too, it has not been done to death. What has been done to death are the small retailers who are members of your membership group, and you as a lobby group cannot say it has been done to death while it is happening all over this country.

**Mr Bastian**—Senator, I apologise for provoking you on that. The utterance about it being done to death was an expression of frustration on my part. COSBOA has led the charge on leasing and tenancy arrangements. The central issues with leasing and tenancy arrangements are not that people sign leases that they do not understand. That is not the central issue. COSBOA's position: if you sign a contract you do not understand and it bites you, that is your problem. The issue with leasing and tenancy arrangements is that powerful organisations distort the intent of the lease. That is the central issue there. If you ask what we have done recently, I was up in the Town Hall Arcade where the Anglican Church has sought to alter the lease arrangements of 58 small groups in that arcade. I have walked through that arcade, Senator, and those people have been—

**Senator FORSHAW**—This is Sydney, is it?

**Mr Bastian**—Yes, in Sydney, under the Sydney Town Hall. To suggest that COSBOA has not taken a leading role on leasing and tenancy issues—

**Senator FERRIS**—I did not suggest you had not. You are the person, Mr Bastian, who said it had been done to death, and it begs the question: if that has been done to death, if credit lines have been done to death and you have been doing to death the predatory pricing, why has this inquiry attracted so many small business people all around this country with stories about those three issues to the extent that I am raising them here with you as elemental to the inquiry?

**Mr Bastian**—It is absolutely fundamental. The reason that people are coming back to you yet again is that the government has done nothing about the previous times these issues have been raised. We have sought solutions through the public sector and, as I have tried to say again today over and over again, the marketplace cannot sort this out. The players are too small. The power arrangements will not work. We must get the public sector to regulate, cap price capping, get better data or convince itself that something must be done. To lay this sort of responsibility on small business organisations is absurd.

Let me come back to it. You asked me what the leasing and tenancy arrangements concerns are. We know full well that to get a shopping centre up you get four or five anchor tenants. You give them an incredible deal. They do not pay outgoings such as lighting costs, cleaning costs, advertising costs or security costs, and we sit back and watch this happen. You cannot lay that on COSBOA. The fact that these people keep coming back to government is because the people that are responsible for balancing power in the marketplace are not doing enough about it.

**Senator FERRIS**—Many of the people who gave evidence were not in government owned shopping centres, and they make—

**Mr Bastian**—No. The government makes the regulations—

**Senator FORSHAW**—They probably complain to their local member of parliament. Mr Chairman, I think the witness should be allowed to put his point of view. Cross-examination and devil's advocacy is fair enough, but this is bordering on intimidation.

**Mr Bastian**—Let me come back again. This is naturally an emotive situation. I, like you, have watched people go under. I have been involved, I have received phone calls and I have gone and walked the streets just the same as you have, so I apologise profusely for the emotion.

**Senator FORSHAW**—You do not have to apologise, Mr Bastian. What is your point of view?

**Senator FERRIS**—Senator Forshaw, I do not need your assistance.

**Senator FORSHAW**—Yes, but the witness does.

**Senator FERRIS**—No, I would not have thought so.

**CHAIR**—Would you please focus on the key issues.

**Mr Bastian**—The central issue, the core issue, on leasing and tenancy arrangements is that large firms with power—and I am not making a moral judgment here—have developed the capacity to transfer their natural operating costs to smaller players. They are transferring what would normally be born in commerce as a security cost or a cleaning cost or even, indeed, the rent itself. You know as well as I do the incredibly high amounts that small players pay for retail space versus larger players. A degree of that is just the marketplace at work. All I am trying to say is that, because it is totally uncontrolled at the moment and

because it has got out of hand and because certain players in the market are so powerful, there is a public benefit issue coming up here now. I have said in the submission that this drift or trend is of such magnitude that the public sector itself—federal, state and local—has an increasing responsibility to assess it, to manage it and to quantify it because we cannot. That is all I am asking.

**CHAIR**—Thank you, Mr Bastian. For a change of pace, Mrs Elson.

**Mrs ELSON**—Thank you. Mr Bastian, your priority is employment and probably mine is too. You stated that, when independent grocers close down, more jobs are lost than those the majors take up. When a major does come into a shopping mall and there are, say, 20 to 30 specialty shops also in that centre, a lot of shops come and establish in the centre—they would not come to the town normally but, because it is within a centre, they come into the town—have any surveys been done to see how many jobs are actually created because a major has come into town or how many jobs have been taken away? We seem to concentrate on independent grocery stores and say they have taken half a dozen jobs away, but I wonder, because that major came to town, whether they created a lot more. I know in my rural town there are now 30 extra specialty shops that the town did not have which has created employment. Has anyone ever taken any survey of how many other businesses were forced to close down within that 12-month period of a chain coming into town, how many jobs were created or how many jobs were lost in that town?

**Mr Bastian**—There is a range of studies, and I say with some pride that COSBOA has been around some of the more recent ones. I waved my *Jobs in our region* booklet, which was research done at public expense, I might add, initiated by the outgoing previous Labor government and carried through in the current Liberal or coalition government. They model three basic regional economies. The essential finding is that if you have a shrinking economy you have to be extremely careful before you allow concentrated retail to come in, if you have a static economy you can do it with great caution, and hopefully close into the strip shop where it multiplies trade rather than pulls it off to one side, and if you have an expanding economy then, of course, you can be a bit more generous.

More recently—and this is available up in Wide Bay—we analysed six towns. That was at the request of the local government with some of their money once again. It was quite interesting, because we had assumed that there would be quite an employment loss in Wide Bay. The upshot of it was that there had been quite a lot of job shifting and employment movement in Wide Bay but the net number of jobs had actually not gone down as much as the local community had thought. There had been a major transfer of jobs from what we would call small mining and rural work across to tourism and more metropolitan work, but the net job loss across those six towns that we examined was almost inconsequential. But the local populace thought there was a job loss and they certainly were not gearing up to deal with the shifts in demand and requirement that those changes brought with them. They were still operating in a sort of routine.

That endorsed or reinforced the basic premise that this book started out on, which was that the decision makers, particularly in regional Australia but also in metropolitan Australia, do not have adequate information at their fingertips to make good judgments on these developments. They are influenced heavily by the lobbying of the time and they very rarely

look back to see what has occurred. They are only looking at the promise and looking forward. On that basis we sought to try to strengthen the information flow to regional decision makers, once again staying out of the policy, simply trying to provide a service to the people making the decisions. Unfortunately, we have not been able to continue that work.

**Mr NAIRN**—We are running very short of time. I will leave a couple of my questions that I might be able to ask other people, but can I ask one question, Mr Bastian. Can you explain to me what you mean in recommendation 1? I do not understand what you are getting at there.

**Mr Bastian**—If you read the next page, I cite Paul Barret when he was speaking as the Chief Executive of the Business Council of Australia to CEDA. The simple point he is making there is that:

In the period 1986-87 to 1993-94, personal benefit payments direct from the Federal Budget to individuals doubled from \$24.2 billion to \$48.1 billion.

This is quite a dated quote.

They now represent 18.3 per cent of final consumption expenditure. They account for a staggering 11.2 per cent of the GDP.

Basically in recommendation 1 we analyse and try to help draw the Australian community's attention to the fact that, if they find a 1c or 2c drop in the price of carrots at Woolies and then go home and look at two people unemployed, the two issues are related. Unfortunately, consumer demand is driven entirely by price. I know that not all welfare is indeed a negative, but the unemployment component of welfare is not related to this competition debate. I said in opening that consumers, like small business, like big business, are essentially selfish and their initial reaction to a low price is not necessarily the only economic consideration.

**Mr NAIRN**—The bit that made me scratch my head was what you actually mean by 'significant public resources be devoted to equip the Australian community'. I was just a bit surprised at the terminology coming from a small business association. It seems to be a very bureaucratic sort of response to what we are trying to look at. I cannot see how that then can be applied in practical terms without creating another government department or something or other along the way.

**Mr Bastian**—The essential debate that is taking place here is not really between small business and big business; it is between, in essence, small business and the Australian consumer. Ultimately, the Australian consumer will buy where they perceive the price to be best. For all the reasons you have debated here and for the last couple of weeks, there are reasons entrenched in our policies why certain price advantages accrue to large players. But the simple truth is that we cannot develop any interventionist strategy in this country without the Australian population understanding it. It must be from them.

People out there are extremely concerned about unemployment. I think that is a given. They do not necessarily understand exactly how the price of a product, in a large retail chain in this case, affects unemployment. It is a little bit of an ask for a small business

organisation like my own to raise that level of awareness. We traditionally raise the level of awareness in the community on things like Aboriginal issues, or Telstra issues, a major range of things like the republic and whether or not we should debate that.

The core issue here is that, until the Australian community views small business not as a basket case but views it as actually the means to provide employment and understands that, we will continue to have this debate. The issue is the value intensive character of small business has to be valued by the Australian community, not just by you, not just by me—and I cannot do that.

**Senator FORSHAW**—Isn't the proposal which has been put by various groups—NARGA and others—which you support, to limit the share of one company to 25 per cent, not just a free kick for Franklins or maybe a new player to come in? In other words, why should we support a proposal that effectively targets Woolworths and none of the other three?

**Mr Bastian**—COSBOA is not really targeting Woolies. The truth of the matter is that Woolies is just a classic example. Unless some restraint is put on the growth of large organisations by some means—and we propose a few—then the situation will continue to get worse. Whether that provides a free kick for other players is a slightly different debate. I am actually trying to restrain the growth of large organisations.

**Senator FORSHAW**—The theory is that, by bringing it back from 80 per cent to 75 per cent, which is not a big drop anyway, and by limiting the share of the big three to 25 per cent each, Franklins or some other group will in the end take up that share of the market. I have had no evidence to suggest that small business will take up the share that is divested. I am at a loss to see that what somebody might say looks good on paper actually in the end will make a difference.

**Mr Bastian**—I do not know that I can satisfy your question other than as a point of—

**Senator FORSHAW**—Maybe we can ask NARGA because they are promoting it. I do not want a long answer on this final question: how important do you think is the changing nature of shopping centre developments from single strips down the main street with small businesses and maybe the odd supermarket to mall developments? To my mind, that is significant and also commensurate with that is the increase in the range of products that are made available. That then becomes something the market and consumers have driven.

**Mr Bastian**—You have asked three questions for a quick answer that you could probably do two PhDs on. You may accept that we totally support the need for facing change. Obviously change is occurring in retail as in many other areas. The method of the change does cause us some concern. In Maitland and here, the change seems to follow a pattern: you move the focus of your purchasing away from the strip shop and then you alter the parking arrangements in front of shops. There are a whole pile of tricks of the trade which we would think are undesirable but the change itself is not our issue.

As for the motivation for the change, you have said and presuppose that the consumer is driving the change. I am not 100 per cent certain that is the case. I think that you provide a



large shopping complex and then you make strip shops less attractive. That will produce its own effect. You also inferred that there is—

**Senator FORSHAW**—The mall has become more attractive for one-stop shopping to consumers. You can get everything in the supermarket and in the surrounding shops and you can park your car in one place and you do not have to walk up and down. That was what I meant by consumers driving that.

**Mr Bastian**—Yes, there are two issues there. The malls in the states are coming under a bit of heavy weather at the moment, as I understand it, and I would like to sidestep malls and the drifts and trends there to NARGA because they are more skilled. But, on the question or on the presupposition that you are producing increased choice, we have addressed that in our submission. It particularly concerns Grafton where, as a result of these trends, there is no choice in the town, other than one shop and the retail centre, any more. In terms of product lines, I do not believe that the wide range of choice can be assumed. That requires a little bit more analysis.

It is passing strange to me that most people who go overseas from Australia do so to go shopping whereas most Germans and Brits go overseas to have a rest. If you travel the world, as most of us do, you will see products over there that simply do not appear in Australia. You could do analyses that would show that the product that is delivered—and I am thinking of the coke stuff—is basically what is profitable. People want cans, but in point of fact they are getting out of cans. They want to deliver a product which is tailored according to their needs. That is fine. That is commerce at work, but do not kid yourself that the consumer is driving that one. Most consumers go to shops these days and buy what they can, not necessarily what they want.

**Senator BOSWELL**—Have you ever gone into a shopping centre, netted back the square metreage area, taken off all those costs you ran through and done a comparison between what Coles and Woolworths would pay and what the local hardware shop would pay?

**Mr Bastian**—Yes, we most definitely have. We put that forward in many public inquiries.

**Senator BOSWELL**—How would you know what Coles and Woolworths would be paying for rent?

**Mr Bastian**—It is usually off the back of a truck, Senator. I think it was when the Reid report was being run that we tendered a submission to that report. With it was an attachment, which I think was a Lend Lease plan for a shopping centre in Sydney, and it showed the rents.

**Senator BOSWELL**—I can get that evidence. Just roughly, what was the difference in price?

**Mr Bastian**—Setting aside the costs they do not pay for cleaning, security, advertising and all those things, because they claim to be the draw, it is something like \$1,100 or \$1,200

a metre for one of the smaller ones of about 80 square metres against about \$150 or even less per metre. So ratios of eight to nine are not at all uncommon.

**Senator BOSWELL**—We had better get that evidence. See if we can chase it up.

**CHAIR**—Thank you, Senator Boswell. I believe that we have given you a fair run, Mr Bastian. Thank you for coming today. Thank you for explaining the views of your membership. We appreciate that. We look forward to further dialogue with you in different guises, undoubtedly.

[10.35 a.m.]

**TYLMAN, Mr Frank Joseph, Managing Director, Procter and Gamble**

**CHAIR**—I welcome Mr Frank Tylman. I understand, Mr Tylman, you have come from overseas and you are to return immediately. We appreciate your taking time out to speak to this inquiry today.

**Mr Tylman**—You are welcome.

**CHAIR**—The committee prefers all evidence to be given in public. However, you may at any time request that your evidence go into camera. If so, would you make a formal request to the committee and we will consider that when it is presented to us. We should warn you, however, that at some stage in the future the Senate may decide to make that evidence public. It is important also to remember that giving misleading or false information to this committee may constitute a contempt of the parliament. The committee has before it submission No. 304. Are there any alterations or additions that you wish to make to that submission today?

**Mr Tylman**—No, there are not.

**CHAIR**—We now invite you to make your opening statement, at the conclusion of which the committee will proceed to questions.

**Mr Tylman**—Procter and Gamble is committed to providing products of superior quality and value to improve the lives of the world's consumers. We recognise that our customers are important partners with us in this process. As such we strive to work cooperatively to achieve our joint business objectives. We build long-term relationships based on mutual trust and integrity.

Procter and Gamble supports a level playing field in the retail sector. Our philosophy is to create a transparent selling environment, both to our consumers and to our customers. As such we treat all customers equitably and without discrimination. We have transparent pricing in terms of sale. All competing customers have an equal opportunity to purchase our products and to qualify for the same pricing.

Procter and Gamble is a proponent of a grocery industry strategy known as efficient consumer response in which retailers and suppliers work closely together in an integrated supply, demand and information system to bring better value to the consumer. The goal is to create transparency and to make consumer choice easy and clear. By focusing on the consumer and eliminating inefficiencies, significant savings can be realised. These savings would directly benefit the Australian consumer.

**CHAIR**—I think the name Procter and Gamble is synonymous with effective marketing worldwide. I am interested in a comment you made that all customers are treated equally. I do not know whether you were here for the evidence given by Coca-Cola. Were you here this morning or not?

**Mr Tylman**—No, I came in late.

**CHAIR**—They talked about differences that were given for volume, the promotional efforts that they were making on various products and the relationship that they wanted to establish between various customers. Does the same apply to you? When you say you treat all customers the same, does that in fact mean the same price to everyone regardless of how big or how small? Is there no volume discount at all?

**Mr Tylman**—We offer the same terms to all of our customers that meet the same criteria. When you speak of volume discounts, we have certain costs that we incur in the supply chain. For instance, it costs us more to ship 50 cases of product than to ship a whole truckload and we know what those costs are—we do activity based costing—and we will pass those on to our customers.

**CHAIR**—Basically what you are saying is that there is a volume discount?

**Mr Tylman**—There would be, but everybody is entitled to that same volume discount.

**CHAIR**—But if you are a small guy at Kingaroy, for example, which is where we were last week, the chances are you will not have access to any of that discounting if you are just one supply. So, while it sounds good in practice and that it is all very equitable, you have to meet certain criteria to access the discounts available.

**Mr Tylman**—Yes.

**CHAIR**—What about terms of credit? Do you have differing terms of credit for different customers?

**Mr Tylman**—No, we offer the same terms of credit to all our customers.

**CHAIR**—So what is it—seven days cash? How does it work? Is it 90 days?

**Mr Tylman**—It is 15 days.

**CHAIR**—So a small customer at Kingaroy has to pay within 15 days and Coles, Woolworths and Franklins have to pay within 15 days as well?

**Mr Tylman**—I am sorry, there is a discount to pay within 15 days. Everybody needs to pay within 30 days.

**CHAIR**—What is the discount for paying within 15 days?

**Mr Tylman**—We offer 2½ per cent.

**CHAIR**—But everyone has to pay within 30 days?

**Mr Tylman**—Yes.

**Mr NAIRN**—Mr Tylman, do new customers automatically qualify for a 30-day account or do you make credit risk assessments before you would offer the 30-day account?

**Mr Tylman**—We will do a credit check and if they meet those criteria then we will offer the same terms.

**Mr NAIRN**—How do you do that? Is it based on references they could give?

**Mr Tylman**—Yes.

**Mr NAIRN**—Banking checks and whatnot?

**Mr Tylman**—Yes.

**Mr NAIRN**—Most of your customers would be wholesalers, would they not?

**Mr Tylman**—Not necessarily. Our biggest customers are Coles, Woolworths and Franklins.

**Mr NAIRN**—Because they operate their own wholesaling. They are vertically integrated, so it is the equivalent of you selling to, say, Davids. You do not sell directly to independent grocers as such; you would sell through something like Davids?

**Mr Tylman**—Generally we would sell through Davids, although the independent grocer would have access to our goods if they wanted to go direct.

**Mr NAIRN**—Would they fall into the same category with everybody being offered the same sort of conditions and things? So an individual coming direct to you or going through Davids or AIW, for instance, would have access to the same sorts of terms. In effect, they would not because you mentioned volume discounts and things. Davids would be buying for all of their independents; therefore they would be able to qualify for some of those discounts better than an individual on their own, wouldn't they?

**Mr Tylman**—Correct.

**Mr NAIRN**—What about rebates to stores for shelf positioning? Does Procter and Gamble get involved in that?

**Mr Tylman**—No, we do not.

**Mr NAIRN**—So, if a store says, 'We'll give your product a more prominent position,' there is nothing in your pricing structures to negotiate a cheaper price for your goods?

**Mr Tylman**—No, there is not.

**Mr JENKINS**—On the pricing structure for Davids, you are not concerned whether it goes to a small corner store or to a supermarket?

**Mr Tylman**—No, we sell to Davids.

**Mr JENKINS**—So whatever volume they are buying, they can get whatever goes with that?

**Mr Tylman**—Correct.

**Mr JENKINS**—Do your representatives provide in-store servicing, shelf display—those types of things?

**Mr Tylman**—No, we generally work with the retailer. We will set up an annual business plan and the retailers will set up the displays.

**Mr JENKINS**—At the start, but it is not an ongoing process.

**Mr Tylman**—No. I am sorry, I did not understand the question.

**Mr JENKINS**—One of the accusations that is put is that—I think you have called it ‘same criteria with the same terms’—the terms not only are to do with price but are to do with after-sales type servicing, marketing maintenance and things like that, people actually visiting the store. The claim was that that is provided to Coles and Woolworths rather than to the independents.

**Mr Tylman**—We do not discriminate.

**CHAIR**—On this question of discrimination—and I know there is a volume discount—could you give me the typical product that Procter and Gamble sell?

**Mr Tylman**—Shampoo would be an example—Pantene.

**CHAIR**—Pantene. Going into the Kingaroy deli, for example, what difference would you see between the unit price, cost price, there and the unit cost price for Coles? If you want to, you can give us the answer in camera. But to us it is an interesting factor.

**Mr Tylman**—In terms of what we charge the customer?

**CHAIR**—Yes.

**Mr Tylman**—We would offer the same.

**CHAIR**—No, you have already said that there is a volume discount.

**Mr Tylman**—Correct.

**CHAIR**—I presume that the majors get the largest discount because they have the largest volume. So what type of discount are we looking at for volume?

**Mr Tylman**—If it would be possible to talk specific terms in camera, I would prefer that. These are relatively sensitive.

**CHAIR**—That is fine. We will do it at the end, and then we can have a coffee break. There is nothing wrong with commercial arrangements, but we need to understand how they flow through. If the small retailers have not only the Coca-Colas of the world but the Procter and Gambles to contend with, and you add in the lease cost reductions, electricity costs and so on, it is no wonder these guys are having trouble. That is the way of the world. Do you have any comment on that or not?

**Mr Tylman**—No. The only thing I can say is that we offer the same terms, the same list price, to all of our customers, and if those customers meet the same criteria then it is available to them. Some of the smaller individual stores may go through wholesalers because they find that to be more advantageous to them, but if anybody comes to us and wants to buy X amount of product then we will supply it.

**CHAIR**—What about advertising assistance?

**Mr Tylman**—It is exactly the same. We will offer the same assistance to large—

**CHAIR**—It relates to volume again, does it?

**Mr Tylman**—Yes, it does. It is a percentage of sales.

**CHAIR**—It can hardly be the same assistance if it relates to volume, can it?

**Mr Tylman**—It is a percentage of sales.

**CHAIR**—Yes, it sounds good in theory, but in practice it just means one thing.

**Senator BOSWELL**—Mr Tylman, you have got some products that would go across the pharmacy lines too.

**Mr Tylman**—Yes.

**Senator BOSWELL**—Vicks is a good product. How do you distribute to the chemists?

**Mr Tylman**—We generally go through the pharmaceutical wholesalers.

**Senator BOSWELL**—It would be true, wouldn't it, that you would very rarely service a store like the Gympie Cooperative or something like that; they would buy through Davids?

**CHAIR**—Or AIW.

**Senator BOSWELL**—Or AIW.

**Mr Tylman**—Yes.

**Senator BOSWELL**—You would have 80 per cent of your business going to Coles, Woolworths, Franklins and Davids?

**Mr Tylman**—That is correct.

**Senator BOSWELL**—Davids would get the same net price as Woolworths or Coles?

**Mr Tylman**—If they met the same criteria.

**Senator BOSWELL**—Do you have a minimum buy or a 600-carton buy?

**Mr Tylman**—Our minimum buy is 50 cases.

**Senator BOSWELL**—The biggest discount you would offer would be on a 600-carton buy or something like that.

**Mr Tylman**—Yes, we have a structure, as I said. We know what it costs us for our logistics, for our supply chain, and what it costs to warehouse and what it costs to transport it, therefore we have a scale which reflects those costs, and if the customer prefers to take it by a means which is most efficient to us then we will just pass on those savings to them.

**Senator BOSWELL**—And you give the same advertising allowances, the same opportunities to get a special?

**Mr Tylman**—Yes.

**Senator BOSWELL**—And you rotate that special around? Say you wanted to put Vicks on special. You would give Davids the same opportunity to run that special as you would Coles or Woolworths?

**Mr Tylman**—Yes.

**Senator FORSHAW**—You may want to come back to some of this later in camera, but you state in your submission that the primary goal of this ECR, efficient consumer response, is directed at providing better value for consumers.

**Mr Tylman**—Yes, it is.

**Senator FORSHAW**—As a general proposition, what do you think consumers are most looking for in supermarket or retail grocery shopping? Is it price, is it convenience or what?

**Mr Tylman**—I think overall consumers are looking for good value, and the way I would define that is product performance divided by price.

**Senator FORSHAW**—We are not just talking about one product. People who go to do their weekly shopping, or shop every couple of days, buy a basket of goods. At least anecdotally, I think there is a certain degree of supermarket chain loyalty. People who shop



at Franklins regularly shop there or at Woolworths. Something must drive that; otherwise they would be crisscrossing all over the place if it was driven by price.

**Mr Tylman**—I think one of the things that consumers are looking for and one of the things that Procter and Gamble tries to emphasise is transparency: to make the shopping experience easy for them. If they can go into a store, find what they want and it is a pleasant non-confusing experience, then I think they appreciate that.

**Senator FORSHAW**—This global movement you refer to is quite advanced in North America and Europe and is making good progress in Australia—that is, efficient consumer response. In purely theoretical terms, would that ultimately produce a situation where the price of your products sold to what you call customers, who then presumably sell them to consumers, would be fairly stable right across the board, irrespective of whether they are large supermarkets or small retailers? You talk about identifying savings or getting greater efficiency into the chain so that—as you say here—‘the industry can reduce their costs and reduce inventories,’ and that the focus ultimately should be upon making money by selling to consumers rather than customers buying or suppliers buying. Does all that mean you end up with a more stable pricing regime?

**Mr Tylman**—At the end of the day, what that means is that you remove inefficiencies out of the system. Right now the grocery system from the manufacturer all the way to the consumer is not particularly efficient. There are practices taking place that basically involve excess cost. Through efficient consumer response, the idea is—from those words—it is focused on the consumer, it is responding to consumer needs and it is doing that most efficiently. If we can pull those costs out of the system by looking at the system as a whole, then ultimately the consumer will get a better value. Right now somebody is having to pay for those costs and it is the consumer. By taking those costs out of the system the consumer will overall get a better value.

**Senator FORSHAW**—It just seems to me that a lot of what we are hearing in this inquiry—about how small businesses complain that they cannot buy products from their wholesaler at a price that they see them being sold for in the major supermarket chain stores—suggests that the bigger stores are more efficient because they purchase in greater quantities. We had evidence here this morning from one person, using it to justify certain employment figures, that the level of turnover was lower in the small business sector and therefore more employees were required in that sector than in the supermarket chain. I am trying to understand how this system impacts ultimately upon the price at which goods will be available—the same goods available for those supermarket chains and for small retailers. How can we narrow that gap, which is what a lot of them are complaining about at the moment?

**Mr Tylman**—Overall, ECR will reward efficiency. As I say, the idea is to take non-value added cost out of the system and therefore provide better values to consumers.

**Senator FORSHAW**—Yes, but it still does not answer my fundamental question, which is: the corner store that is going to sell cans of coke or bottles of coke, together with his hamburgers, his toasted sandwiches and his cappuccinos and whatever, cannot sell those cans of coke, get those Coca-Cola products, at the price for which Woolworths can get them.

Efficiency at the end of the day may just mean size. I suppose we are going around in circles here, but I do not understand how this system will benefit small retailers.

**Mr Tylman**—If small retailers are less efficient today than larger retailers, then they have even a greater amount, I would think, to gain by becoming more efficient.

**Senator FORSHAW**—What do you mean by ‘efficiency’? Efficiency could mean that Woolworths or Coles have their own wholesaling network with huge trucks that just transport this stuff to their supermarkets every day. They have teams of workers in there during the night restacking the shelves. The individual shopkeeper down in the main street with his little delicatessen or milk bar has not got anywhere near that capacity to run his business that way. He might say he is efficient. He just cannot get the benefits of economies of scale, can he?

**Mr Tylman**—I guess that is something I would not be able to comment on. We offer them the same terms that we offer any other customer. If they have an operation which ends up not being as efficient as one of the larger ones, then I think that is something they would need to find out how they would offer—

**Senator FORSHAW**—I am not being critical, but if one company comes in and buys 50 boxes of Pantene shampoo—let us say it is a pharmacy or a hairdressing salon or something—and Franklins come in and buy 5,000, who gets the better price?

**Mr Tylman**—Franklins would get the better price because it costs us less to supply that.

**Senator FORSHAW**—It seems to me that, no matter how wonderful this system might be, size will mean in effect efficiency or greater efficiency.

**Mr Tylman**—The focus, as I said, is on the consumer, not necessarily on the size of the retailer.

**CHAIR**—Larger economies of scale must lead to a greater efficiency in terms of pricing and so on.

**Senator FORSHAW**—Do not take me the wrong way, I am not being critical. This seems to me to be very much at the heart of this whole debate

**CHAIR**—Yes, it is, but it is different, though, from you having the same deal as coke where they are actually trying to stream certain products into a certain market and others for the small retailers. There is a double whammy there, it seems, with coke. Yours seems to be more straight up and down, volume discount, everything is the same to anybody. It seems the small retailers cannot even buy those packs.

**Senator FORSHAW**—As part of your corporate philosophy, do you actually take into account the need to maintain a small business sector? Let us talk about the US particularly. Do issues that relate to those sorts of questions factor or figure in your company’s philosophy or is it simply that you will provide it all at a certain price depending upon volume purchased and let the market sort it out from there?

**Mr Tylman**—Our position is that we treat all of our customers, large and small, the same and it is all transparent and they all know what they can get.

**Senator FORSHAW**—Again, it is not a criticism, but you do not say, ‘Look, we think it is in the interests of the US economy or the Australian economy to have small businesses operating alongside big businesses and therefore we will maybe tailor some of our policies to ensure that happens.’

**Mr Tylman**—No, we do not do anything specifically to promote that.

**CHAIR**—It is time, I think, for our audience to have a comfort stop while we go in camera. Thank you.

*Evidence was then taken in camera, but later resumed in public—*

[11.16 a.m.]

**KEENAN, Mrs Ella Doreen, BPW National President, Spokesperson for Coalition, Coalition Against Major Chain Dominance**

**MENZIE, Ms Karena Joy, Assistance with Writing, Publicity and General Organisation, Coalition Against Major Chain Dominance**

**CHAIR**—I welcome Mrs Ella Keenan and Ms Karena Menzie. The committee, as you know, prefers all evidence to be given in public, but at some stage if you wish to go in camera you may put that request to the committee and we will consider it, with the warning that at some stage in the future the Senate may decide to make that evidence public. It is also important to remind you that the giving of false or misleading evidence may constitute a contempt of the parliament. The committee has before it submission No. 294. Are there any alterations or additions you may wish to make at this stage?

**Mrs Keenan**—I would like to place another submission from WEL, the Women's Electoral Lobby, on the table, and I do have another 123 signatures to the coalition to present as well.

**CHAIR**—Thank you. We now invite you to make an opening statement, at the conclusion of which we will then proceed to questions.

**Mrs Keenan**—I wish to thank you for the opportunity to present the views of the coalition. We felt it was extremely important that we have an opportunity to present in person, as we were concerned by the misconception often mentioned in the media that the issue of major chain dominance is only of concern to small grocery retailers and is not a major issue for consumers. This is clearly not the case. A review of our membership shows the broad spectrum of concern, with representatives of pensioner groups, consumer and resident organisations, welfare groups, town councils, as well as business groups as diverse as pharmacists, newsagents, hairdressers, health food stores, petrol outlets and many more, plus hundreds of concerned individuals, which is important.

Although independent grocers are the group most directly affected by the increasing stranglehold of the major supermarket chains, their growing tentacles are now covering everything from pharmaceutical products, floral items, liquor, petrol outlets and more. The result of this spread is the loss of more and more independent and specialty stores and, as we would like to demonstrate today, that is not in the interests of the public. This term 'in the public interest' is thrown around a lot, but we take it to mean that something in the public interest is something that is to the benefit of all Australians, not just select groups.

Unfortunately, the economic rationalist approach which seems to be operating at present places little if any credence on the human factor and lacks subjective parameters as to what constitutes public interest. We all know the benefits of supermarkets in terms of one-stop convenience for those who wish to take advantage of that type of shopping. We also understand the economics of the major chains having to make a profit for their shareholders. We do not have a problem with that. However, for the continuing growth of the major

chains to be in the public interest, they would need to prove that it benefits all Australians. This is clearly not going to be the case.

On behalf of our membership we would like to highlight those groups who are in fact disadvantaged by this situation, and these come from people who have made submissions. The first and one of the largest groups is the older members of the Australian community. Their level of concern is demonstrated by the fact that the 300,000 members of the Australian Pensioners and Superannuants Federation chose to be signatories to this coalition's submission. For many of their members, going to a large supermarket is a daunting, if not impossible, task. They are often dependent on others to transport them to and from the shopping centres and are then overwhelmed by the noise and the size and the queues they have to queue in to wait to get served. Many of this group prefer the familiarity and personalised service of their local store. In fact, for those older citizens who are less mobile, this personalised service, such as home delivery and understanding of their special needs, is often the difference between staying in their own home and having to rely on residential care, and that is a real problem. In addition to the basic goods and services it provides, their local store is often also their social contact, keeping them in touch with friends and local news.

The second group that is clearly disadvantaged is anyone living in rural and regional areas. I am very pleased to see that the Country Women's Association is presenting tomorrow and they can no doubt verify a lot of what I am saying today. Living in Swan Hill as I do, I see first-hand the way in which the major chains can dictate to the local market, reducing profits for local businesses, if not putting them out of business altogether, and dictating to local producers in terms of size, price and quality of the product they sell. In towns like Swan Hill and so many other country and regional towns, the local stores are the backbone of the township, providing not only goods and services but employment, local cash flow, sponsorship, support for local events, tourist and community information and just so much more. Without our local stores, small towns like this simply die, leaving residents with no choice but to travel some distance for basic items or leave the area for metropolitan centres in which fundamental services are then available.

The other group which will be increasingly disadvantaged if this growth is not stemmed is the consumer. Cherie Dalley, President of the Queensland Consumers Association, said that their organisation wished to join the coalition as they too had increasing concerns about the loss of independent stores, resulting in loss of competition and choice for the consumer. The committee has already been presented with a good deal of evidence which clearly demonstrates the need for the real competition provided by the independent sector, and this is in order to maintain competitive pricing, so we will not dwell on this point other than to add our voice of concern to it.

In addition to this, we also need to consider the consumer's fundamental right to choose where they shop and what they shop for. If the tentacles of the major chains continue to strangle out of the market the many independent specialty stores, this right will be lost as the consumer will have no choice but to stop at one of the major chains, buying the products that the chain buyers choose to stock. The question we respectfully ask the committee to consider is how the existing and growing dominance of the major chains can be in the public interest when it disadvantages so many groups. Those groups are the consumers, the elderly,

residents of rural and regional townships, small and independent business operators across a broad spectrum of sectors, as well as their families and employees.

We will leave it to those with more understanding of the law and the legislative processes to argue the exact solutions to this difficult situation but, please, in your deliberations and recommendations look at options which monitor and govern the retail sector in a manner which gives small and independent business operators a more equitable market in which to operate so that they may survive and continue to service their customers and their communities. Thank you.

**CHAIR**—Thanks very much, Mrs Keenan. Did you write this submission yourself?

**Mrs Keenan**—Basically they are my words, but Karena has helped me put them together.

**CHAIR**—I actually thought it was very good because you encapsulate a lot of the feel that we got from going around, and it was also very readable, which is not always the case with submissions.

**Mrs Keenan**—I am a very down-to-earth lady and put it in common language!

**CHAIR**—Can I just ask, before we kick off the questions: you say on page 4 here about the various people who are involved; the meeting was organised by all the various groups. Do you get funding for this group from Davids?

**Mrs Keenan**—No, we do not. The Australian Federation of Business and Professional Women is a totally non-government organisation that receives funding from no businesses in Australia.

**CHAIR**—Do the various groups who formed the Coalition Against Major Chain Dominance at the meeting in December 1998 put in funding to your group at all?

**Mrs Keenan**—Most of us are only putting in hours of voluntary work. Karena is an independent, too. We have asked her, through her office, if she would, for instance, write or help me, because I am a very busy lady. She finished this while I was away the other day. But, no, we do not receive funding from any of them as such.

**CHAIR**—What is your other lobbying role, your day job?

**Mrs Keenan**—I am a lobbyist for the women's movement. I am not a feminist. I lobby for women's issues. What we have to understand here is that the small business sector is the largest employer in Australia. The retail sector employs 70 per cent of women in their work force. This is a huge concern to the women's movement. I am not just quoting from my own organisation. I have just come from a five-day conference where 84 women's organisations were represented and this subject was part of their agenda too.

**CHAIR**—It is helpful for us to know where people are coming from.

**Mrs Keenan**—I am hoping that you will understand.

**CHAIR**—I appreciate that.

**Senator FORSHAW**—Thank you very much for your submission. I did enjoy reading it. Can I just put to you what has been to us by some other witnesses because it relates very much to this issue of employment. I do not think anyone doubts the importance of the small business sector overall to employment in this country. However, there is no doubt also that the big supermarket chains employ a lot of people. We have had evidence from them, from the trade union movement and also from some local government authorities of the importance of having major developments like supermarkets in a towns, cities and in regional Australia. It is argued that they employ a lot of people, particularly young people and women, and that they provide structured training and career paths.

That may contrast, for instance, with substantial sections of small business which are often family owned stores. What is your response to that argument and to the consequence that has been put—that is, if stores were forced to divest, in other words close their stores, sell them to another operator or have restrictions placed upon them, this in fact could have a negative effect on the economies of particularly the regional centres.

**Mrs Keenan**—I have a more positive attitude to that. I believe that by placing a cap on the supermarket chains we will not lose what we already have, which is important. The supermarkets are important in many areas but small business often is the only area that a woman with children feels that she can go into and still look after her children. She wants to be able to run a business that is profitable. She does not want to make massive profits but she wants to be able to run a business with her husband and her family that enables her to still maintain the family structures. We are seeing that this is not working in many regional and rural areas.

I will give you an instance in my own town. We did have 10 corner stores where a lot of people went. They were family shops where the children quite often served behind the counter. They helped mum and dad, they stacked the fridges, they did all sorts of thing. We now have three, so it does affect the community in general. I do not have a problem with supermarkets being a part of our life. They are a very good part of our life in many respects but we cannot let them dominate to the extent that everything else is at risk.

**Senator FORSHAW**—It surely is not all the fault or the consequence of increasing market share by the retailing giants that has led to these downturns or these closures in small business. We were given figures last week of the number of small shops that are vacant in a number of centres. My own area is Sydney and recently, because I am on this committee, I had a look at this. I saw a hairdresser close within six months, also a butcher shop and a coffee shop. That is in a suburb in Sydney. Not all of those are impacted by retailing supermarkets. You have bank closures, you have general economic trends, you also have the perennial problem of many people going into small business who really get into it without a lot of thought.

**Mrs Keenan**—With no training, no expertise and little help.

**Senator FORSHAW**—That is not to say we should not worry about this issue because of all those other problems. But at the end of the day how many of the problems are due to this retailing issue, compared to those other factors?

**Mrs Keenan**—I believe we have reached a critical mass of supermarkets at the moment, without it now affecting the small business community even more. Again I will quote a case in my own town where we now have not only one Crazy Prices, which supplies a lot of crafty things and cheap overseas imports, but we now have a Crazy Clint's. This is in a small town.

That has literally put the craft people in my community totally and completely out of business. They cannot compete. They cannot make the teddy bear that Clint sells for \$12 that I used to sell through my craft shop at my station for \$16 because it costs the small craftsperson \$12 to make it. So it is affecting the communities, whether we like it or not. The consumer drive is based on the dollar we save but I do not necessarily agree with that. We heard Coca-Cola this morning talking about the various sizes that are available to the consumer. But what if somebody wants to send their child, who is eight years old, around the corner to buy a couple of cans of coke? They want cans because that is all the money that is left in the budget; their next pay is not until three or four days down the track. They do not want to send the eight-year-old to buy a pack of 24. That is unfair trading, in my opinion.

**CHAIR**—Thank you. You would be pleased to see two women representatives on the committee.

**Mrs Keenan**—I am very pleased.

**Mrs ELSON**—I was interested in your comments. I have a rural electorate and I have heard evidence before of independent grocery stores in smaller towns saying that they provided the service of changing the light bulbs when they delivered the groceries for the elderly and so forth. Yet the moment the elderly had the opportunity to shop elsewhere they forgot about loyalty. How do you stop people from doing that, especially in rural towns? You talked about the corner store before. I was a corner store owner and when independents came in next to me I was forced out of business because people preferred to go where they had a larger variety to select from. In your town if we stop those two places, Crazy Clint's and the other one that you mentioned, with their craft supplies—if we close them down and say, 'You're not coming to our town,' it then forces people to go to the next big regional town to get that craft supplied cheaper.

As we know, people will spend \$10 to save \$1 but then they look at it as a whole and they say, 'Okay, if we have got to go over to the regional centre'—which might be an hour's drive out of town—'to get what we need, then we'll do our grocery shopping and hardware shopping and everything else.' So the town has lost in more ways than one by forcing people to go elsewhere out of town. I would love to find an answer to that. You cannot stop people having a choice in shopping.

**Mrs Keenan**—No, I do not think that is the aim.



**Mrs ELSON**—We had a verbal submission that said we are taking away a service from the elderly. But it is an excursion for the elderly in my electorate to go on a bus trip to shop somewhere else for the day.

**Mrs Keenan**—This happens with many elderly people. You are probably referring to areas with a large population. For instance, in Swan Hill there is no bus service that will take them to a supermarket. There is no local bus service as such.

**Mrs ELSON**—No, I am talking about day trips or something like that.

**Mrs Keenan**—No, I am sorry, we are talking about day-to-day living, which is different to the weekly shopping expedition. Many older people living on their own, many people living in their own home, are quite isolated without that daily contact. I do not want to go to the supermarket daily, much less the older person.

**Mrs ELSON**—How do you stop that happening?

**Mrs Keenan**—I do not think you are ever going to stop it happening.

**CHAIR**—The small retailer, I think you mean.

**Mrs Keenan**—I will reiterate it. I do not want to stop the supermarkets but I would like to see a more equitable way for the small person to stay in business. I am sorry, I have to correct a misconception. When I talked about craft shops, Crazy Clint's and Crazy Prices, they do not go and buy their craft goods there; they are selling what people think are craft-made goods, but they are not, they are imported. Some of them are quite nice—I am not knocking that—but most of them are rubbish. But the average craft person cannot compete with that. We do not want to stop the Crazy Clint's either, but again, we have to have in some way an equitable playing field.

You talked about empty shops. We have a Safeway mall in my town and I have to say that the shops in that mall are 70 per cent empty, on average, because small people go into them, they try and compete with the supermarket centre they are in and they are broke within nine months. This has been a continuing pattern for some 10 years.

**Mrs ELSON**—What shopping centre is that? What town is that in?

**Mrs Keenan**—Safeway in Swan Hill. The same is happening at the Bi-Lo centre where they have half a dozen shops. We have seen 11 shops change in 15 months in that centre because people cannot maintain a profitable business paying the rates and also competing with the supermarket that is selling similar types of things to them.

**Mrs ELSON**—So 70 per cent of them are vacant in those two shopping centres?

**Mrs Keenan**—In the Safeway supermarket it is not uncommon to have 70 per cent of those shops empty at any given time.

**Mrs ELSON**—That is very high, isn't it?

**Mrs Keenan**—It is very high. I have to explain something here perhaps. Swan Hill is a very lucky town. It probably has a much better economy than many towns because of the diversity of the industries in the area. We go from wineries to fruit growing, to vegetable growing, to dryland farming, to cotton, to dairy. We actually have a very good economy.

**Senator FERRIS**—And tourism economy.

**Mrs Keenan**—Tourism is one of the major things coming up on our agenda. We still do not have the tourism other towns have, but it is certainly a major factor.

**Mrs ELSON**—How many major outlets are there?

**Mrs Keenan**—There are two. We do not have a small supermarket at all in the town now—none whatsoever.

**Mrs ELSON**—What is your population?

**Mrs Keenan**—Eleven thousand. There are only two supermarkets and they are both major chains.

**Mrs ELSON**—How many independents did you have before the major chains came into the town?

**Mrs Keenan**—As I said, we had 11 little shops and there were two small supermarkets, which have both gone.

**CHAIR**—They have both gone.

**Mrs Keenan**—Yes. The other factor I would like to perhaps bring in will explain where many of these thoughts are coming from. If you look at a town like Nyah—which is a little bit up the road from me, about 20 minutes away—those people now have to come into Swan Hill to shop, to bank, to go to the post office. Naturally, and it is human nature, they will do their shopping at the supermarket. Nyah literally is down to one shop.

**CHAIR**—Before Senator Boswell takes up the questioning can I just ask a consumer question?

**Mrs Keenan**—Yes.

**CHAIR**—You are down to two supermarkets, but is the consumer worse off? Take yourself back to when the majors were not there. Are they worse off in real terms?

**Mrs Keenan**—Can I give you some real life terminology that will say yes, in some instances they are? We will use the aged as a reference. I am an old lady of 70. I have lost the button from my jacket. There is not a haberdashery in the town and I have to go to the supermarket. I want one button, but I have to buy six. I will never use the other five. I want a reel of cotton, but I cannot buy a little reel of cotton. I have to buy a large reel of cotton. I do not have small children—I might not have any children at all—and I do not want a kilo

or even 500 grams of mince. I am living on my own and I want to just make a small cottage pie for the next two nights; 250 grams is all I want, but I have to buy 500 grams. I am sorry, but, yes, consumer-wise in some instances we are worse off.

**CHAIR**—Yes. That is pretty small and the chances of the cotton and the—

**Mrs Keenan**—Yes, but there are a lot of small people out there, I am saying.

**CHAIR**—Yes, I know, but the chances are that the prices of some of those are cheaper than they were for one.

**Mrs Keenan**—Yes, and I am not disagreeing We have two butchers in the town where we had five. We have two large butchers in the supermarkets. Their price structures in some instances are considerably lower. But I have to say—I was a qualified chef many years ago—the quality is not always as good as the local butcher who cuts the meat more carefully and you get better usage out of it. Even though you are buying cheaper, you are not necessarily buying better.

**Senator BOSWELL**—Mrs Keenan, you have Coles and Woolworths in Swan Hill.

**Mrs Keenan**—Yes. They are Safeway and Bi-Lo, but, yes.

**Senator BOSWELL**—They do not trade as Coles or Woolworths?

**Mrs Keenan**—No, they do not.

**Senator BOSWELL**—What would be the reaction in the town—I know Swan Hill well, I have been there a few times—if one of those stores was to be removed and be replaced by an independent?

**Mrs Keenan**—The general reaction in the town, I think at this stage, would be fairly evenly divided. You have the people who believe that the supermarkets make life cheaper for them, but you have a lot of the consumers in the town who really believe that having only two large major chain distributors is not good for the town. There are two reasons for this: one is that there are many items not available through the supermarkets that you could get, and used to be able to get, through the small supermarket. I am talking about things like bottling wax for sealing jams and things. You try and find it in a supermarket in one of the major chains. They do not have to stock it, and they do not, because it is not a high-volume item and they do not sell enough. So, yes, there would be a mixed reaction.

**Senator BOSWELL**—I know what happens when a bank leaves town.

**Mrs Keenan**—It is devastating.

**Senator BOSWELL**—I am just wondering what would happen if one of the supermarkets left town.

**Mrs Keenan**—We had only one supermarket in Swan Hill until 15 months ago, as in a major chain, and we had three smaller ones.

**Senator BOSWELL**—Were the three smaller supermarkets taken over?

**Mrs Keenan**—Yes, Bi-Lo actually took over our smaller supermarket.

**Senator BOSWELL**—I see. One was taken over. What happened to the other two?

**Mrs Keenan**—The other two just shut down—literally.

**Mr JENKINS**—The proposal for a cap is based on national market share. One of the real problems is that if we are just looking at Australia as ‘the market’ rather than looking at all these regional areas or urban areas as markets, we are going to still have a whole host of distortions, even under a cap. For instance, if we looked at Swan Hill as a market, or Swan Hill and the region as a market, a capping proposal may have absolutely no effect because it may be the decision of the two majors that are there in the market to hold onto their share. Or it could be that a major might decide, for instance, to walk away from Tasmania or something and fulfil the artificial target that has been set by a cap. Do you think we should be really looking at these smaller markets to decide what is healthy for them?

**Mrs Keenan**—Again, I will put it as something I can talk about from my own expertise. I attend the APEC conferences quite regularly as a small business operator and as a representative of women’s organisations. I have just taken a study tour of Chinese women around Australia for eight days and I am going back to China next year to run small business sessions for them. They came out here to study the economic empowerment of women through small business because the Chinese government has acknowledged that the only way China is going to address some of their unemployment problems is to encourage the growth of small business. That is a fact and we cannot go past that. Thailand has done the same.

I believe we, in Australia, are very lucky because we have a strong small business community. But let us encourage it, promote it and not go backwards. I do not believe the capping will actually adversely affect a lot of those communities, I really do not. But like everything else it would be something that has to be worked out very carefully to ensure that the regional and rural areas were not affected, because they already suffer from many lacks, and it is a very important part of our Australian community.

**Mr JENKINS**—I understand your encouragement argument and most of your recommendations are along those lines because they seek support. They also seek support in enabling small business to monitor and for transparency in pricing arrangements. I understand that, if we were to be able to put that in place, small business could have greater confidence in being able to go into the marketplace. It is just that when there are recommendations about interfering with the market, I think that we need to be sure that that interference has the outcome that is intended by those that propose it. I have a concern that, if we are going to put the spanner in the mechanism of the market in that way, whether it would have the outcome—it may be that some other larger organisation starts to pick up the pieces.

**Mrs Keenan**—I know what you are saying. Again, I will put it in a personal context. I do this when I am working on these things because I believe that you have to have the grassroots knowledge and information to be informative about what you are talking about. I run a private railway station. As you know, the public service system for transport in Victoria has been a monopoly for many years by the government. The government are now going private. Why are they going private? Because private industry, small industry to a certain extent, can run those systems just as well and provide the same services to the public—but when it was a monopoly. So from my point of view I do not believe that the major chains having a monopoly necessarily services the community.

**Mr JENKINS**—I will just say to the committee that there were elements of that answer where I was leading with my chin again. I hope that that is the only question today when I get the privatisation response, but I will let it pass!

**Mrs Keenan**—But bringing it into context, you have to think about that.

**CHAIR**—Thank you for your presentation today. We really appreciate it, and the passion with which you encapsulated the ideas and represented those views. Thank you for coming here today.

[11.48 a.m.]

**KOVAS, Mr Michael, President, Food Retailers Association of New South Wales**

**McKENZIE, Mr Alan John, National Spokesman, National Association of Retail Grocers of Australia**

**RICHARDSON, Mr Lionel James, Director, National Association of Retail Grocers of Australia**

**CHAIR**—I welcome Mr Alan McKenzie, Mr Sam Richardson and Mr Michael Kavas. Welcome back, gentlemen. The committee prefers all evidence to be taken in public but if at any stage you wish to go in camera then we can put it to the committee and they will consider it, but with the warning that at some stage in the future the Senate may make it public. I also remind witnesses that the giving of false or misleading evidence may constitute a contempt of the parliament. The committee has before it submissions Nos 201 and 201A. Is it the wish of the committee that we receive submission No. 201A and authorise its publication? There being no objection, it is so ordered. Are there any alterations or additions you wish to make to the submission at this stage?

**Mr McKenzie**—The only thing, Mr Chairman, is that we did foreshadow in our supplementary submission that we would be tabling some draft amendments to the Trade Practices Act, which I have copies of in front of me today and which I am happy to table today. We will refer to it in our opening statement, if that is okay.

**CHAIR**—Fine. Do you have any additional comments to make on the capacity in which you appear before the committee today?

**Mr Kavas**—I currently run a supermarket in Camperdown.

**Mr Richardson**—I am stuck with the nickname ‘Sam’. I am General Manager of Tasmanian Independent Wholesalers, which is a cooperative of 534 retailers.

**CHAIR**—I now invite you to make an opening statement. At the conclusion of your remarks we shall proceed to questions.

**Mr McKenzie**—Thank you, Mr Chairman. We thank the committee for the opportunity today to provide further comment in support of our major submission. The supplementary submission we have provided to the committee is in response to the evidence given by participants in the inquiry and also in response to the comments of committee members. We would now like to make a brief opening statement. We would then be prepared to respond to questions from the committee.

In our supplementary submission we have endeavoured to clarify and amplify our position on what we consider to be the key considerations before the committee. We firmly believe that we have debunked the major chains’ obfuscation over the definition of ‘the retail grocery market’ and restate our position that the relevant market is that researched and

reported on by A.C. Nielsen. We have updated the Nielsen figures to December 1998, which is the latest published data.

We have also duly addressed concerns expressed by committee members in relation to the impact of a cap on the value of independent businesses and have outlined the support for our proposals that have been forthcoming from the major consumer movement and from other groups. Further evidence has also been provided with respect to what we see as the dire consequences for rural towns, as well as the consequences for employment, if chain expansion is allowed to continue unchecked. Given the focus of many submissions and that of committee members on predatory pricing, we have commented on the difficulty with the present law and now call for major surgery to section 46 of the Trade Practices Act to make it accessible for small businesses which are the victims of such misuse of market power.

In closing this introductory statement, I would now like to restate our core position—that is, the root cause of the decline in the market share of independents is unequal opportunity, for the reasons we have previously explained and summarised in our supplementary submission and also in our major submission. Those who have become the powerful and the dominant have significant and institutionalised and intrinsic advantage, with the playing field now severely tilted against the independent retailer. The chains have been aided and abetted in their march to market dominance by a combination of weak trade practices laws, an economic rationalist driven national competition policy and wholesale sales tax discrimination against independent retailers.

If the major chains are allowed to continue their unfettered expansion by opening more and more stores and through acquisition strategy, there is little doubt as to the end result. If the government fails to intervene, the market share of independent retailers will continue to be eroded, to the point where the entire sector will be threatened with irreversible market failure due to the loss of critical mass. The consequences of such an outcome will be severe and, in particular, will bring great hardship to rural Australia. At 80 per cent of the retail grocery market, when do we say enough is enough?

There are rules to protect the public interest in the media and in the banking sectors, but in the retail grocery market it is open slather. We therefore remain committed to our key recommendations, including the need to cap the market share of the chains so as to strike a balance and to protect genuine public interest. There is a heavy onus on this committee to act in the overall public interest and put forward recommendations that will stem the tide of monopoly control of the retail grocery market. We have put forward our recommendations in this regard.

Further to this, we note and support the thrust of the draft amendments to the Trade Practices Act given in evidence in Launceston by Tasmanian Independent Wholesalers. We have now taken further advice on those proposals and have tabled today the revised amendments that we believe will make those proposals more workable. We recommend that the committee refer these draft amending clauses to the ACCC without delay, with the instruction that they be further developed to suit their intended application, or that the ACCC subsequently respond with their own proposed amendments. We also offer to provide the ACCC with practical knowledge and industry experience should they require our further

input. Unless my colleagues have any other comments, we would now like to invite your comments and questions.

**CHAIR**—Thanks very much, Mr McKenzie, Mr Richardson and Mr Kovas. I suppose I should firstly congratulate you as lobbyists. In terms of going around the marketplace, you have certainly got your message across, and other lobby groups could learn from how you did it. People are reiterating the statements you have made, and also the recommendations, so you have been very effective in terms of your agenda.

**Mr NAIRN**—Mr McKenzie, does the 80 per cent figure which comes out of the Nielsen research—it is based on dry packaged grocery and frozen—come about through a system whereby point-of-sale scan data in the warehouse distribution centre is on a sample of product?

**Mr McKenzie**—It is 105 classes of goods as measured by Nielsen, yes. But it would be very representative, not highly representative, of the total volume going through distribution warehouses.

**Mr NAIRN**—Do you envisage that the legislation required would specify those 105 areas of goods as the sample?

**Mr McKenzie**—Unless there is a better way of doing it. The Nielsen figures are there now. It is a highly regarded survey and it is widely used throughout the industry, so it has a high level of credibility.

**Mr NAIRN**—But who decides on the sample?

**Mr McKenzie**—Nielsen make that decision.

**Mr NAIRN**—They make that decision. Do they change that?

**Mr McKenzie**—I think it has been expanded over the years, yes.

**Mr NAIRN**—I have quickly read the legislation, because you have just provided it to us. If I were Alan Williams, Ian Cornell or Roger Corbett, I would probably immediately give instructions down the line that we would start to change the areas we were working in and put much greater concentration into some of the fresh areas, change or even possibly go right out of marketing some of the goods used in the sampling and constantly change that, such that the sort of information you are saying would be the crux of decisions by the ACCC would almost become a bit of a nonsense, I would have thought. I just cannot see how it would work in a legislative sense.

**Mr McKenzie**—Basically the Nielsen figures mention comparable data—comparable data that goes through a wholesale distribution warehouse, matched up against what is scanned through the checkouts of the major chains. These are basic grocery items that are going through there. The key to success in this industry is having a wide range of products that people can choose from. So it is highly unlikely the chains are going to reduce their



exposure to those types of products. Those products are fundamental to the success of the whole grocery market.

The reason we believe this is the market is that it is fundamental to the issue of critical mass which we have explained, at some depth again, in our submission. It is the critical mass of those products which is putting the independent sector at risk as the market share of independents is continually eroded. That is why we maintain that that is the market. The Nielsen figures are there already, but there would be other ways of getting that information through the ACCC.

**Mr NAIRN**—Let us say that it works that way. The ACCC would review this six-monthly or 12-monthly—

**Mr McKenzie**—Six-monthly, I would think.

**Mr NAIRN**—Six-monthly. So they do a six-monthly review and they discover that Woolworths has 26 per cent. What do they say to Woolworths—‘You had better get that one per cent down by the time we do another review in six months, and if you don’t there will be a heavy fine or a forced sale of a particular shop’? Who decides on that?

**Mr McKenzie**—I would imagine the ACCC would apply the same law now as they do when an acquisition or a merger is approved, and part of the approval decision is that there has to be divestment. We see this all the time.

**Mr NAIRN**—But now they do it on the basis of competition and whether there is potential for market failure. Here we are dealing strictly with figures. We are saying, ‘Righto, you are one per cent, half a per cent, 0.1 of a per cent.’ Do we have a tolerance factor? I am just trying to get down to the practicalities now, because I do not want to be part of a committee that makes a recommendation that creates nonsense legislation.

**Mr McKenzie**—We are not experts in drafting legislation. Clearly that is the government’s prerogative, based on the advice of their expert organisations. I would imagine that the proposals that we have put forward today in terms of draft clauses to amending the act would be referred, if the committee so required, to the ACCC for their assessment as to the workability. We have passed these drafts across a trade practices lawyer, who tells me that they are commercially achievable. What is required, of course, is political will.

**CHAIR**—Are you serious, by the way, in terms of your claim? There are some stories you have mentioned to a few people that in reality you do not expect it to occur. Is this an ambit claim or not?

**Mr Richardson**—I think you may have brought that up earlier, Mr Chairman, at our first hearing. This is not an ambit claim because if we have not got critical mass within our industry—

**CHAIR**—I understand that question, but it is not what I—

**Mr Richardson**—It is not an ambit claim. These are three amendments we are putting forward to you that we would wish you to pass on to the ACCC, hopefully to either redefine or define them in a more practical way, if they see that as necessary. We believe that they are quite workable and seamless within the current act. It is not an ambit claim, sir. I cannot say that strongly enough.

**CHAIR**—It is just that people have come back to us and said—in discussions informally with some of you people—that you do not really expect to get it. So I just wanted to see—

**Mr Richardson**—I can assure you that they have not been talking to us, sir.

**CHAIR**—We will not quote names. I am actually interested in the definition—before we move on—because it seems to be that much has been made of the actual market size. Really, I am not taking away from Mr Nairn’s questioning, but on that whole question of market size the definitions we have said to some of your own people—

**Senator FERRIS**—Davids.

**CHAIR**—Davids. What is the definition? How do you see an average supermarket? They would say it is somebody who sells groceries and fruit and veg and meat and so on. So the profile of the average supermarket is not just dry goods. I understand your argument that if you have 80 per cent of the dry goods market it does give you significant market force. I understand that. But isn’t that the question, though? What are you dealing with? Once you start saying, ‘What is the typical profile of a supermarket?’ and you cannot use the 80 per cent—

**Senator FERRIS**—In fact, Davids, in response to a question of mine, to clarify this, Mr McKenzie, said that—

**CHAIR**—This is just on size.

**Senator FERRIS**—the typical customer of Davids was not the profile that you were using. It was in fact the profile that contained meat, vegetables, fruit and deli items and not just dry packaged goods. I have been confused ever since about the suggestion that dry packaged goods supermarkets should be the critical indicator, because in fact now that Franklins have gone fresh I do not think there are any dry packaged goods only supermarkets—certainly among the major chains—left in Australia.

**Mr McKenzie**—I will start off and I will get Mr Richardson to add some comments. In our submission we have explained that it is in the dry goods, or the Nielsen figures, where critical mass is being eroded. The only way the independents can get those goods is through a grocery wholesaler. They can get fresh foods through a myriad different means. Likewise, they can get direct deliveries of the grocery items, such as the milk and bread. So it is not the profile of what a supermarket sells. It is the critical mass issue in terms of: how will independents get those goods that are measured by Nielsen, and at what cost, if we lose critical mass in that part of our business?

**Senator FERRIS**—This is a new argument. I do not remember you using that argument when you last appeared.

**Mr McKenzie**—What we have tried to do is clarify our position. This whole definition issue has come up. There have been lots of different definitions given by different people. We have gone back and relooked at our position and the whole issue of critical mass, and why we opted for those Nielsen figures is because that is the core of the argument. The independents are able to access those other goods by direct deliveries and through accessing in a number of different ways.

**CHAIR**—Can I just follow you down that track though. What you are saying is that the critical point is the dry goods market.

**Mr McKenzie**—Yes.

**CHAIR**—So you put a cap on the dry goods segment but not on the other part, because if you do put it on the other part it certainly alters the percentage.

**Mr McKenzie**—Yes.

**CHAIR**—Isn't that going to create an administrative nightmare? You might want to put up a new Coles supermarket and they will say, 'Sorry, you've reached your cap. You can put up a fresh food, meat, pharmacy goods'—all the other things that they have in there—'but you can't have dry goods.' Wouldn't there be a problem with that?

**Mr Richardson**—Mr Chairman, we have to live in the real world.

**CHAIR**—We are trying to.

**Mr Richardson**—The real world is that that application has been tried by fruit and veg operators who have been put out of business by the larger chains. To ensure that they have a customer profile offer, they need a full offer, so the major chains are increasing that offer, be it with pharmacy and all the other areas that they are looking at at the moment. They are not likely to decrease it. I would suggest to you that the only way that independent retailers can get competitive pricing into rural and regional areas is through warehousing. That is the structure where the flow of dry goods, frozen and chilled is going. As Alan has said, there are a myriad ways to get meat, fruit and veg.

**CHAIR**—Yes, but it just seems like a shift in the goalposts from last time. Just on the question of size, did you have a question, Senator Boswell?

**Senator BOSWELL**—I am not labouring under any misapprehension. I understand exactly where they are coming from. I think 60 per cent of your business is dry goods, isn't it?

**Mr Richardson**—Or more.

**Senator BOSWELL**—I thought you said 60 per cent.

**Mr McKenzie**—Overall it is about 60 per cent.

**Mr Richardson**—Small business would be more.

**Senator BOSWELL**—I know the problem with critical mass. I just have some other problems.

**CHAIR**—We are just concentrating on the question of size before we return to Mr Nairn's questions.

**Senator BOSWELL**—I do not have a problem with where they are coming from. I can see exactly where they are coming from. They have to get a critical mass to be able to sustain a warehouse, to be able to deliver goods to the bush—well, not to the bush. I think sometimes regional Australia is quarantined because of the numbers in the town, so I do not think it actually is the bush and regional Australia; I think it is everywhere. I do not have a problem on the size. I would like to ask some questions about pricing and parity—

**CHAIR**—It would be useful if we can do it in blocks. Has anybody got anything further on just size alone? Then we will move on to pricing.

**Mr JENKINS**—On this critical mass question, between Davids and others that wholesale to the independents how many warehouses do they have?

**Mr McKenzie**—Davids has a major warehouse in each state, FAL has a warehouse in WA and, of course, Tasmanian Independent Wholesalers operates through the state-wide warehouse in Launceston.

**Mr Richardson**—Which is a co-owned warehouse.

**Mr McKenzie**—There is basically one major distribution warehouse in each state, servicing not necessarily just that state; there are crossovers on the borders in terms of distribution services within a state. Basically, there is one warehouse for each state and, of course, we now have AIW, which is wholly owned by Woolworths, operating warehouses on the eastern seaboard.

**Mr JENKINS**—From Davids' point of view are any of these already marginal because of the critical mass, if we take a state as a market?

**Mr McKenzie**—I do not think any of them are marginal at this stage. I think Davids gave evidence in Melbourne that they believe the critical mass for them was about \$2 billion in distribution across the four states. I think they are currently running at about \$2.4 billion and still losing market share. That was evidence that had previously been given also to the ACCC when they sought to take over QIW composite buyers. They were basically sticking to their original assessment. They thought about \$2 billion for them was the limit of their critical mass.

**Senator BOSWELL**—The next question is: how much market share are you losing?

**Mr McKenzie**—We are losing a couple of per cent a year, on average.

**CHAIR**—Who is ‘we’?

**Mr McKenzie**—The independent sector, over a long period of time.

**Senator BOSWELL**—I thought it was more than that.

**Mr McKenzie**—Two and a half per cent, on average, year after year.

**CHAIR**—Mr Nairn has a size question.

**Mr NAIRN**—Let us just put into perspective what you are suggesting here as well. Over the next five years, you are basically saying that Woolworths will have to reduce their share of the dry goods market by one-third; a third of their current market they would have to get rid of. When you think of it in those terms, it is an absolutely huge interference by government in the marketplace. You would have all those people who have Woolworths shares selling very quickly and possibly buying Franklins shares, who can almost double their current circumstance. I just point that out because it is a monstrous intervention in the current market.

**Mr Richardson**—There have been a lot of questions in regard to how that cap would work, how it would affect the other players, and you did ask me this in Launceston. If you wish me to readdress that, there has to be competition within that 75 per cent, but there also has to be a regard for the other 20 per cent that have thousands of small business people within that 20 per cent that is left. I believe that the major chains are well suited at the moment in their dominant position to be able to retain a lot of market share within themselves. So what would happen—and you are bound to bring it up, so I will jump in first—is Wal-Mart and Aldi. If Wal-Mart were to buy Woolworths or Coles, what mechanism is there in place right now to stop Wal-Mart from getting 50 per cent of the market by chequebook acquisition?

**CHAIR**—I would argue a hell of a lot, considering that both Coles and Woolworths are owned by such a large diversification of shareholders.

**Mr Richardson**—But if they were to come in and make an attractive offer to Woolworths or to Coles, there is no mechanism in the current Trade Practices Act that will—

**CHAIR**—There is, and there is also the foreign investment guidelines. If we have the cap put on, aren't we more likely to enable Aldi and Wal-Mart to come in here and flourish?

**Mr Richardson**—I might say, you say there is. I checked this with the ACCC before making that statement and they tell me there is no mechanism to stop that.

**CHAIR**—To stop what?

**Mr Richardson**—To stop Wal-Mart purchasing Woolworths or Coles.

**Senator BOSWELL**—No, there is not. It is the review board, not ACCC. It is the Foreign Investment Review Board.

**Mr Richardson**—But I would suggest that if that did happen and was allowed to happen—

**CHAIR**—But you have not answered my question. Wouldn't putting the cap in place more enable Aldi and Wal-Mart to rub their hands together and say, 'We've got a market opportunity here, boys'? Aldi are already in town. Senator Boswell and I met with them and they are here.

**Mr Richardson**—But they are unable to get any further than 25 per cent—

**CHAIR**—Why?

**Mr Richardson**—If the ACCC were to nominate them as another nominated company within that cap.

**CHAIR**—Yes, I know, but if they took 25 per cent that would be the remaining 25 per cent and there would be no small retailers left. Game, set and match.

**Mr Richardson**—I think perhaps we are going around in circles.

**CHAIR**—But we are going around important circles.

**Mr Richardson**—Perhaps we should—

**CHAIR**—You have raised the question of the cap.

**Mr Richardson**—Yes, and we have—

**CHAIR**—And we have one major multinational supermarket chain that is not only knocking at the door—because I actually, in all honesty, thought it was a furphy that the majors had raised, because the release of the story in the *Financial Review* coincided with the first day of this inquiry. Heaven forbid that that should be the case! Senator Boswell and I actually tracked them down and they are here. The managing director has arrived. They have a whole number of people coming—they have people being trained in Germany and the UK. I am sure the majors have more to worry about in terms of Aldi arriving than this inquiry. Don't you see that that is a real possibility?

**Mr Richardson**—I did not agree with the furphies because they are good corporate citizens and they would not do such a thing.

**CHAIR**—I am glad you acknowledge that.

**Mr Richardson**—Also the other aspect is that they are well able to look after their own interests. They are big enough and strong enough within their own interests right now. I find the situation of Aldi—it will be a very hard ask for them to get market share in Australia

with the concept that they normally have. Also, sir, I keep referring you back to the 20 per cent of independents, the thousands that are out there supplying that service to rural and regional Australia. They deserve some credibility in this equation as well.

**Senator BOSWELL**—I do not think anyone is arguing about that. It is just the means that we get to reach that point.

**Mr McKenzie**—If I could just comment: we are not politically naive, we understand that there are issues associated with what we are asking. What we are asking this committee to do is to strike a balance.

**CHAIR**—I appreciate that you recognise how difficult it is. Everyone on this committee feels that we have been given the hospital pass just being on this committee. Imagine what would be the situation if we all go out and get the government to agree to a cap. In comes Aldi and Wal-Mart who then blitzes through and suddenly we have another problem on our hands. I mean, it is an issue.

**Mr McKenzie**—Wal-Mart, I would suggest, is likely to come in through acquisition, not through greenfield sites. That is certainly what they have done recently.

**CHAIR**—According to your stories there is nothing much left to acquire.

**Mr McKenzie**—Hang on a sec, you have three chains in the marketplace.

**CHAIR**—Yes, but it has to go through the Foreign Investment Review Board.

**Mr McKenzie**—Yes, of course it does.

**CHAIR**—Considering it is the same government and the opposition—it is a bipartisan, joint standing committee—can you imagine either governments approving the takeover of one of the majors by Wal-Mart?

**Senator FERRIS**—Never mind the shareholders.

**Mr JENKINS**—There are thousands of shareholders to deal with.

**CHAIR**—The deputy chair has a burning question.

**Mr JENKINS**—It is the same question. I am just trying to get it clear in my mind, because there is a suggestion here for an insertion of a new section 50B, which reduces the three majors down to 75 per cent and 25 per cent each. Mr Nairn has put to you that this makes available—because associated with it would be a divestiture provision—a large share of the market in Australia all at once. With the rumours about others from overseas or wherever wanting to enter into the market, this would be the chance for them to make that initial foothold. We are just seeking comment about that. Your assumption is that this will be the protection to independents, that they will pick up the slack but also, for instance, Franklins can improve their market share. Initially there is going to be a dynamic that seems to me will run against what you are trying to achieve.

**Mr McKenzie**—We believe that the options are to do something or to do nothing. If we do nothing there is a fairly clear trend that is in place. The independent sector is being slaughtered and we believe that there are significant public interest issues associated with that which we have tried to address in our document, both the major submission and also this one. We believe that has to be paramount in the committee's thinking. Are we going to sustain a viable independent sector, or are we not? If we do nothing the reality is that this independent sector is on a one-way street to oblivion at some point in time. It is all very well to talk about what might be and how much they might get and about Wal-Mart coming in. We are talking about the here and now. We can see what is happening right now in this marketplace. We are having this inquiry because of those issues. We have brought this whole issue of chain dominance into the public arena and into the political arena. We have put genuine public interest issues on the table.

**CHAIR**—It is a real issue. No-one is denying that on the committee.

**Mr McKenzie**—Yes. What I am saying is that we have to deal with the issue as we have it now. I understand there are complications. We knew this was never going to be a straightforward exercise. All we can point out is what is happening right now. Every year there is further erosion in the independents market share, either through the chains opening up more and more stores or through the acquisition of independent stores. We believe there are serious consequences for the public benefit and in particular in rural Australia. Those issues have to be addressed in some way.

**Senator BOSWELL**—No-one denies that on this committee. I think everyone agrees with you.

**CHAIR**—I think it has been proven that that is an issue.

**Senator BOSWELL**—The question gets back to how you do it. If I were Franklins I would be cheering because you have just given Coles and Woolworths an anchor around their neck and taken all the lead out of the saddle of Franklins. No-one disagrees where you are coming from. I would like to ask a question about this removal of the sales tax. Is that going to give you any assistance? Will this GST wash the sales tax anomaly out of the system?

**Mr Richardson**—Last time this issue was raised the chairman tended to want to do away with that.

**CHAIR**—We decided that as the parliament had been through the tax debate over the past year we do not want to reopen it.

**Senator BOSWELL**—No, but it is a very genuine question.

**Mr Richardson**—If I could answer it, Mr Chairman. Perhaps just stick to the sales tax.

**CHAIR**—Without reopening the debate—yes, Mr Richardson.



**Senator BOSWELL**—They got a \$30,000 penalty on them and they are trying to compete with Woolworths and Coles and I believe I am asking a fundamental question.

**Mr Richardson**—Yes, and it—

**Senator BOSWELL**—Has it washed the anomaly out of the system?

**Mr Richardson**—The wholesale sales tax has always been an imposition on independents. If I could give you an indication on that in an actual price structure by the example of the people who were before you here earlier today—Coca-Cola. Through the warehouse structure the independent would pay 22 per cent on that product as it leaves the independent warehouse gate. The major chains would pay their 22 per cent at Coca-Cola's gate. If I could just broaden that a little further, because I want to put some words on record here regarding the trading terms in regard to Coca-Cola and their actual trading.

**Senator BOSWELL**—Yes, I was going to get to that.

**Mr Richardson**—In Tasmania it comes through our Coam warehouse. The wholesale structure is similar, the price is similar, but it is below the line where there are the differences; this is where you were trying to get to, Senator Ferris. It is below the line where there are such things as promotional and incentive deals, et cetera. In Coca-Cola, our major opposition get 8.9 per cent and there is one per cent on scanning whereas, with an independent structure such as ours, we received 2½ per cent for the year just gone.

**CHAIR**—I think this morning's session was interesting. It provided a bit of light on that.

**Mr Richardson**—So we get 2½ per cent on 30 per cent of the sales because through customer engineering they are putting 70 per cent through the route trade. There are customer solutions that they are talking about, and that is fine. That is their marketing strategy, but to me the manner in which they are doing it is more customer engineering, and they are certainly not fair and equitable. I would have to say at this time though, to be fair to Coca-Cola, they have approached my company in the last fortnight—I make no comment about that—to talk about trading terms.

**Senator BOSWELL**—To buy you out?

**Mr Richardson**—No, to talk about trading terms. Not only are we worried about the wholesale sales tax problem, which we are burdened with until GST comes in, but we are also burdened by unfair trading terms.

**Senator BOSWELL**—Through you, Mr Chairman. I asked a fairly clear question today. I think you were in the background. I asked the representatives of Coles and Woolworths: for the same quantities was the net figure the same to Davids or to Coles or to Woolworths? I was assured, and it is on the record, that it is. You are telling me that your equivalent, if you buy a truckload—and you would because you have the whole—

**Mr Richardson**—We buy for Woolworths as well.

**Senator BOSWELL**—Your discount is 2½ per cent and Coles discount and Woolworths discount is eight per cent. Am I right?

**Mr Richardson**—That is in the marketing of their product, sir, not out of the warehouse.

**Senator BOSWELL**—This is fairly serious. I will ask the question again so that we are under no misapprehension about where we are coming from. I asked: if you netted the figure down, and took all the distribution discounts, settlement discounts, advertising allowances—the plethora of discounts that were available; I used the example of Davids, but we can use your organisation—would the price to Coles and Woolworths and Davids be the same if they bought the same quantities? I did not say the gross price; I said the ‘net, net, net’ figure. Do you recall me saying that?

**Mr Richardson**—Yes, I do. I took particular notice of that.

**Senator BOSWELL**—You are saying that Coles and Woolworths get 8.9 per cent.

**Mr Richardson**—One major chain is getting 8.9 per cent plus one per cent scan.

**Senator BOSWELL**—And you are getting 2½ per cent?

**Mr Richardson**—Two and a half per cent.

**Senator BOSWELL**—There lies the problem, doesn’t it? Mr Chairman, that is fairly serious if this is correct.

**CHAIR**—It is not inconsistent with the evidence that was given this morning.

**Senator BOSWELL**—It is not inconsistent?

**CHAIR**—I do not believe so.

**Senator BOSWELL**—I thought it was. I thought we were told that Coles and Woolworths got the same—

**CHAIR**—Yes, but it depends on how you cut it—the variations of marketing incentives and the relationship with customers. You have to read the bottom line and the code.

**Senator BOSWELL**—It must have escaped me, I must admit. My question, I thought, was fairly simple. For the same quantity, do Davids and other independents get the same price? I made a point of saying not the gross price but the price with everything netted out of it.

**CHAIR**—You are including volume discounts in it.

**Mr Richardson**—That is right, yes.

**CHAIR**—Yes, that is a bit different. That takes into account the difference in terms of what is marketed through you. Do you get these big packs that they have got through the supermarkets?

**Mr Richardson**—Sir, I have never heard so much rubbish in all my life, quite honestly.

**CHAIR**—Please tell us. They are up the back.

**Mr Richardson**—Yes, I know they are.

**CHAIR**—I am sure they are listening with interest.

**Mr Richardson**—And I am sure they will be down to see me next week!

**CHAIR**—This is one of the great benefits of these inquiries. You are covered by privilege, no-one can sue you, so you should just say it as it is.

**Mr Richardson**—I have pointed out the variances. There also is the fact that we buy, as a co-owned Woolworths, with Woolworths. The product that comes into our warehouse all goes to Woolworths stores as well, so the volume discount is not applicable. It is only in trading terms that the variances come in, and that is the total marketing of that product. I might say, to be fair to Procter and Gamble, who sat at this table also, that I would have to give them quite a tick because they are transparent in their operation.

**CHAIR**—That is what appeared to us, too. What you saw is what you got.

**Mr Richardson**—Yes, they are quite transparent in their application of trading funds. I might add at this point in time that that is why clause 2 is in those clausal amendments to the Trade Practices Act—for transparency of marketing funds from major manufacturers, because that is where you would pick that up.

**CHAIR**—It is easy to identify. You can also see a certain equity in terms of Procter and Gamble where you all know the volume. If you buy through wholesalers you do get the benefit, which can be then passed on. The rest is transport costs and so on. It is the Coca-Cola one that does seem a convoluted process.

**Senator BOSWELL**—It wasn't convoluted; it is very simple. A truckload of coke drives up to a warehouse and it is a 40-foot trailer and you unload it. It does not matter what product is on the trailer. If it goes to Coles or to Woolworths or to Davids or to the people down in Tasmania—

**CHAIR**—But there is also a product differentiation too in terms of where the discounts apply from Coca-Cola.

**Senator BOSWELL**—Then the question is: are the discounts the same? We were told this morning they were. Now we are told they are not.

**Senator FERRIS**—No, because below the line is different.

**CHAIR**—That is right.

**Senator FERRIS**—So the bottom line that they pay is different.

**Senator BOSWELL**—Yes, but my question was ‘everything netted out’ and I was told that Coles and Woolworths would pay the same price as Davids.

**Mr Richardson**—I also add, Senator Boswell, that all branch products are available out of our warehouse—everything that was displayed here, including a 1.5, which I do not think was displayed.

**Senator BOSWELL**—You are saying that they are getting 8.9 per cent plus one per cent—that is 9.9 per cent—that your distribution does not get?

**Mr Richardson**—That our independent sector gets 2½ per cent for that year.

**CHAIR**—I would like to suggest to the committee that it might be worth while to have another five minutes with Coca-Cola following this. They are still at the back. It might be worth while.

**Senator BOSWELL**—The next question, Mr Richardson, is: how do you know what Coke sells to—

**Mr Richardson**—I explained that in Launceston, sir.

**Senator BOSWELL**—Could you put it on the record again.

**Mr Richardson**—We have picked up an ex-employee of a major chain who negotiated most of those discounts with those people in the first place.

**CHAIR**—That is very interesting.

**Mr Kovas**—Mr Chairman, may I add a couple of interesting points there concerning Senator Boswell’s question. Also, where I come from, we have the other in-store deals for gondola ends and for well-positioned products on the shelf.

**CHAIR**—But they deny that there is anything given for positioning.

**Mr Kovas**—That is absolutely incorrect.

**CHAIR**—Is it given to you for positioning?

**Mr Kovas**—Very little is given to independents unless—

**CHAIR**—How do you know it applies to the big ones?

**Mr Kovas**—We have a record.

**CHAIR**—A record from whom?

**Mr Kovas**—Our association has records.

**CHAIR**—A record of what?

**Mr Kovas**—Of money—

**CHAIR**—They have been here under oath, with the comments about misleading the parliament, and they said there were no incentives at all for positioning of product. So did the Procter and Gamble man. Do you have hard evidence? I know it is hard to sort it out, because you want to relay the anecdotal stuff that is given and, it would seem to me, the widespread comments around the place about the positioning.

**Mr Kovas**—It has been happening for many years.

**CHAIR**—Have you got hard evidence of it?

**Mr Richardson**—Could I come in here, Mr Chairman?

**CHAIR**—Yes.

**Mr Richardson**—Another issue that was raised this morning was the equipment.

**CHAIR**—Is this right? Have you got evidence of this positioning or not?

**Mr Richardson**—I believe that that should be tabled if Michael has that evidence.

**CHAIR**—It is a side issue.

**Mr Richardson**—As far as the lease agreements on the equipment, there was much to-do about the equipment that was being put into independents. I assure you that most of those independents would be paying a lease agreement on that, with only their product allowed to go into that refrigerator.

**CHAIR**—They said 90 per cent had to go into it, so it did not allow too much freedom for movement.

**Senator FERRIS**—I do not think there is any doubt that NARGA has conducted a very high-profile campaign during the lead-up to this committee and also as the hearings have gone on. I was surprised, to say the least, when we took evidence in Melbourne from Davids Holdings, to find that the NARGA campaign has been financed by Davids Holdings. I was very surprised, given that you had already given evidence here as what appeared to be a very important lobby group for small business, and I must say I was disappointed that that was not made clear when NARGA last appeared. I was also, I have to say, surprised and disappointed when I saw, in the *Financial Review* and also on the *7.30 Report*, that you, Mr McKenzie, are an executive connected with Davids. It was never disclosed when you

appeared, nor has it been disclosed today, that you are in fact an executive within a structure connected with Davids.

I am not critical of the role that NARGA has played in the least, but what I ask each of you today is to tell us what connection you have with Davids and whether this campaign has been totally funded by Davids. If it has been funded by other than Davids, could you please tell us to what extent Davids have played a role in this. I just remind you that it was Davids themselves who disclosed this, I think in a question from the chair when we were in Melbourne. For the *Hansard* record and because it is important for all of us, I would like each of you to disclose the connection that you have with Davids, and also the funding.

**Mr McKenzie**—Just to take up your question, of course the chairman was aware before the public hearings commenced of my position.

**CHAIR**—That is not true actually.

**Mr McKenzie**—You did challenge us. You said, ‘You guys are wholesalers.’

**CHAIR**—I said that, but I had no idea until the *7.30 Report* about the connection with Davids.

**Senator FERRIS**—I think it needs to be put on the Hansard, but can I say that I for one am very disappointed that this committee has gone all around Australia, and you were one of the first people to appear here, and you did not disclose your links with Davids. You appeared here as a federal lobby group for small business, and you have done a good job, but it is fundamental that this committee and the rest of Australia know where you come from and what your connections and your funding are. I would like you to tell the committee now.

**CHAIR**—Briefly.

**Mr McKenzie**—In the first instance, Mr Richardson and I are both directors of NARGA and we attend NARGA meetings, and I must say that not only have you been disappointed but so have we in terms of the attacks that have been made on NARGA’s credibility.

**Senator FERRIS**—Please answer my questions.

**Mr McKenzie**—I am the chief executive of Australian Asia-Pacific Wholesalers, which is an umbrella buying group for the major wholesalers, which comprises Davids, FAL and also Tasmanian Independent Wholesalers. I have worked closely with NARGA for the last several years on issues relating to sales tax and also on issues relating to this particular inquiry.

**Senator FERRIS**—What is your connection to Davids?

**Mr McKenzie**—Davids is a shareholder in Australian Asia-Pacific Wholesalers.

**Senator FERRIS**—So Davids are a shareholder in your company?

**Mr McKenzie**—They are, as is FAL.

**Senator SCHACHT**—How many shares do Davids have?

**Mr McKenzie**—Davids hold five of the six shares, as a result of their acquisitions over the years of the other independent wholesalers.

**Senator FERRIS**—Can I ask Mr Kovas and Mr Richardson the same question.

**Mr Richardson**—You are asking me to delve back into history now, Senator Ferris, because I have been a director of NARGA way back in the dim dark ages, probably somewhere about 1958-59.

**Senator FERRIS**—Your connections with NARGA are well understood and respected. It is the connection with Davids that I am interested in.

**Mr Richardson**—As far as Davids, there is no cross-ownership between ourselves and Davids. We are a cooperative, as I have stated here, and we are representing that sector of those people. We are also a shareholder within the AAW with FAL and Davids. There is nothing else as far as we are concerned.

**Senator BOSWELL**—Can I put on the record that I always knew that Alan McKenzie worked for this group of people and was working in some way connected to Davids.

**Senator FERRIS**—That was a benefit that you had that I did not have.

**Mr Kovas**—I am president of the Food Retailers Association of New South Wales and my business draws stock from Australian Independent Wholesalers, which is based in Canberra, which is owned by Woolworths.

**CHAIR**—Okay, I think that—

**Senator FERRIS**—There is the funding question that I want to get on to.

**Senator BOSWELL**—Mr Chairman, these are very valuable witnesses and—

**Senator FERRIS**—Just a moment. This is very important I think, Senator Boswell. I now would like to turn to the funding of this campaign. I would be very interested if you could tell us the extent to which Davids have been involved in the funding, and I remind you that it was Davids themselves that disclosed this in Melbourne.

**Mr McKenzie**—It is no secret that Davids have put funding into the campaign, as have, indeed, the other members of Australian Asia-Pacific Wholesalers. I think Barry Alty told the committee in Perth when they met there that he supports NARGA as well as other organisations that represent the interests of his independent retailers.

**Senator FERRIS**—What percentage of the funding has come from Davids?

**Mr McKenzie**—It has come in proportion to the shareholding.

**Senator FERRIS**—I would like to know. Is it 50 per cent, 90 per cent?

**Mr McKenzie**—When we do things, we do them on the basis of percentage of shares, and so Davids are funding something approaching five-sixths of the total campaign and FAL and Tasmanian Wholesalers also contribute in like form. Having said that, I think we need to understand—and we have said this to you previously—that the resources of NARGA are very thin as an organisational structure. The individual members of NARGA, the state based members—Michael is the president of the New South Wales body—have very limited budgets. When we decided as a group that we wanted to tackle this issue, we had to bring additional funding and resources to the table in order to do the job. I was asked to do it as a director of NARGA and to become their national spokesman. I undertook happily to do the job. I am fully supported by all the members of NARGA, and you would have seen that in your visits to each state. Every member of NARGA and most of the retailers who appeared before you are fully behind the NARGA position. While I understand that you want to get these things onto the table, and I have no problem with that, I do not think these issues should be considered other than on their merits—not in terms of who is delivering the message.

**Senator FERRIS**—I have never suggested for a moment they should be, but I just reiterate my disappointment to read in the *Financial Review* and to see on the *7.30 Report* disclosures which could constitute something of a conflict of interest and which had not been placed before us as a committee during the time that you appeared last in Canberra. I thank you for making that information now clear.

**CHAIR**—I have to say, as chairman, that we will now move on from that. It is also true, as you have said, from our moves around Australia that you do represent a large number of people out there who share similar views. Having headed up a trade organisation, I know how difficult it is with funding for campaigns, et cetera, so I think we have to focus on the legitimacy of the arguments that are put forward and where we go through. But I think it is an issue and perhaps next time, if we do it up-front, we could avoid some of these issues, although I did say in our first meeting that I was aware that you were both wholesalers, so it was not the biggest surprise in the world.

**Senator BOSWELL**—Mr Chairman, this is not anything different from Woolworths getting that other gentleman to prepare some figures, whether it is Coles or—

**CHAIR**—No, it is the way the world works, like the free market.

**Senator FORSHAW**—The so-called free market anyway.

**CHAIR**—Let us move on.

**Senator FORSHAW**—Could I just ask a couple of questions regarding your proposals for divestiture and capping. One could feel that it would be a very noble objective if we were to also know that whatever share of the market one of the major chains had to give up, either to bring them back to 25 per cent or to bring the total back to 75 per cent, would be



taken up by small independent grocers, but I cannot see any way in which that will happen. Can you enlighten us? The real fears are that others—Franklins, for instance—would go in and purchase. What happens if they do not meet these targets? You cannot force Coles or Franklins to purchase Woolworths stores.

**Mr Richardson**—Senator, I think I addressed this very question last Monday in Launceston. In Tasmania we have taken up virtually all the major stores that have been disposed of by Woolworths, be it on the west coast or be it in Hobart. We would be looking to pick up the one in Launceston as well. They are building another supermarket just down the road. There are still entrepreneurs out there who I suggest would be prepared, if they had a stable and workable future, to take up those offers. They need to have the security of knowing that they are able to have a future.

**Senator FORSHAW**—If they are in that situation, Mr Richardson, then one has to ask the question as to why they are so vulnerable now. You cannot go overnight from being an independent retail grocer who is under threat to being in a position, because of a capping exercise, where you have access to funds and capital or whatever to suddenly start purchasing large supermarkets. It does not make sense.

**Mr McKenzie**—To answer your question in broad terms I think there is a lack of confidence at the moment because the market share is being eroded year after year after year. Independents are probably reluctant to invest in that environment because they are not too sure what the future holds. I think there needs to be a circuit-breaker to rebuild confidence in the sector and to get the independents to be willing to invest. At the moment confidence, in broad terms, would be down. They live with the fear of a chain store opening up down the road or engaging in predatory activity to destroy their business. I think in that environment it is less likely that they will be willing to invest.

**Senator FORSHAW**—Continuing this line for the moment, why has it not been the case in the last 10 years—and you have given us figures here going back to the start of the nineties—that those independent retail grocers have not gone out and expanded by opening up new stores? Why haven't they got involved in supermarket mall developments? I can understand it if you say that Woolworths, Coles and Franklins have got all the clout because of their size, but if you are telling me that your sector has the capacity to expand but now it is only if you put a cap in, why weren't those opportunities taken up in competition with the major stores 10 years ago, when you would have seen these developments taking place and these new stores being built? That opportunity has always been there, I would have thought.

**Mr Richardson**—Senator, probably we are slow learners. But then again with the market dominance that they have, the problem we face is that it is an unequal playing field. The independents at this particular time, as highlighted with Coke—and I can give you many other instances within this structure—are disadvantaged with major wholesalers. That means the independent is taking a far lesser margin to remain competitive and therefore is not accruing capital to expand their business, to provide an offer that is in competition to the majors. They do not have the ability at the moment because of the unfair playing field where they are taking a far lesser margin in profit to remain competitive.

I gave you many instances in Tasmania, Senator Forshaw, in regard to milk, bread and other issues. That is where the unlevel and uneven nature is, where a major chain can have bread at \$1.26 and an independent gets a generic at \$1.45 and they are supposed to sell it at \$1.95. How the heck is an independent going to accrue enough capital to be able to expand their business?

**Senator FORSHAW**—Let me just pick one of those up. You have mentioned milk and other people have mentioned milk. As I would have indicated last week—in fact I think we are due in Launceston next Monday—there is another inquiry going on into the deregulation of the milk industry.

**Mr Richardson**—Yes.

**Senator FORSHAW**—One of the problems there is that that is not ultimately the fault of the majors. You have the Victorian government saying ‘Come hell or high water we are going to deregulate the farm gate price for milk irrespective of what every other state does. They are all going to have to fall into line.’ What may happen in terms of the dairying sector is not something that is brought about by supermarket chain dominance driving it; it is simply a government decision and they will end up taking the benefit of it. The consumers will probably get hit as the prices go up and the farmers will get hit because their price at the farm gate has gone down. But certainly in that area, and I would venture in others, deregulation across the economy has brought about much of this situation and the majors have been in a better position because of size to take advantage of it.

**Mr Richardson**—The problem we have with the milk industry is that one processor has 70 per cent of the market and it has a dominant position.

**Senator FORSHAW**—Are you talking about Tasmania?

**Mr Richardson**—Yes, Tasmania. It also has virtual control of the vendor industry because of that dominance and that is where the price differential comes in, sir. It has nothing to do with the farm gate or any other instance at this particular point in time.

**Senator FORSHAW**—That deregulation has already occurred.

**Mr Richardson**—Yes.

**Senator FORSHAW**—Yes, I understand what is happening with the processors, but we have another round coming and it is being argued that it will be the big supermarkets again who get the advantage of that at the expense of the farmers, at the expense of the regions, at the expense of the small grocers. All I am saying is that that is all deregulation in other sectors of the economy.

**Mr Richardson**—If we can, you and I might take this up in Launceston when you are down there.

**Senator FORSHAW**—You want to try and cap the supermarket chains at the end of the process when you have a whole string of deregulation occurring right back to the farm gate in that sector.

**Mr Richardson**—You understand how that same milk vendor in the same truck delivers to a major retailer for a \$1.28, and goes around the corner with a similar quantity of milk and delivers that for \$1.14.

**Senator FORSHAW**—What I understand is that the milko who used to come to your door every night or every morning has largely disappeared, and the baker and the delivery van have largely disappeared. A lot of it is due to deregulation through the rest of the economy; that is what I am getting at.

**Senator BOSWELL**—Mr Chairman, can I ask some questions?

**CHAIR**—You have already had a reasonable run. I would like to allow—

**Senator BOSWELL**—But we are not going to get another opportunity.

**CHAIR**—I understand, Senator Boswell.

**Senator BOSWELL**—These people are the key to our inquiry.

**CHAIR**—I understand, but let us have Mrs Elson.

**Senator BOSWELL**—And they have a very serious problem and we understand the problem.

**CHAIR**—Yes, okay.

**Senator BOSWELL**—We are having a problem with their solutions.

**CHAIR**—Senator Boswell, just Mrs Elson.

**Senator BOSWELL**—I yield to Mrs Elson.

**Mrs ELSON**—Thank you. Mr Kovas, what percentage of market does AIW now have with independent groceries?

**Mr Kovas**—In New South Wales or—

**Mrs ELSON**—Can you give Australian—

**Mr McKenzie**—It is just over one per cent.

**Mrs ELSON**—One per cent.

**Mr McKenzie**—Just over, yes.

**Mr Kovas**—I usually have the number of stores. I do not have the percentages.

**Mrs ELSON**—How many stores in Australia then?

**Mr Kovas**—New South Wales, Queensland and now Victoria are supplying about 300 stores.

**Mrs ELSON**—Are the independent groceries going over there because they are getting a better deal as far as the capacity that Woolworths has to buy?

**Mr Kovas**—Not necessarily, no. It is basically an option. Some people like to shop at independents. Some people like to shop in the chain stores. It is an option and that is all we have been fighting for—to give the consumer the option. Basically we have been given an option.

**Mrs ELSON**—Doesn't that go against the grain, though, of what the other independent stores are trying to do, to make sure that their suppliers stay strong? If you break it up then one wholesaler may go. As we know, Davids seem to be the major wholesaler in Australia. To me, for an independent grocery store to go against that grain there must be a reason. Is it because you are getting a better deal and that you can compete a bit better?

**Mr Kovas**—No, it is structured differently. Our organisation is run by retailers. There are eight directors. Our head office is in Brisbane. I choose to go with an organisation that is run by retailers.

**Mrs ELSON**—I might ask it the other way. Are the majority of that 300 new into the independent grocery chain, or have they been existing for some while?

**Mr McKenzie**—No, they were previously supported through Davids. What has basically happened is that the customers, with some exceptions, who have left Davids were formerly supplied by the competing warehouse before Davids bought the businesses. Traditionally they have been non-Davids customers. Sure, some other stores have gone across but they are very much in the minority. These are people who, for whatever reason, in the past have preferred to buy their groceries from another wholesaler. So we are dealing with that issue. The AIW are offering a different package in terms that they allow the groups to market themselves, whereas Davids do the marketing for their groups. It is a philosophical issue. Some retailers would prefer to operate in a different way to the way Davids are proposing to run their business. It is a matter of choice.

**Mrs ELSON**—So it is competition within your own industries.

**Mr McKenzie**—It is competition within the wholesale sector and AIW is offering a different type of operation to Davids, and some retailers, particularly those who have never in the past been regular Davids customers, have chosen to take their custom to AIW. But AIW is very small, relative to Davids—albeit Davids would like the business, I am sure. But AIW is, relatively, a small part of the total sector.

**Mrs ELSON**—Okay, thank you.

**Mr Kovas**—It is similar to the franchise system. Some people swear by the franchise system; other people do not want it.

**Senator BOSWELL**—How many other buying discrepancies have you got? Is it because Coles and Woolworths have got greater purchasing power than Davids and the other independent wholesalers combined that they are getting a better price?

**Mr McKenzie**—Senator, we believe there is great scope for differential trading terms given the market power that the major chains enjoy and the size of their market share. No supplier can afford to be offside with Coles or Woolworths.

**Senator BOSWELL**—With three people in the market, you could not afford to be offside with Davids either.

**Mr McKenzie**—To a lesser extent. Davids is 14 per cent, roughly the same size as Franklins; in fact I think they are less than that now. But Coles and Woolworths between them are two-thirds of the total grocery market. You cannot afford to be offside with Coles and Woolworths. While we do not have necessarily hard evidence, apart from the information we heard in relation to Coke, there is great scope for discriminatory trading terms between the chains and the independents.

**Senator BOSWELL**—So we are going around in ever-decreasing circles and we are going to lose market share because we cannot get the buying power. So we lose more; so we get fewer discounts.

**Mr McKenzie**—Yes, exactly. This is why we argue so strongly for transparency through the ACCC. It is the only way we will come to grips with the issue; otherwise we are going around in circles.

**Senator SCHACHT**—I apologise for being absent last week but there was a tragic bereavement in the family leading to a funeral today here in Canberra which distracted the attention. I notice, Mr McKenzie, in your submission you set the target at about 80 per cent you want capped. Then also you make comments about suspending competition policy. You are really arguing competition policy should be redirected to ensure that the 80 per cent is broken up somewhat so there is genuine competition. It is not competition policy per se you are against?

**Mr McKenzie**—No. I think what we are talking about in relation to national competition policy is the pressure that is being put on all state governments to deregulate the trading restrictions that help small business to compete. At the moment we have both Queensland and Western Australia in the firing line, who have to report back at the end of the year and, if they do not come up with the right answers, their federal grants could be suspended or withheld or whatever happens in such cases.

**Senator SCHACHT**—But aren't some of those arrangements fixing prices for the production of the commodities?

**Mr McKenzie**—I am not talking about the global—

**Senator SCHACHT**—They are some of the things that the competition council is complaining about—a milk board, an egg board or whatever—where you have to sell through the body. That is what they are arguing; that leads to a lack of competition.

**Mr McKenzie**—We do not have a problem with competition as such provided it is fair competition. What we believe, in our industry at least, the national competition policy is doing is defining the free market as oligopoly. It is driving markets to concentration.

**Senator SCHACHT**—If the competition council was putting up recommendations for structural separation to get rid of vertically integrated business you would then be much happier about competition policy, I would have thought.

**Mr McKenzie**—I think that is a fairly complex question.

**Senator SCHACHT**—No. For example, I have just picked up what you have said today and in your submission. If wholesale distribution was utterly separated from retailing then you have real competition between people buying without predatory pricing and you would be clapping and cheering, I presume.

**Mr McKenzie**—Absolutely. At the moment I guess one of the fundamental problems existing in the industry is a lack of a wholesale pricing structure.

**Senator SCHACHT**—Yes, okay.

**Mr McKenzie**—Which enables independents to compete with the major chains.

**Senator SCHACHT**—When you said about the capping suggestion of 80 per cent, you can cap the three majors but then they start going and forming subsidiary companies, different name companies. How would you monitor the subsidiary companies to ensure they were not in fact under the influence and control of the majors?

**Mr McKenzie**—Would there be common ownership, though?

**Senator SCHACHT**—Just to give you an example, in the Broadcasting and Television Act there is capping. If you own more than 15 per cent of a newspaper you cannot own a television station and vice versa. It has used the powers of the government under broadcasting. But we have an ABA, an Australian Broadcasting Authority, which has to do endless tracing to make sure that ownership control influence is transparent. That is what you are asking now of the ACCC—

**Mr McKenzie**—Yes.

**Senator SCHACHT**—to have a division of itself to do those tracing provisions and have severe penalties if people break it or try to get around it and are found out.

**Mr McKenzie**—Absolutely, yes.

**Senator SCHACHT**—Okay. I notice you made some recommendations about amending the Trade Practices Act, but do those recommendations have enough detail to establish the regulatory regime that would investigate and ensure that the capping, at whatever figure it was set at, was carried out? I have seen it and they seem to be a neat one line, or a couple of lines, et cetera.

**Mr McKenzie**—As you would appreciate, we are humble grocers.

**Senator SCHACHT**—We all claim we are humble.

**Mr McKenzie**—We have put forward recommendations that we have run past a trade practices lawyer who tells us that with a bit of finetuning and expert overview they could be workable. We have asked, Senator Schacht, before you came in, that these recommendations now be referred to the ACCC for them to do the necessary finetuning, or indeed, to come back with their own views on the subject. We know the committee is grappling with solutions. We did not want to just sit back and say, ‘It’s up to you guys to fix it.’ We are trying to be proactive and put something on the table that says, ‘This is what we believe is a way forward.’

**CHAIR**—We appreciate that.

**Mr JENKINS**—I have a question about the proposals for amendments that would go to transparency of pricing. We have had the notion of ‘same customer, same terms’ and things like that, but I am concerned that there can then be a debate about what a ‘same customer’ is. For instance, under the types of proposals that you have here, what allowance might there be for volume discounts?

**Mr McKenzie**—What we are saying is that, if you buy the best parcel from that manufacturer, which would be the minimum volume discount or the minimum quantity that he specifies in his trading terms—in other words, if you buy a full truckload or, in the case of Procter and Gamble, 50 cases, which is ridiculously low—you should get the best trading terms, whatever they specify in their trading terms. Generally in the grocery sector for the high-volume stuff it is full truckloads that define the buying price, so if a full truckload comes into your distribution centre you should be able to buy at the best price. Each manufacturer generally specifies in its terms what that minimum buying requirement is. On that basis, that should be the vehicle for getting the best price.

**Mr JENKINS**—I asked this to Mr Richardson in Launceston, and we may have been at cross-purposes. The figure of 10 per cent for the discrimination: in my mind it seemed a bit on the high side, but I am just not sure.

**Mr McKenzie**—Again, that is a suggestion, because we understand that the previous section 49 failed because it was too vague. At least with the 10 per cent in there, it is a trigger point. It gives the regulators something to look at. If you make it too vague, it will probably end up the same way as the previous one.

**Mr JENKINS**—So what you are telling me is that in competition the 10 per cent is variable?

**Mr McKenzie**—It could be five per cent, but 10 per cent seemed to us to be a reasonable figure as a benchmark.

**Mr Richardson**—The 10 per cent variance is so that total marketing funds, total trading funds, that are applied to that particular manufacturer's product should not be varied 10 per cent between the players that they are distributing that funding to. If it was 10 per cent to Woolworths, it should not be 12 per cent to Coles; it could only be 11 per cent or nine per cent to 10 per cent.

**CHAIR**—That probably winds us up. Thank you for your contribution. Thank you for your campaign. It has made life interesting for us and we appreciate it. Thank you for coming back today and for your involvement, and certainly I congratulate you on the campaign. It has been well run and it is widespread. Thank you, on behalf of the committee, for your involvement.

**Mr McKenzie**—Can I close off with just a couple of words?

**CHAIR**—Yes.

**Mr McKenzie**—We sincerely thank the committee for the courtesy they have now shown us on two separate occasions. We have not perhaps always come across as accomplished lobbyists—

**CHAIR**—I wouldn't say that!

**Mr McKenzie**—but our evidence as presented has come from the heart and soul of our industry and we now entrust this committee with the future of the independent sector in the grocery market. Thank you.

**CHAIR**—Lofty ideals! Thank you. Now we would like to give the right of reply. We would like to recall Coca-Cola to provide evidence for us as a follow-up on their previous evidence. While we are doing that, I welcome here members of the Northern Territory Select Committee on Territory Food Prices, led by the chair, Dr Richard Lim. Thank you very much. Nice to see you. We look forward to having discussions with you tomorrow, I understand. You have been here for an interesting day.



[1.11 p.m.]

**LOWES, Mr Jeremy Stephen, General Manager Sales and Customer Service, Australian Division of Coca-Cola Amatil**

**WAGSTAFF, Mr Alec, Corporate Affairs Manager, Australian Division of Coca-Cola Amatil**

**CHAIR**—I welcome again Mr Jeremy Lowes and Mr Alec Wagstaff. Thanks for coming back. I am glad you are still here. You have heard the comments that have been made by the NARGA group this morning, and we found that interesting. I wonder whether you would like to restate, in just five minutes, how you find the evidence of the differential in pricing that has been given, which seems to be a little at variance with what was given earlier, but perhaps we did not understand it appropriately. We invite you to respond.

**Mr Lowes**—Thank you for this opportunity to do that. I want to reiterate some of the points I made this morning. I think the best approach to take is to make the comments that I made this morning again—that outside of the grocery food store environment we choose to do business directly with our customers and not through wholesalers, and our pricing to wholesalers reflects this choice of strategy. I want to reconfirm that the bona fide grocery food stores of Davids receive the same promotion allowances as do the majors. In fact, the net price on promotion would be the same as the three corporate majors. Our pricing to the rest of the market is based on the function of volume and the cost of the marketing support packages that we provide to build a business with those customers.

**CHAIR**—I think the figure that was given by Mr Richardson was 2½ per cent rebate to his organisation in Tasmania and the discount that the majors were able to obtain was 8½ per cent, I thought. But, anyway, you heard the figures.

**Mr Lowes**—Yes, I heard that. I prefer not to comment on the individual issues. I need to get the details of our arrangements with those customers. I will need to get clarity on what was referred to this morning. Are we talking about a price to a wholesaler or a price to a retailer?

**Senator BOSWELL**—Through you, Mr Chairman, I will give you the question that I asked.

**Mr Lowes**—Sure.

**Senator BOSWELL**—I said to you: providing the quantities were the same, would Coles, Woolworths and Davids receive the same price? I am not talking about promotion; I am talking about on regular deliveries. I then went on to say: I am not talking about the wholesale price; I am talking about, if you recall this, the net, net, net price with all discounts removed, whether it be advertising allowance, promotion allowance, settlement discounts—and there are five or six other discounts that can come off. Your response to me was: yes, they would receive the same price. That was the question. If you go back into *Hansard* you will see that is the way I asked the question—almost verbatim.

**Mr Lowes**—Yes.

**Senator BOSWELL**—Mr Richardson said that Coles and Woolworths got 8.9 per cent plus one per cent for scanning, which is 9.9 per cent—I think that was the figure—and the independents received 2½ per cent. That is different to what you told us this morning.

**Mr Lowes**—Yes, but I am reiterating what I said this morning: that to the bona fide food stores, grocery food stores and the independents—

**Senator BOSWELL**—No, I am not interested in the food stores, for goodness sake. I am interested in Davids as opposed to Coles and Woolworths. I am not interested in bona fide food stores. I am talking about a truck that drives up full of Coke and the same truck goes to Coles and Woolworths and Davids or Tasmanian Independents. Do they get the same price with everything netted out, or is Mr Richardson right where he says they get 8.9 per cent plus one per cent and the independents get 2½ per cent?

**Mr Lowes**—I have to talk about its promotional pricing when answering that question and I thought I had made it clear this morning. We will go back to it again. The price to Davids is the price to everyone, but promotional prices to food stores are different from promotional prices to the rest of the market. Those food stores that buy through Davids receive the same promotional prices as everyone else.

**Senator SCHACHT**—Are you describing Coles and Woolworths as a food store?

**Mr Lowes**—Yes.

**Mr Wagstaff**—Maybe I could help here. There is a difference. Davids, from our perspective, have two lines of business. I think they classify them into three lines of business, three different banners; we see it as two different banners. The answer which Jeremy gave to you this morning was in regard to the food store, and I think he made that very clear. Probably what we have not made clear is that there are two sets of arrangements, because we start from the same price and we work down. Because there are two segments, as we see it—and that is where we make the classification between what we call food store and cold drink—we have different pricing structures for those two set-ups because they are different businesses.

**Senator BOSWELL**—A truck drives up full of Coke which is hot. It is delivered to Coles in a semitrailer which is 40 feet long, and it drops off one truckload to Coles and another one to Davids. It sells to Davids. Davids do not have the responsibility to tell you where they sell to get another discount.

**Mr Lowes**—Yes, they do.

**Senator BOSWELL**—But I am not talking about the discount. I am talking about the net price.

**Mr Wagstaff**—Two net prices.

**Senator SCHACHT**—There is no net price. You just have a discount price.

**Mr Wagstaff**—There are two net prices.

**CHAIR**—So it depends on what is the destination. You can have a greater discount on one and a lesser one on the other, depending where it is going.

**Mr Wagstaff**—It depends on whether Davids is operating as what we call a food store or is operating as a wholesaler and we have, as we stated in our written evidence, a different attitude to pricing to wholesalers because it is our marketing strategy to supply customers directly.

**Senator BOSWELL**—But the food stores do not buy direct; they buy through a wholesaler.

**CHAIR**—Some of them do though, don't they?

**Mr Wagstaff**—The majority of food stores buy direct from Coke.

**CHAIR**—They have got their own distribution set-up.

**Senator BOSWELL**—From my observation of this market there would be very few food stores that would buy direct.

**CHAIR**—Isn't this part of the key I suspect that Coke is different from other product because you distribute right across the board to a wide range of customers.

**Mr Wagstaff**—Yes, 114,000 customers, so we do deliver to the majority of our customers. We have direct relationships, and we are different from other consumer goods.

**CHAIR**—What proportion of your product is sold through wholesalers?

**Mr Lowes**—A very small proportion.

**Mr Wagstaff**—It is less than half the product.

**CHAIR**—That is part of the answer.

**Senator BOSWELL**—There is only one wholesaler, isn't there?

**Mr Wagstaff**—Less than half of our product is sold through food stores, so we are different from most consumer group products in that regard.

**CHAIR**—But, of your total sales, what proportion goes through wholesalers?

**Mr Lowes**—Very small, like one per cent potentially, maybe two.

**CHAIR**—That is part of the answer.

**Mr Lowes**—We just need to be clear here because it is a bit complex. The Davids food stores product will flow through their warehouses. In fact, they are distributing it.

**CHAIR**—Yes.

**Mr Lowes**—We do not use Davids or any other wholesalers to achieve distribution in the rest of the market. We prefer to do that ourselves.

**Senator BOSWELL**—I understand that; that is perfectly clear. It is a very simple proposition I am putting to you: there is one truck that delivers one trailer-load of Coke to three stores. Do they get the same price or don't they? We are told they do not.

**Senator FORSHAW**—Why does Mr Richardson tell us that he can only get it at 2½ per cent and Coles or Woolworths can get it at eight per cent plus one? Can you explain it? Is that just not true or, if it is true, do you know why that occurs?

**Mr Lowes**—No, I do not understand what business Mr Richardson is in, so I would need to understand that, and then I will be able to explain that.

**Senator FORSHAW**—He is a wholesaler.

**Mr Wagstaff**—That is the answer to the question.

**Senator SCHACHT**—If he is not in the grocery business we have been wasting a lot of time here.

**Mr Lowes**—If he is a wholesaler, then that would explain it. We would prefer to deal with his customers ourselves. We believe we can both supply those customers and our preference—

**Senator SCHACHT**—Are you saying that he got it wrong; that he believes he only gets the 2½ per cent?

**Mr Lowes**—No, I am not saying that at all. I am saying that we have made the strategic choice to deal with these customers directly rather than through a wholesaler.

**CHAIR**—So you are basically cutting the wholesalers out. I am sorry I have not got NARGA up here to respond but it seems part of the reason why the wholesalers are so upset is that they are being cut out of the action by Coke.

**Senator FORSHAW**—If Mr Richardson's members went to you they should be able to get eight per cent if they are retail stores, independent retail stores. If they went straight to you and they bought a truckload, the same as Coles, they would get eight per cent.

**Senator SCHACHT**—So they would then get it at eight per cent.

**Mr Wagstaff**—The equivalent. It would obviously depend on their volumes, on their whole category of stores. If they were the same customer they would get the same price.

**Senator SCHACHT**—So, if Davids came along and put in the same order as Coles for a month, if they were big enough, and you delivered direct to both of them, they would then both get the same discount.

**Mr Wagstaff**—No, it would depend which part of Davids that product was being purchased for.

**Senator SCHACHT**—No, if they went to the shop. We are not looking at the wholesalers; if we went direct to the shop.

**Mr Wagstaff**—No, you said Davids.

**CHAIR**—We can be here all day discussing marketing strategies. We are starting to get the picture. I think it is also true to say that the committee is concerned not only about the price to retailers but about the critical mass of wholesalers. Obviously the bypassing of wholesalers is an issue for the committee. But I appreciate your long-suffering nature in explaining to people like me who are not dealing with the market realities day by day. Thank you for your patience with me and with us generally. Your time spent here is appreciated.

**Mr Wagstaff**—Thank you.

**CHAIR**—We will now adjourn and return at 2 o'clock. Mr Goldsmith will appear before us at 2 o'clock but we will need to discuss with him whether he wants to give his evidence in camera or not.

**Proceedings suspended from 1.32 p.m. to 2.12 p.m.**

*Evidence was then taken in camera, but later resumed in public—*

[2.39 p.m.]

**GOLDSMITH, Mr Joseph Kevin, Managing Director/Owner, Goldsmith's Family Supermarkets**

**Senator SCHACHT**—Now that we are back in public, Mr Goldsmith, how many stores do you think have closed in Deniliquin as a result of Coles Myer opening their own supermarket?

**Mr Goldsmith**—I would say at least 25 to 30 stores.

**Senator SCHACHT**—And how many net closures have there been? Others may have replaced them for a period. Some new stores may have opened or taken their chance.

**Mr Goldsmith**—Very few new stores have opened since Coles Myer came to town—mainly closures. I would like to submit the local newspaper which will completely contradict Mr Williams's submission.

**Senator SCHACHT**—That is the local newspaper. What date is that?

**Mr Goldsmith**—It is the *Pastoral Times*. There are all different dates.

**Senator SCHACHT**—Mr Chairman, I move that they be tabled as a submission. Because of the impact of the closure of the stores—you have just indicated it has been in the local press—what has been the response in the local community from local government and other Deniliquin community organisations? Clearly they would see—if the information you have given to us is correct—that there are now a lot of empty shops in Deniliquin. Has there been any response from the council or other groups demanding some action or expressing concern about the economic impact?

**Mr Goldsmith**—Yes, Senator. The Chamber of Commerce and the local paper have shown quite a bit of concern about the closures in the town. They are always having big promotions to lure customers back into the main CBD.

**Senator SCHACHT**—Has there been any activity by the community to run a campaign of 'Shop local, support your local stores' rather than the big one of Coles Myer?

**Mr Goldsmith**—The local newspaper has run those promotions from time to time.

**Senator SCHACHT**—I presume, because the prices are significantly cheaper, the buying power of the consumer is going to the new Coles Myer supermarket.

**Mr Goldsmith**—What Coles have done is open a 24-hour store in town. They have changed the shopping habits of the whole town—the milk bars, et cetera—where customers would go and get their loaf of bread or milk at night. The town as a whole is just not sailing along. I would also like to submit that, as there are approximately 25 to 30 shops that are empty at the moment, they are offering three months free rent. I have never seen that in all the time that I have lived in Deniliquin.

**Senator SCHACHT**—What you are now showing us are photographs.

**Mr Goldsmith**—Photographs of the empty shops that are in Deniliquin now.

**CHAIR**—Which you believe are as a result of Coles Myer opening in Deniliquin. Is that right?

**Mr Goldsmith**—Yes.

**Senator SCHACHT**—Can they be tabled, Mr Chairman. Mr Goldsmith, are you willing publicly to say what you have lost per week in your turnover?

**Mr Goldsmith**—Yes. My turnover was travelling around \$220,000 a week. I am now struggling to do \$65,000 to \$70,000 a week now.

**Senator SCHACHT**—That is since Coles Myer opened the supermarket?

**Mr Goldsmith**—Since Coles Myer opened their 24-hour supermarket.

**CHAIR**—Is there something else that you wish to place on the public record?

**Mr Goldsmith**—I would like to strongly dispute the claim of Mr Williams from Coles Myer on 6 April 1999 that Deniliquin is alive and thriving. Nothing is further from the truth. Since the opening of Coles, over 35 stores have closed and our town is bleeding badly. If business is alive and thriving, as Mr Williams states, why is the new Coles complex still empty with only one other tenant, and that is Woolworths Crazy Prices? Only last month the Bus Stop Cafe closed and became another casualty. The interstate buses that stopped at our town every day now stop at Finley. The latest ABS figures show a population decline. They were in the paperwork I forwarded. Last year the local hotels banded together and stopped Coles Myer from transferring a liquor licence to Deniliquin opening a Liquorland. The licensing court came down to Deniliquin and had a full licensing hearing in Deniliquin.

I have already submitted copies of the *Pastoral Times* and they clearly contradict Mr Williams's statement. As the changes grow larger and gobble up us independents, they also crucify the small towns. The numbers of representatives who used to call on the stores are dwindling. In fact, S.C. Johnson last month terminated their whole Australian rep force—reps who would stay at a motel, go to the clubs, et cetera. They are vanishing. The small cash vans that sold direct to the independents are going. The chap that brings in the kiddies rides and charged 20c is going off the road because there are no more independents left for him to call on. The country newspapers suffer, as the chains use national media. The car dealers suffer as businesses slowly—or, in Deniliquin's case, quickly—dry up. The local transport no longer brings up the groceries that we used to supply. From Coles Myer, it is Lindsay Fox. The farmer, who in times of drought and flood turns to his local supermarket for help, suffers as the chains do not offer the hand of friendship. The local schools, the kindergartens, the sporting clubs, et cetera—I know you have heard it over the last few weeks—suffer as the donations dry up. Coles Myer, as I said before, are using their legal system to wear me down in the courts.

**CHAIR**—That relates to an area we decided would be in camera. Thank you for that. Are there any further questions?

**Senator FORSHAW**—I have one question, following up Senator Schacht's questions about the closure of businesses in the town. You have indicated the number and, without going to some of the in-camera evidence, there is a list of stores—that is publicly available—and on that list is a coffee shop. Can you explain to me how a coffee shop has been affected by Coles opening up their operation? I do not dispute that some of the businesses you have referred to could be in direct competition with Coles, but others on the list would not.

**Mr Goldsmith**—A couple of coffee shops have closed down. One that opened up after Coles came to town was in the Coles shopping centre. That closed down because Coles Myer put their own coffee shop inside.

**Senator FORSHAW**—I am looking for your explanation as to why businesses other than those that would be directly competing with Coles have been affected.

**Mr Goldsmith**—Coles are out of the CBD. The public are not driving down the main street and shopping around the main street like they used to before.

**CHAIR**—Is it 24 hours a day?

**Mr Goldsmith**—It is 24 hours a day.

**Senator SCHACHT**—How far is the supermarket from the CBD?

**Mr Goldsmith**—About 1½ kilometres.

**Senator SCHACHT**—So it is quite a way.

**Mr Goldsmith**—Yes. It is too far to walk.

**Mrs ELSON**—When Coles came to town they opened for 24 hours while other stores did not open?

**Mr Goldsmith**—Yes.

**Senator SCHACHT**—Coles and these others always make the comment that they create a number of jobs. Do you know how many jobs Coles have created in the new supermarket?

**Mr Goldsmith**—When they first opened they did create quite a few, but they have dwindled right down now.

**CHAIR**—How many jobs have you lost in your supermarket?

**Mr Goldsmith**—I had approximately 120 staff, including casuals, and I am now down to approximately 30, including casuals.



**Senator SCHACHT**—So you would say absolutely that there has been a net loss in employment in Deniliquin as a result of the Coles Myer supermarket opening?

**Mr Goldsmith**—Yes, certainly.

**Senator SCHACHT**—Has the council or anybody got any figures?

**Mr Goldsmith**—No. The last figures the council got were the ABS figures saying that the population of the town is declining.

**CHAIR**—Thank you very much, Mr Goldsmith. We appreciate your coming today.

[2.48 p.m.]

**CHARALAMBOUS, Mr Christos, Area Team Leader, Franklins Ltd**

**CORNELL, Mr Ian Grainger, Managing Director, Franklins Ltd**

**HALLAM, Mr John, Company Solicitor, Franklins Ltd**

**CHAIR**—We apologise for the delay, gentlemen. I welcome Mr Ian Cornell, Mr Christos Charalambous and Mr John Hallam. The committee prefers all evidence to be given in public. However, you may at any time request that you go in camera and the committee will consider it. Of course, a warning continues that at some stage in the future the Senate may require the evidence to become public. It also is important that I remind you that the giving of false or misleading evidence may be treated as contempt of the parliament. The committee has before it original submission No. 200. Are there any alterations or additions you wish to make to the submission at this stage?

**Mr Cornell**—No, there are not.

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

**Mr Cornell**—Thank you, Mr Chairman. We have not submitted an additional paper as our original submission clarified our views and, in summary, I would like to go over a few of those. We do believe that Franklins are an important competitive force in the supermarket industry, and in our submission we outline why we believe we are a valuable and important source of competition for both consumers and suppliers. At Franklins we and our staff work towards being the modern day discounter, so price is obviously paramount in our total offer, and I think many of the surveys would vindicate that market position.

We certainly also make substantial investments in our refurbishments, new store program, in our training of people and behind the scenes to ensure that we provide customers with a safe and quality service. We do support the work of the inquiry and believe that the central issues raised in this inquiry are important but, on the whole, believe that the current laws are effective in ensuring competitive outcomes in the supermarket industry and in protecting small business and industry participants. However, we do believe that regulations can never be perfect and from time to time it is worth while to review them and to adjust where we see fit.

As the committee can appreciate, the following factors are very important: geographic differences, product ranges, extensive health requirements and food regulations, introduction of many new products and the entry of new players into the marketplace, rapid technological change and all of the retailing elements that need to be taken into account. We further believe that the value and values behind having the same trade practices rule apply across the board and equally to all industries so that we can remain economically efficient.

**CHAIR**—Thank you very much, Mr Cornell. I understand that you were a little reluctant about appearing again. We did want to see you. There are just a couple of opening questions. Your chairman on 10 June, in an article quoted in the Financial Review, said:

The retail inquiry is a waste of time and money and insulting to the industry. The suggestions, the proposals and the desires that the marketplace should be artificially regulated, suppress development, innovation and protect particular offerings, are a recipe for slowing down the whole development of our industry and rendering us and Australia vulnerable to international players.

This sits a little at odds with your comment that you welcome the inquiry. I just wonder where you sit in relation to that. Has your chairman, as his departing comments in the role, made these comments in exiting?

**Mr Cornell**—As you are aware, he was the outgoing chairman when he made those comments. I am in fact the new chairman of Franklins, and I would express the point of view that those comments were made somewhat in frustration in the belief that we know very clearly that we work in what is a very robust, healthy, competitive environment. I would only put the view that I think there is some frustration in the fact that a great deal of resources have been taken up when we would rather be out there trying to win our share of customers. But I do apologise for those comments.

**CHAIR**—I understand your frustration. I think I might have said last time I thought you guys were the small, good guys, but in fact a couple of the examples that have been brought to us show that you are quite capable of breathtaking audacity in the marketplace. I think in particular of the instances where you had a dry goods supermarket in shopping malls. There have been two cases in different locations brought to our attention where there was agreement that you would not expand into another area and then suddenly you decide you are going to take over the shop alongside the existing supermarket and you go into fresh food and the competitor in the same shopping mall finds himself forced out of business within a pretty short space of time.

There have been several cases of that brought, and Franklins is the one in particular that has done it. There is nothing, I suppose, illegal in this. But is this the normal way you operate in the marketplace? This inquiry is about the impact on small business by the majors, and I suppose it is an example of the big guy at work and it does not look pretty when you hear the story.

**Mr Cornell**—I think you have to bear in mind that consumers are changing all the time, customers are changing. I think one of the things that took place in the early nineties was the slow deregulation of trading hours. The reality for Franklins is that, if they do not change their offer, they will also become uncompetitive and gradually be no longer able to provide customers with a fair alternative to what else is available. It is true that, as we get the opportunity to renegotiate new leases, wherever possible we are adding fresh foods to our stores, where we can extend them and make that a more convenient offer.

On the other hand, we have made a very conscious decision that in many centres we will stay a dry grocery retailer with our No Frills brand where we believe we have adequate support of fresh food retailers outside our door who are providing that type of service. I think there are two issues at play: the first is that if we do not change our offer then we are

going to be the company that is severely penalised in an ever-changing economy and, secondly, we have to review each of those store sites on its own merits.

We have a Big Fresh business which is particularly focused around fresh foods. As has come up this morning, we are opening new stores and converting stores to the Franklins Fresh banner and wherever possible we retain a No Frills grocery offer. But I do not think in any way we would be breaching any laws of any kind and we are doing so in the best interests, in many cases, of the landlord who wants his centre to remain strong—

**CHAIR**—We understand the need to constantly change your marketplace situation and to be innovative, and that is all fine. Don't you think it is a bit unfair in a small shopping mall where you have someone who orders in fresh fruit and vegetables who went in there to be an adjunct to Franklins and you suddenly blitz them out of business? Just in this last week in regional centres we had these poor guys who lost everything because you did that. It just seems to me to be bordering on unconscionable conduct.

**Mr Cornell**—I think it is unfortunate for those people, but the reality is that in many of these areas we are going to be competing against a supermarket chain that sells fresh foods. We have seen many of our stores go into decay and therefore the whole shopping centre go into decay because we have not responded to what consumers are saying. Really, there is a no-win situation.

**Senator FORSHAW**—What about the egg man in Brisbane?

**CHAIR**—We will give you a chance in a minute. We will just let Mr Cornell finish this one and then I will pass it over to you.

**Senator FORSHAW**—Can I suggest you put specifics to him.

**CHAIR**—Mr Cornell, please continue that answer and then we will pass over to Senator Forshaw.

**Mr Cornell**—I think the issue for a landlord and for us is that either the change is really necessary for us to continue to make our store competitive against one of the other supermarket chains or the landlord himself runs the risk of that centre no longer pulling traffic in. I do not know of too many cases where the action that we have taken to introduce fresh foods has been detrimental to the centre as a whole and, therefore, to other parts of the centre who participate. Certainly there will be an effect if there were a greengrocer or a butcher.

**CHAIR**—In this particular one we had last week, several stores became vacant as you successfully pushed out several of the representatives there. It did not sound to me as if it were too beneficial. But to the egg stories in the bush—

**Senator FORSHAW**—To follow up the chair's question, you no doubt have read the *Hansard* and the evidence of Mr Natolie, wasn't it, in Brisbane?

**Senator BOSWELL**—Yes.

**Senator FORSHAW**—That was fairly detailed evidence about a price war that he got into over eggs, to the point where he gave away 6,000 eggs for free just to prove a point, and also provided copies of advertisements where in three supermarkets the price was the same but in the one near where he was it was substantially lower. Could you give us your response to the allegations that he is making? It seems very clear that here was this guy who got into a war with Franklins and at the end of the day he could not win.

**Mr Cornell**—I think you may recall the emotion displayed—in fact, Mr Natolie created a lot of that price war activity himself. I stated very clearly we are in the business of being a discounter. That is our reason for being. We opened a new store many years ago—I think it is around six or seven years ago.

**Senator FORSHAW**—Yes, it was.

**Mr Cornell**—Certainly a lot of these issues have been cleaned up. As I said earlier, we support that type of activity being cleaned up, but if he is out there taking price action against us, trying to establish a new store with a multimillion dollar investment, hundreds of staff, we will protect our position. I do not believe that we did anything unconscionable there; we in fact were responding to the activity that he created in that marketplace.

**Senator FORSHAW**—I was careful not to make an allegation that it was unconscionable. What I am trying to get an idea of here is how do you determine when it is fair and reasonable competition with a small greengrocer and when it crosses the border where basically you are just using your substantial size and clout to beat the guy who is two doors away in a shopping mall, where he or she may be pushed out the door but Franklins is still going to survive?

**Mr Cornell**—Franklins' heritage is in the Sydney marketplace. That is where our market share is strongest, and there are many Franklins stores that operate in total harmony with fruit and vegetable operators and butchers outside the door.

**Senator FORSHAW**—I know. They do it in the suburb where I live.

**Mr Cornell**—So I do not think this is a widespread issue with Franklins; there will always be from time to time little spats of activity. But it comes down to us saying, 'This is the price that we believe is a fair price in the marketplace.' We go to market with those prices, we run an advertising program, as do our competitors, and we are not in the business of driving prices down. I do not think there could be too many people who could come and substantiate that type of activity. We will respond to activity if it comes against us, but we set prices based on the marketplace.

**CHAIR**—That egg example that Senator Forshaw gave, if ever you could develop bad PR for a company it is that. Clearly you were going down to a price that was just amazing, so he ends up giving away the eggs. It might have been a good PR stunt, but he ended up going out of business which obviously is likely to happen if he is giving his product away. How can you justify reducing the price to that extent?

**Mr Cornell**—I think we were responding to a single market incident.

**CHAIR**—But when you move to such an extent, where you are in a price war against one small retailer—you may not be the biggest player but you have got a lot of clout—to actually blitz one small guy seems to me part of what this inquiry is about. You might be the smallest player, but you are probably the most aggressive of the three.

**Mr Cornell**—We need to be aggressive or we are not going to survive. Is there a problem with being aggressive?

**CHAIR**—It may actually do you far more damage and it gets way out of proportion to the rest of your good corporate image.

**Mr Cornell**—As a professional outfit we have to use our judgment if that is the case, but there is no policy or activity within our business that is designed to go out there and put people out of business. We are quite happy to operate with others in harmony, but we do want to get our share. We have a position in the marketplace and we defended it in that case many years ago against one individual who went out to make a name for himself and demonstrate his position in the community. We were trying to establish a new store. What do you expect us to do?

**Senator SCHACHT**—Mr Cornell, didn't you demonstrate by the action you took, as described by the chairman and Senator Forshaw—in this particular case you got a bit aggressive but you showed that you were bigger and you could be more aggressive and you could still put him out of business—that you do have the power to do it, and in a sense it becomes an intimidatory measure and message to others to be very careful about taking Franklins on?

**Mr Cornell**—I do not agree with that statement.

**Senator SCHACHT**—The chairman raised at the beginning about the frustrated statement of your outgoing chairperson. I have to say there would be a lot of other people around the place who might also say they have been pretty frustrated with the way Franklins have performed. The reason that this committee is here is not that we love having bloody endless meetings, I have got to tell you but that there has been a response in the community. In a democratic society a lot of people are pretty concerned about what two or three big retailers in the grocery area are doing. We are not here because we want to waste your time or even ours. That is the reason it is on. If you continue to have 80 per cent of the marketplace, in the end you may well find that someone is going to argue that there has to be some further form of regulation, because who else is going to protect the consumer in the end since an oligopoly has got control of the lot? Then you will be really frustrated.

**Mr Cornell**—Don't you think it is important for us to try and defend the third position in the marketplace?

**Senator SCHACHT**—I agree. You said you had to change because the deregulation of shopping hours created a new paradigm about how retailing was going on. Did Franklins support the deregulation of shopping hours?

**Mr Cornell**—I was not in Franklins at that time.

**Senator SCHACHT**—Institutional memory; someone should remember it. Did you actually put your hand up and tell state governments not to deregulate shopping hours?

**Mr Hallam**—To my understanding, we were not active in supporting it or rejecting it; we just simply sat back.

**Mr Cornell**—You have to bear in mind that extended trading hours was liable to do more damage to Franklins than to anyone else.

**Senator SCHACHT**—Since when have you held extended trading hours could do Franklins more damage as one of the big three, because the other big two—maybe they thought they could do you damage, I do not know—seemed to be rather enthusiastic about extended trading hours.

**Mr Cornell**—The consumer is rather enthusiastic about trading hours.

**Senator SCHACHT**—I know, but you said this changed the paradigm.

**Mr Cornell**—Let me explain.

**Senator SCHACHT**—And that you had to respond to it. But I want to get it clear that the big end of town in retailing was in favour of this change in the paradigm. It did not happen by osmosis that there was a change in shopping hours. It actually happened because there was a debate about it. The consumers wanted it, I agree with that, but also the big stores wanted it.

**Mr Cornell**—Certainly the consumers wanted it. In the case of Franklins, they built their business around being very cost effective and running dry grocery stores that in the main had fresh food operators supporting them outside their store. With the extension of trading hours the people outside their door, who were already working 12 hours a day, said, 'Hang on a second, I can't work every night late in the night. I can't work all weekend,' and they closed their doors. So the extension of trading hours worked against Franklins. Franklins said, 'There's no use complaining about this. This is what consumers are telling us to do. Let's respond to that, let's ourselves extend our trading hours and for the same reason let's try and get into fresh food because people are looking for it.'

**Senator SCHACHT**—Your company, Mr Hallam, did not go to state governments, who have got control over shopping hours, in the early nineties, late eighties, with a representation to say, 'Don't extend shopping hours because this may hurt Franklins.'

**Mr Hallam**—I have got to be careful in the way I answer this question.

**Senator SCHACHT**—I would be.

**Mr Hallam**—I can check when I return to Sydney, but my understanding is that we were not active in any lobbying of the government to extend the shopping hours. But I do say that is my limited understanding.

**CHAIR**—The campaign to my memory was led pretty much by Coles Myer, but I might be wrong. But bear in mind we do not have any particular position on deregulation of shopping hours. It is neither a good nor a bad thing. We are listening to the evidence, and I think it is probably time for Mrs Elson to ask a question.

**Mrs ELSON**—Mr Cornell, when your company signs leases with property developers, is there any clause in that agreement that you do not go in direct competition with other existing small businesses?

**Mr Cornell**—I believe that in days gone by there would have been those type of clauses. We do not break the law. We take the opportunity, when leases expire or we go into new stores and we renegotiate new leases, to protect our interests. These cases where things have happened within the centre, that is purely a landlord decision and we are there trying to do the best for our company.

**Mrs ELSON**—I will ask it another way. Would you not sign a lease that said you could not go in competition with other existing businesses?

**Mr Hallam**—Just to put it clearly, when we had a dry grocery format a number of our old-style leases had a clause which said there must be trading, in the vicinity of the Franklins market, a fruit and veg, a butcher and a hot bakery. The reason for that was so it complemented our offer and encouraged customers to come into the Franklins store. There was a rent incentive that, if those people were not there trading, there would be a reduction of some percentage in rent. I think that is what you are referring to. The idea behind it was that we would then, as a dry grocer, suffer a loss in trade and we needed, I suppose, something persuasive towards the landlord to make sure that they got out and managed a properly run centre.

**Senator FERRIS**—I would like to pursue that issue. We had some evidence the other day in regional New South Wales of a shopping centre in a small regional country town where there was a Franklins dry food products, there was a butcher and there was a fruit and vegetable shop. Next door to Franklins was a store which was not doing so well. The information we received was that that particular storekeeper had pressure put on him to terminate his lease. You then moved into that store with your fresh products. The greengrocer lost \$37,000 or \$47,000 within a month and disappeared but, because the butcher had been smart enough to require in his lease that he was the only retailer of meat, the shopping centre owner finished up taking over the butcher's shop. Another way of asking Mrs Elson's question would be to ask: when you move into a new shopping centre, do you require on your lease that no-one else in that shopping centre would sell the dry packaged goods that you sell?

**Mr Cornell**—No, there is no such restricted covenant.

**Senator FERRIS**—So when these people take leases in their shopping centres do you believe that it would be reasonable for them to require that no other lessee in the shopping centre sell the product that they are planning to go in and sell? The point that was made to us was that the leases of the butcher's shop and the fruit shop were not terminating. They were ongoing leases. They were thriving businesses which had taken those leases on the



basis of complementing your store. Without any reference to them, you changed fundamentally the operation of that shopping arcade and, in doing so, you sent bankrupt one shopkeeper within a month and the butcher finished up being owned by the shopping centre owner. So you tell me how that enhanced competition in that country town and, when you do so, take into account what you say in your submission here:

Franklins was losing market share to Coles/Bi-Lo and Woolworths and was forced to follow its competitors to remain a competitive force within the supermarket industry.

There was no Bi-Lo and there was no Coles nearby, so why did you decide to do that in that area?

**Mr Cornell**—Surely we must have the right to try and improve our business?

**Senator FERRIS**—Sure, but what you did was break the spirit of the lease of two other individuals in the shopping centre who went in there to complement your shop.

**Mr Cornell**—The spirit of the lease between those people and their landlord—we are a retailer playing in the same—

**Senator FERRIS**—Franklins encouraged that shopping centre owner to bring in complementary small shopkeepers and then you changed your marketing direction with no reference to any of them. Do you think that is conscionable conduct?

**Mr Cornell**—Senator, I certainly think it is, over time, prudent for us to change our marketing direction because the reality is pointed out in our submission.

**Senator FERRIS**—Is it conscionable conduct?

**CHAIR**—The problem, Mr Cornell, is that you are really saying, ‘Well, you know, to hell with it, we’re in there.’

**Senator FERRIS**—‘We’ll do what we like.’

**CHAIR**—‘This is the marketplace. So we force a few small guys out of business. That’s tough. That’s the marketplace.’ If that is the approach and you do not care about the social impacts on families and other businesses—

**Senator FERRIS**—Say so.

**CHAIR**—then maybe there is a role for the government to say ‘Enough is enough’, which is the theme of the NARGA campaign.

**Senator FORSHAW**—I thought you were talking about the government, Mr Chairman.

**CHAIR**—Yes, but if you, as a corporation, display no concern at all for the impact on other people—‘No matter what it is, it is the marketplace, dog eat dog’—then maybe you invite the type of inquiry we have got on right now.

**Senator FERRIS**—So is it conscionable conduct?

**Mr Cornell**—Without knowing the details of the case you are bringing up—sure, we are quite happy to look at that in detail with you—I do not believe, in doing what we have done, there is a problem in terms of conscionable conduct. It is a very competitive marketplace out there, but it is true also that our business was in decline because we were failing to address the issues that made modern supermarkets competitive and attractive to consumers.

**Senator FERRIS**—I will put it to you another way. If that shopping centre—and I have not been there, so I am only accepting the evidence of individuals who came and saw our committee—was big enough that a Coles or a Woolworths could have moved in there, would you have done nothing about it to the owner of the shopping centre? Would you have made any representation to the owner of the shopping centre about whether or not you believed that until that time you had exclusive operation of that shopping centre in terms of the products you sell, or would you say to your colleagues, ‘Well, this is the marketplace working. We’ve got no leg to stand on,’ just like those small businesses had no leg to stand on?

**Mr Cornell**—In some of our leases we do have a leg to stand on, but in many others we have had competitors come into the same shopping centre and do the same thing—open a new—

**Senator FERRIS**—What have you done about it?

**Mr Cornell**—We have responded in the best way we can to try and improve the deal that we give our customers.

**Senator FERRIS**—How would you suggest that that butcher and that fruit shop could have responded?

**Mr Cornell**—In the same way that many other people have responded quite successfully.

**Senator FERRIS**—By giving away lettuces like they gave away eggs?

**Mr Cornell**—No, not at all. There are plenty of successful people in fruit and vegetables and meat today who are independent operators who have not chosen to go the price route.

**Senator SCHACHT**—What have they chosen to do?

**Mr Cornell**—They have gone either customer service, quality—

**Senator SCHACHT**—Go for quality.

**Mr Cornell**—Range—a whole host of other activities.

**Mr JENKINS**—The last published A.C. Nielsen survey was September 1998. In the 12 months preceding that Franklins market share had dropped from 15 to 14.2. If we are to believe the NARGA submission, where they list the chequebook sales that have gone on in

the 12 months since that survey, Franklins have purchased 12 stores out of the 17 independents that have been bought out. So obviously there is a strategy there, especially in Melbourne where of course, by that last survey, you had only 8.7. I think it is seven of the last 10.

The question that I pose to you is that the committee has had a bit of difficulty coming to grips with how we could monitor these chequebook purchases. Would you be happy if there was a power for the ACCC to look into this sort of phenomena every 12 months or every six months or something like that? When you look at the way in which you are improving your market share by these buyouts it is a dramatic effect. I was wondering whether you have a comment about whether the ACCC should have powers to investigate.

**Mr Cornell**—As those figures indicate, our market share in dry grocery has in fact been shrinking over recent years. Certainly with the addition of fresh food sales, that has enabled us to keep our business going in the right direction, but our grocery share, as measured by Nielsen, has continued to decline. In regard to the acquisition of independents, we would be quite happy to voluntarily undertake to go to the ACCC to advise them of any planned or proposed acquisitions, because I do not believe that there would be many cases where they would not see it as a very positive move for competition in the marketplace. So, in response to your question, we would be happy to look at a way of—

**Senator SCHACHT**—Only if this competition is against Coles and Woolworths. You could argue that, by buying these up, you would get stronger against Coles and Woolworths. So the triopoly is just being rejigged, is it not?

**Mr Cornell**—Not in all cases. There are other cases of independent operators out there who have significantly bigger stand-alone businesses than Franklins operate themselves.

**Senator SCHACHT**—A lot of the figures show, as Mr Jenkins said—using the chequebook—that you are growing, that the share of the market between the three of you is getting bigger, not smaller. It is just an argument between the three of you which percentage share you have.

**Mr Cornell**—The relative for us in business is that we need to find ways of improving our performance.

**Mr JENKINS**—What about development of greenfield sites in say the last 12 months—and there are a couple of them in prospect, too, I acknowledge—compared to the 12 sites that you have bought? How many have you started up yourselves?

**Mr Cornell**—It is in our original submission, but we have opened on average 12 new stores, greenfield sites, per year over the last two years and plan to do so again this year. So when you compare that—it is a higher number than we have for acquisitions—the highest number we have is for conversions of stores from the old-style grocery format to a fresh food format. We have approximately two-thirds of our stores now selling fresh foods in Australia.

**Mr JENKINS**—The second series of questions I wanted to ask was about price maintenance. Between your stores you must keep a check list of prices. Do you keep a check list of prices of your competitors?

**Mr Cornell**—We have a team whose job responsibility is to check competitors' prices. We set our own price structure, but we have people out there checking our competitors' prices, whether that be another supermarket chain or other operators in the marketplace, to ensure that we do maintain our price position.

**Mr JENKINS**—What range of lines do you monitor? It goes beyond dry groceries?

**Mr Cornell**—It includes fresh products, general merchandise and grocery, and liquor products.

**Mr JENKINS**—Is that list of lines a publicly discoverable document that you would like to share with us? I do not actually want to go into the detail of the prices but I want to know the lines that you actually check. I ask it in the sense that it would help us to have a feel for what you think your business is.

**Mr Cornell**—Sure.

**Mr JENKINS**—We have the supermarkets and everybody has a different version of it.

**Mr Cornell**—I can provide that to you. It literally is thousands of products, though. You do not check every product every week. You do it on a cyclical basis. There are very sensitive items that you would check every week and there are items on promotion. If we are running an advertised promotion, for example, we would go and check those prices in our competitors to make sure that we were not undercut.

**Mr JENKINS**—I suppose the top lines are the things that would give us the best feel.

**Mr Cornell**—Even at the top line, you are looking at in excess of a thousand products per week.

**Senator BOSWELL**—Mr Cornell, how do you go getting sites? Are you finding it difficult or are you the tail end or do Coles and Woolworths get the best offer?

**Mr Cornell**—They vary considerably by location, Senator. When you consider that our major two competitors have 500-plus sites and we have 300—but we are not represented across the board; we are only in four states—it does mean that there are more opportunities for us, for example, to build a greenfield site than perhaps our competitors. But when you are the third player in the marketplace it does have a bearing on the landlord if they had a preference of whether they would put in a Coles, a Bi-Lo or a Woolworths. We have to put our position as providing a point of difference, if you like, in that particular neighbourhood. It is not an easy thing to get sites. We have been on what would be an expansion program over the last couple of years and have had difficulty meeting our own targets.

**Senator BOSWELL**—How is your market share holding up in dry goods? I thought you went from 14 to 12 or something.

**Mr Cornell**—Over the last four or five years our market share has declined. In the last six months it has declined marginally, but the rate of decline has slowed in the last six months as we have started to make some impact on improving our store network.

**CHAIR**—When you say ‘decline’, is that fresh food as well or just dry goods?

**Senator BOSWELL**—No, just dry goods.

**Mr Cornell**—That is the A.C. Nielsen data in dry goods. It is very difficult to get a snapshot on what our market share in fresh would be.

**Senator SCHACHT**—Have you ever had any complaint that your two bigger competitors have used their weight in the supplying side of goods and services and they have disadvantaged you in undercutting or getting volume discounts bigger because they have 500 stores compared to your 300?

**Mr Cornell**—I have not, Senator.

**Senator SCHACHT**—You have not complained about it, but are you aware of it?

**Mr Cornell**—No. If I was aware, we would have taken action.

**CHAIR**—Thank you very much, Mr Cornell. We appreciate your coming back. We are reflecting the various views that we have heard around the marketplace and recognise the importance of you being a viable competitor in the marketplace, establishing your own market segment. We as a committee are attempting to get to the bottom of what the actual problem is in the marketplace, the factors causing it and, of course, what solutions we can come up with in solving some of the problems, if there are problems, or whether it is the marketplace at work. We have to report by the end of next month, so the pressure is upon us. Thank you for coming. We really appreciate it.

**Mr Cornell**—Thank you for the opportunity.

[3.32 p.m.]

**CORBETT, Mr Roger Campbell, Group Managing Director/Chief Executive Officer, Woolworths Ltd**

**DUNN, Mr Ian, National Business Manager, Woolworths Ltd**

**JEFFS, Mr Rohan, Company Secretary, Woolworths Ltd**

**ONIKUL, Mr Naum, Chief General Manager, Supermarkets, Woolworths Ltd**

**POKORNY, Mr Peter Joseph, General Manager Fresh Food, Woolworths Ltd**

**CHAIR**—I welcome Mr Roger Corbett, Mr Rohan Jeffs, Mr Ian Dunn, Mr Naum Onikul and Mr Peter Pokorny. The committee prefers all evidence to be given in public. However, at any time you wish to go in camera, please make such a request to the committee and they will consider it, with the warning that at some stage in the future the Senate may decide to make that evidence public. I also remind witnesses that the giving of false or misleading evidence may constitute a contempt of the parliament. The committee has before it original submission No. 229A and No. 229B, which is confidential. I believe you wish to table a public version.

**Mr Corbett**—Yes, Mr Chairman.

**CHAIR**—Are there any alterations or additions you wish to make to the submission at this stage?

**Mr Corbett**—No, but I would like to read it very briefly, if I might, Mr Chairman.

**CHAIR**—Certainly. I now invite you to make an opening statement. At the conclusion of your remarks we shall proceed to questions.

**Mr Corbett**—Mr Chairman, members and senators, my colleagues and I welcome the opportunity to return. When we gave evidence about 100 days ago we said that we would be very happy to return. We have watched the work of the committee in the intervening period with great interest. I have been kept apprised of the committee's work and found much of the evidence that has been presented to the committee to be very helpful to us in better understanding the market in Australia.

I plan to make a brief opening statement and then allow the balance of time to handle your questions. I have with me again the key members of the Woolworths team who have identified themselves. The last time we sat together in this room was on 6 April, less than 100 days ago. It is interesting because in those three short months a lot has happened. A major non-Australian player, Aldi, has flagged its intention to move strongly into the Australian market, offering the narrowest of ranges and the lowest levels of service and reportedly seeking 100 sites around Sydney alone.

The Davids and Smorgans families have reportedly, as they describe it, joined forces in cyberspace to take on the nation's big grocery chains through an entity called Shopfast. Franklins has announced renewed drive into fresh food. The Davids Holdings CEO, Andrew Reitzer, has announced a substantial improvement in the group's performance. He reported on the Victorian launch of the IGA banner and noted that sensational growth has been achieved.

In those some 100 days David Jones has announced that it will take on Woolworths and Coles directly by establishing a new up-market stand-alone food chain. The giant retailer Wal-Mart has acquired the third largest UK retailer, ASDA, at an outstanding figure of \$US3.8 billion and is continuing its global hunt for companies. Ampol had just announced its move into food retailing before we met. I am pleased to say this morning we announced our new Woolworths ezy banking and of course we have the GST.

I think the sheer number and weight of these changes in such a short time signals two things. First, they make a nonsense of the claim that two or three entities can ever monopolise in such a dynamic, vibrant and intensely competitive industry. Second, they underscore the volatile and very competitive nature of our industry and the fact that it is without any doubt now global. Let me stress that again. We cannot kid ourselves here. Grocery retailing is a global market and as such there are very real global pressures.

During those 100 days I had the opportunity to visit Asia, the United States, France, Germany, Stockholm and the United Kingdom. I met with investors, analysts, other retailers and suppliers. I thought I would start today by sharing with you some of their comments about the Australian retailing industry. There is a lot of talk, of course, about Wal-Mart's \$10.8 billion takeover of a company not dissimilar in size to Woolworths. Tesco and Sainsbury are the big players in that market but Wal-Mart obviously feels there is a weakness there that will enable them to grow ASDA against Tesco and Sainsbury. It came across very strongly that Australia is on the radar screens of major American and European retailers. These include Wal-Mart, the Dutch retailer Adhold, Carrefour of France and Metro of Germany. The global driver is a critical need for these major players to bolster growth factors via acquisition.

In our written response we have endeavoured to address all the principal concerns which you expressed to us during our ongoing dialogue. I am sure you will seek to cover other areas during question time today. Before we get to that point there are a few areas I would like to accentuate. The first is to express the continuing determination of Woolworths to work with the committee in a spirit of willingness to find acceptable outcomes. We believe there is much to be gained from having such an opportunity to both address some of the very important issues and also to put to bed some of the misinformation unfairly levelled by some groups at us and others in the retailing sector.

There is ongoing debate about market share, most of which was generated in a media campaign launched by NARGA and, in the shadows, its backers. This was based on misleading claims which have been revealed as such before your committee by such authorities as A.C. Nielsen, Jebb Holland Dimasi and the Australian Bureau of Statistics. We hope that through this process we can dispel some of the mischievous and deceptive claims that have been made.

The second point I wish to make is that organisations like Woolworths have a very significant challenge to ensure that the 12 million weekly Australian shoppers and the future viability of the Australian owned organisations serving them are not unfairly restricted in their ability to compete fairly in an ever changing marketplace. The entry to this market of a substantial foreign competitor like Aldi creates a new dimension in market competition. They have demonstrated that they provide the lowest common denominator in both range and service to the community. In many circumstances the most vulnerable will be those who cannot adopt and respond to the changes which this newest entrant will bring.

Woolworths, on the other hand, has a tradition of 75 years serving Australia. It is Australian owned by some 280,000 shareholders, including a very large number of small to medium size shareholders. We stand for top level service, the widest possible range, variety and quality at the lowest prices. Our concern is that new and unjustified regulations or limitations imposed upon us by bureaucracy could further affect the delicate global environment which I have described, further eroding the capacity of Australian players to compete on our own turf in what has become a global struggle.

Our best defence lies in our capacity to meet the challenges which competitors across the globe may offer. If we are hampered in our ability to meet these challenges, then those that benefit most will not be the small players, but those huge non-Australian organisers that have their eye on this market.

Mr Chairman, I would like to just touch on two things before I conclude. One is the question of price checking. I understand that the question of price checking has occurred before this committee.

**CHAIR**—Yes, we plan, Mr Corbett, to show a video that was given to us during our visit to regional Australia of Woolworths' employees being involved in price checking. This is not targeting Woolworths alone because it is a practice that seems to be commonplace to all three majors. It just happens to be one where we have it on video. So we will present it to you and you may comment then.

**Mr Corbett**—If I could just make a passing comment at this point because it fits in the context of what I am saying, and I will view the video with great interest—

**CHAIR**—Would you like to look at it now and then comment? Maybe that be might be useful. Would you like to just cue it and we can have a look and then you can comment. This was actually in Bundaberg where a small retailer is having trouble surviving.

*A video was then shown—*

**CHAIR**—You see here the Woolworths lady checking the prices, which she does several times a week, and you will actually notice that she has very helpfully shown her Woolworths badge while she is doing price checking. So there is no doubt as to what she is doing.

**Mr Corbett**—She looks pretty smart in her Woolworths uniform, if I might say so.

**CHAIR**—She does look very smart, and obviously she is doing her job.



**Mr Corbett**—She sure is. I hope she is close enough to get them right though, sir.

**CHAIR**—Obviously this is something that is not confined to Woolworths and we are not suggesting that this is an illegal activity. But when small retailers around Australia are hurting and they see that market concentration by the majors is affecting their overall viability and when we have, in addition to all the concessions that the majors may have in terms of pricing, leasing costs, electricity, et cetera, and then they have price undercutting as evidenced by this video, then it makes it tough for them. It is just evidence of what is happening in the marketplace. We could go on but I think it does illustrate the point.

**Mr Corbett**—Thank you for that, Mr Chairman.

**CHAIR**—It is not the most high-quality video but it seemed—

**Mr Corbett**—No, but it did the job. I would like to say that that could have been any one of literally thousands of Woolworths people across Australia, myself included. We all check prices. Our prices are checked by our competitors, our competitors' prices are checked by us. You could not be in a competitive market if you did not check the prices. However, checking prices and predatory pricing are two different things. In Woolworths we have a very strong policy, and if I should ever find that it was broken I can assure you it would result in very severe disciplinary action, and it is that we do not undercut the prices of small retailers.

Predatory pricing is, to me, an attempt to put small competitors out of action by reducing your prices deliberately below theirs. I cannot guarantee across an organisation our size that it never happens because I cannot be in every place in every time. But it is clearly our policy that that does not occur. Should we find breaches of that occurring it would result in the most severe disciplinary action. We will meet competitors' prices but when there is a small retailer we will never reduce our prices deliberately below them, nor will we highlight the difference in price between a small retailer and ourselves. We may do so with a major competitor but we would certainly not do so with a minor competitor.

Indeed, there are many small competitors around Australia that quite rightly sustain a price level that is significantly above ours because their service is significantly better, either in the hours they are open, the quality of personal service they give or the quality of their knowledge of the product. So I would just like to make that comment, Mr Chairman, before I make my final comments.

I wish to address generally the suggestion from participants that the growth in major retailers may be detrimental to Australia. For 75 years Woolworths has been intrinsically woven into the hearts of Australian communities and neighbourhoods, especially in country towns that we not only serve but support and promote. Mr Chairman, could I again draw your attention to our distribution centres at Warwick and Monarto, both of which have brought tremendous benefits to those rural areas. I was in Monarto last Thursday, and I have got to say I am terribly proud—

**Senator SCHACHT**—Is that Murray Bridge actually?

**Mr Corbett**—Just outside Murray Bridge. It is an individual town, Senator.

**Senator SCHACHT**—I know, but it had a history that it was going to be, in the 1970s, developed as a major satellite city for Adelaide and it has a different connotation in South Australia as a failed venture, which I am sure you would not want in any way to be associated with.

**Mr Corbett**—I am happy to be able to say we might be associated with its first success. Far from leaving the country, we made the decision to stay and the country communities have benefited. Our document outlines again the enormous contribution which our organisation makes to employment, particularly in country areas, and particularly among women and young people. It shows how we offer career opportunities rather than jobs, and it details again the contribution we make to communities at all levels. Mr Chairman, senators, that completes the few words I wish to say. We would be delighted to discuss with you those issues and others flagged in our submission. If you will direct your questions to me, I will direct them to my colleagues as appropriate. Thank you for the courtesy.

**CHAIR**—Mr Nairn, would you like to start off the questioning?

**Mr NAIRN**—Thanks, Chairman. Mr Corbett, at our hearing in April I asked you about your pricing structures and specifically what the differences might be between city and rural stores.

**Mr Corbett**—Yes.

**Mr NAIRN**—In answering you said:

Volume plays a part only in terms of the average over the whole, reducing our average costs. We endeavour to deliver to country Australia . . . at prices which are very comparable to city prices. The only differential is freight, and that is in only limited examples.

So the inference there is that, generally speaking, they are about the same but they may be a touch more because of freight aspects. So how could you explain the situation where on the very same day in Sydney you could buy a prime quality pork forequarter roast at \$3.49 a kilo, but in Dubbo you could buy prime quality pork forequarter roast at \$2.99 a kilo, 50c a kilo cheaper? Barbecue blade steak, \$2.99 in Sydney, \$2.79 in Dubbo, et cetera. A family roasting leg of pork, \$4.49 in Sydney, family roasting leg of pork, \$3.99 in Dubbo. Sausages are slightly different. But every single item is significantly cheaper in a Woolworths store in Dubbo as opposed to a Woolworths store throughout Sydney.

**Mr Corbett**—First of all, I would reiterate the answer that I gave earlier that our prices are predicated primarily on a base price and freight is a differential. I cannot comment, without doing some homework, on individual marketing situations that may have existed. There might have been a promotion in that town; there might have been a competitive situation in that particular town. There might have been promotional activity for a reason that I am not aware of and I cannot, I am sure you would understand, be aware of each individual situation. I am very happy to take the instance that you indicate at Dubbo and have that further investigated but at the same time—

**Mr NAIRN**—This was just last week, 7 July.

**Mr Corbett**—We will certainly get that investigated for the reasons and come back to you. You raised a question of prices in Cooma, and I will just call upon Ian Dunn to give you a little detail on those prices at Cooma which I think provide quite an interesting scenario and touch very much on the principle that you just raised.

**Mr Dunn**—Thank you, Roger. As Roger says, the pricing very much that we talked about in March related to standard everyday shelf pricing rather than weekly specials, where there often are variations throughout the states and in different towns across the nation for local marketing reasons, so you will get variations on weekly specials. But for Roger's point on standard pricing, Cooma is very appropriate. We actually sell at Sydney metropolitan prices in Cooma and absorb the freight, and have done so since before the Cannons takeover. As far as I am concerned, our intention is to continue to do so.

**Mr Corbett**—Could you give the relative price movements, please, Ian.

**Mr Dunn**—Over the three years since we took over the Cannons business, including the Cannons store in Cooma, prices have gone up some seven per cent. At the time of the takeover we were considerably cheaper than Cannons and I checked some 650 major lines across about 70 per cent of the business, across those 105 Nielsen categories that we were talking about this morning, and we were cheaper on seven out of every 10 lines. On another 10 per cent we were the same price and we were dearer on some 19 per cent. In fact, when I did the numbers and compared them when I was doing the check against 1999 prices to see how much prices had risen over those three years, I found that one in every four products, 25 per cent of the lines, were still cheaper in Woolworths today than they were in Cannons in July 1996 when we took the business over.

**Mr Corbett**—I just make that point. I understand that there was a suggestion that as a result of Woolworths takeover of Cannons in Cooma, prices have gone up by 17½ per cent. It is a very good illustration of material being put before this committee from time to time that may be done quite genuinely but would in fact be wrong. We welcome the opportunity before the committee to correct items of that nature. However, that being said, Mr Chairman, if in fact in any place we err—and it is always possible for that to occur—then we will address any such issues as quickly as possible. The Dubbo situation: it is impossible, Mr Nairn, for me to respond to detail of that, but I will be happy to take that on board, sir, and do so.

**Mr NAIRN**—You raised the Cooma matter and obviously that was in response to the evidence that we were given last week about a 17 per cent increase. Would you like to comment on the other evidence that was given in Cooma at the same time about the loss of money from the town. The council gave evidence. Through some survey work which they apparently are going to provide us with some more detail on, the council has indicated that, because of the perceived or actual drop in competition by two Woolworths stores instead of a Woolworths and a Cannons, something like \$12½ million a year is now going out of the town by people choosing then to shop in Canberra or elsewhere. Would you like to comment on that, because presumably if there were truth in that, given that Cooma has not exactly

boomed in the last three years, particularly as it has had five years of drought, that would be reflected in the turnovers of your two stores, I would presume.

**Mr Corbett**—Mr Nairn, we welcome a response to that. Our business has grown over that period of time a little over seven per cent. The gaol has closed, as you know. The city has had a drought, as you also know. I just think those numbers are absolutely unable to be substantiated. I would not know how they have been arrived at. We would be happy to look at them in some detail but, on a quick macro check, they just do not add up. In addition to that, I would say that the people of Cooma have a substantially larger range than they had previously, at substantially lower prices, and I think the people of Cooma have benefited from a very substantial improvement in business. Their custom of our stores, sir, demonstrates that. We see that reflected in their shopping patterns, I am happy to be able to say. We gratefully appreciate their custom.

**Mr NAIRN**—We will look forward to the more detailed information that the Cooma-Monaro Shire Council have proposed to provide to us.

**Mr Corbett**—When you get that, sir, we will be happy to analyse it and respond.

**Mr NAIRN**—Could I just ask one other question before I give somebody else an opportunity. Also in your evidence in April, when talking about contracts with suppliers, you were talking about a particular grower that you had a contract with, and you made the statement:

There was a definite advantage to that grower in having a contract price that was negotiated that took the danger of the dips out of the market for him.

We have also received some evidence in the time since then whereby it was claimed that one grower, who had a contractual set-up like that, I would presume, provided goods and then was told there was a problem with some aspect of the goods. In effect, the contract price was attempted to be renegotiated by supposedly demonstrating that the goods were not up to standard, at a time where the same sort of product was available from a different part of Australia at a significantly cheaper price. Presumably that should not occur if you do have a contract which supposedly evens out those highs and lows.

**Mr Corbett**—Sir, again we can go from the general to the particular. The general principle that I talked about in my evidence still stands, and I am prepared to stand 100 per cent behind that comment. I would like to know the details of the circumstances of this particular grower and, if it had not been appropriately handled, we would take whatever steps were necessary to correct it. But, for example, in the case of a tomato grower that I can think of, when he came to deliver the product, the product was not of merchantable quality. Contracts of this nature are entered into, as both parties know, in that the product has to be delivered at merchantable quality. It could well be a circumstance of that nature, I do not know. Again, in circumstances like this, as I am sure you would appreciate, very often there are different points of view, depending upon which side of the coin you are looking at it from. If there are instances where Woolworths has been seen to be unfair, we would certainly immediately look at those instances, but I would need to clearly know more

facts to arrive at that view. But the general principle that I talked about during our previous evidence, sir, stands.

**Mr JENKINS**—You obviously regularly monitor prices. Is that over a wide range of lines? Is it, like Franklins, thousands? How do you go about it?

**Mr Corbett**—The market, as we have said on numerous occasions, is the most competitive in the world, I think. The fact that there is a so-called oligopoly in Australia certainly does not mean that this market is not as aggressive as anything that I have ever encountered anywhere, and I have travelled the world. Prices are watched like hawks. We watch our competitors' prices and they watch ours. It is done both at a local level and at quite an organised level.

**Mr JENKINS**—Do you have a basket of goods that you keep track on or is it line by line?

**Mr Corbett**—It is both. I heard Mr Cornell's evidence earlier. There are prominent lines that are icon lines, those shop lines that are watched by us and our competitors with a lot more scrutiny, and there are other lines that are watched in a more general sense.

**Mr JENKINS**—For instance, I cannot remember whether it was you or not, but on ABC Radio in Melbourne there was a discussion about pricing. It got down to the price of dishwashing liquid and all sorts of things. I thought that, for the benefit of the debate, an example of a standard shopping trolley that might be monitored would give a better feel for what the movements are in the market or what comparisons could be made.

**Mr Corbett**—That is a very difficult thing to do because the marketplace is dynamic and it is moving all the time. How many products normally would be changed in a supermarket in a year?

**Mr Onikul**—I believe, Roger, there will be 3,500 to 4,000 new lines coming in and going out of total supermarket range every year.

**Mr Corbett**—So it is a really dynamic picture and what is a winner today is not a winner tomorrow. It has to do with price. For example, we might have a real winner on cauliflowers today because they are in the market at a particular price but the price on caulis might move and the emphasis might be on tomatoes next week. It is moving all the time and, even in the more stable areas of groceries, today's winning detergent will not be tomorrow's. So it is really a changing basket, and I personally think the forces of the marketplace protect the consumer in Australia very well.

**Mr JENKINS**—You have made some comments about the suggested changes to trade practices legislation and you have thoroughly looked at most of those. I note that you have made comments about the million dollar limit. That of course came out of the Reid report, but there is some discussion that we should perhaps revert back to the ABS's definition of small business to give coverage to anybody that fulfils that definition to have access to those provisions.

**Mr Jeffs**—The only issue we would want the committee to be aware of in that area is that clearly the Reid committee was looking at a small business context and we had no difficulty with that. How that is resolved in a monetary sense is a matter for determination. In a market context, our point was really that we wanted to ensure that it did not extend to the larger operators and provide protection where provision 51AC of the Trade Practices Act was never intended to operate. So I do not think we have difficulties with reviewing the issue of a small supplier.

**Senator SCHACHT**—Mr Corbett, I was interested in your opening remarks about the impact of globalisation and the increasing likelihood of global competitors coming into the Australian market. You mentioned Wal-Mart and others. What is the capitalisation of Woolworths at the moment?

**Mr Corbett**—\$6 billion plus.

**Senator SCHACHT**—If Wal-Mart offered \$7 billion to the shareholders, which is an increase in the price of the present shares which for the individual shareholders might be an attractive buy, you and the globalised market might recommend to your shareholders that you sell to Wal-Mart. Is that correct?

**Mr Corbett**—I hope it is a highly hypothetical question, but at the end of the day we are here to do two things. We are employed by our shareholders to run the business as efficiently and effectively as we can for them and we have a responsibility to the consumers of Australia to deliver as good a service as is possible, and we have a responsibility to the 120,000 people that work for the organisation to deliver them appropriate employment, workplace and other benefits at the highest level.

**Senator SCHACHT**—Would you ever think it necessary to call upon the federal government to use its powers under the Foreign Investment Review Board to stop such a foreign takeover in the national interest?

**Mr Corbett**—In the event of that occurring—and I might say in passing that I think your \$7 billion is a bit low—I think that would really be a matter that the board of directors of Woolworths at that time would have to make judgments on.

**Senator SCHACHT**—I accept that a number of companies around the world might want to invest here, but what about Woolworths doing the reverse—one of the best forms of defence is offence—and get into being a global operator yourself, particularly in the Asia-Pacific market, develop supermarkets with your well-known expertise and management, delivery, service, et cetera, to establish supermarkets in clearly the growing markets of Asia, despite this recent downturn in the Asian economies? Obviously 2½ billion people are going to have to eat a lot of food and so on in the years ahead.

The argument has been used by some companies across the board that they need critical mass in Australia to be big enough to grow the Australian market to then take on and be internationally competitive and invest overseas. If you do not have any restrictions on your size, will Woolworths then go into being an investor and establishing Woolworths Australia in the Asia-Pacific market?

**Mr Corbett**—Thank you for the question, Senator. Whilst I was away, I was in a road show presenting to the world's major investors—investors that have the ability to buy 10 per cent of Woolworths. In fact, some we visited own 10 per cent of other major retailers and significant investments in BHP and other areas. I was amazed at their interest in this committee's work, Mr Chairman, and they quizzed me at length about the possibility of the government putting some type of cap on the major retailers in Australia.

**CHAIR**—What did you tell them?

**Mr Corbett**—I told them that was yet to be determined, because we were working hard on it.

**Senator SCHACHT**—Shall we call those people from overseas to come and give evidence? I am interested to hear their views. We could go as a committee to London.

**Mr Corbett**—I will organise an introduction for you, Senator, if you like. But the point, Mr Chairman, in answer to the question is, if we wanted the share price of our major retailers in Australia to drop, I am sure that would be a very good way to do it because those investors and their interest in Australia and the commitment to Australian retailers are critical to supporting the price of Woolworths shares and Coles Myer and other major operators in Australia—make no mistake.

The interesting thing, Senator, on the other half of your question or the other side of your question, is that the major world retailers that have been successful, such as Wal-Mart in America, Carrefours in France, Metro out of Germany and Ahold out of Holland, have all had strong business bases in the countries that they are in to give them, if you like, the financial muscle and strength to move overseas.

This is a personal view, but I do think that Australia has fantastic retailing intellectual property, and it does have potential. I am not saying Woolworths will do it, Senator, I am not in a position to make that comment—that is a matter for our board in the fullness of time—but Woolworths, along with other Australian companies, does have wonderful intellectual property that could well play a part in Asia in the future.

**Senator SCHACHT**—Mr Corbett, I appreciate your answer on that, and I am not disagreeing about your skill in retailing and intellectual property and so on—

**Mr Corbett**—Excuse me, sir, not my skill.

**Senator SCHACHT**—The company's skill.

**Mr Corbett**—Yes.

**Senator SCHACHT**—Therefore I would ask you—and this committee has to report by the end of August or near the end of August—is it possible to get any indication of Woolworths' plans? You have given a personal view. If you are to be a purely domestic player in the marketplace in Australia, and the same with Coles and the same with Franklins,

the three majors, and only concentrate locally, the argument about capping or some other restriction to maintain a balance in the Australian market may have more strength.

If the company said, 'Well, in the national interest we're going to invest overseas. We're going to bring back export income. We're going to export our services, bring back income into Australia, help our balance of payments. Because of our network of small suppliers, we will get them and assist them in supplying goods and product which we will be selling in our supermarkets overseas. That helps our export trade, helps balance of trade,' you may then have a much stronger argument in the national interest to say that you should not be capped, should not be restricted, should not have unnecessary regulation in Australia. That is why I raise it. I think that is a good argument in your favour against making sure you have critical mass growth in Australia if it goes overseas in the national interest.

**Mr Corbett**—I am unable on behalf of Woolworths to make any predictions about what Woolworths may or may not do in the future. That will depend upon the circumstances that exist as time rolls out. But I would point out that we are not only living in a global retail environment from the point of view of the Wal-Marts and others but also now living in a global retail environment in terms of Internet shopping. Vast quantities of Australian consumers are now buying, and it will grow—

**CHAIR**—What percentage currently of home shopping is done via the Internet of supermarket style commodities?

**Mr Corbett**—At this stage a relatively small percentage but growing quite substantially. I do not think anyone knows exactly, because some of the businesses are private companies and small companies and there is not a total picture, but I think there is a significant element. It is certainly a growing element. But, of course, Woolworths is not only selling food items but selling a range of other merchandise as well, and there are very large quantities of merchandise such as fishing tackle and books and items of that nature that are already being brought into Australia via overseas retailers on the Internet. Particularly when we have GST in the future, that is going to be an issue. So it is a growing issue. Australia is facing a growing overseas environment. The fact that Aldi has come to Australia and has very bullish plans to enter the Australian marketplace clearly shows that the entry level into the Australian marketplace is not that high from their point of view.

**Senator SCHACHT**—But why shouldn't we have a bullish attitude to compete and get into the global place outside Australia? If they are bullish about coming into Australia, why aren't you and your other two majors bullish about going the other way?

**Mr Corbett**—I do not think that we are not bullish.

**Senator SCHACHT**—But you have no plans at the moment?

**Mr Corbett**—But we are equally in a position to be making, I hope, very careful assessments and judgments of the opportunities.



**CHAIR**—That sounds like a very carefully worded statement, Mr Corbett. You should be in politics, I think. I think you have been coached by somebody in the room. Senator Ferris, you have got something on corporate philanthropy.

**Senator FERRIS**—One of the recurring themes that has come up in evidence all around regional Australia in particular is the issue of corporate philanthropy. One of the comments that has been made by some of the individual storekeepers and some of the business organisations who have come before this committee has been that the major supermarkets—and I do not level this at Woolworths alone—are not corporate philanthropists or good citizens when it comes to sporting organisations and some of the charities in the smaller centres. We have had evidence in a number of towns that where the majors have been approached by representatives of charities and sporting organisations they have been repeatedly told that these requests have to go to head office and nothing is ever heard again, whereas the small, independent, locally owned supermarkets supply goods and services and, in some cases, cash to these charities and sporting organisations. What is Woolworths' policy on corporate philanthropy and, in particular, what is the policy for managers in regional Australia?

**Mr Corbett**—First of all, we have a policy that we support the children's hospital in every major city of Australia very substantially, and we direct our corporate, our staff and a whole host of activities towards that one area. The reason we do it is that those hospitals are the referral points for special medical care for people in the city as well as in the country.

**CHAIR**—What is the size of your donations?

**Mr Corbett**—For example, our Big W division has given in the order of \$1½ million to the children's hospital at Randwick, which is a referral hospital for a lot of major cases.

**CHAIR**—Over what period of time is that \$1½ million?

**Mr Corbett**—I am just a little vague here, but three or four years, somewhere in that order.

**Mr Onikul**—The supermarkets in New South Wales are supporting the new children's hospital at Westmead. Last year we donated over \$400,000 to that particular hospital. On top of that, we donated \$125,000 to other hospitals.

**Senator FERRIS**—That is all very commendable, and I am not in the least critical of it, but can you understand what it is like in a regional centre such as, let us say, Dubbo, where there are a number of sporting and charitable organisations. Some of them are branches of national organisations, such as Red Cross and so on. They do not know that Woolworths are generous donors to the hospital where their children may or may not one day be a patient. What they do know is that when they go into your supermarket they are told it has to go to Sydney and they never hear again. When the little independent is approached every day or every week, they are giving donations, and they see the big supermarkets, who are in the town taking a significant portion of the trade, as being rapacious rather than generous.

**Mr Corbett**—I think that point is absolutely valid and I think we have not made as much public about what we have done, as we should have done. I think that has led to it. Secondly, I think that the person who is a resident in a town like Dubbo becomes an identity, having lived there for all their lives, and clearly has a higher profile. Thirdly, the people that we have given money to are hardly likely to come to this committee and complain. Fourthly, I think we might not be as sensitive as we could be in some of those country towns. That is an issue we have taken from this committee and we intend to redress.

**Senator FERRIS**—Could I just ask you one final question. Would you consider giving your regional managers an appropriate budget to enable those sorts of organisations in those towns to more effectively approach Woolworths? I do not just single out Woolworths; Coles as well, and Franklins. The complaint has been made against all of them. Is there any way that your company—and I propose to ask Coles the same question—would give a line item to a regional manager so that this sort of local goodwill can be more effectively reflected in a centre?

**Mr Corbett**—First of all, our managers do have some discretion in that regard. We will formalise it more. We will take on board your suggestion. I cannot speak for Coles and Franklins, of course.

**Senator FERRIS**—I propose to ask Coles.

**Mr Corbett**—That is up to them, but we will certainly take on board your suggestion and we will, when we have reviewed this issue, write to you and tell you what we have done.

**Senator FERRIS**—Thank you.

**Mr Corbett**—And thank you for the suggestion. I think it has great validity.

**CHAIR**—I think, Senator Boswell, it is about time we heard from you.

**Senator BOSWELL**—I was down in Tasmania the other day and we were told that your Purity manager decided to go on television and say he did not like the law and he was prepared to break it. I thought, Mr Corbett, that is something that you would not have endorsed.

**Mr Corbett**—I would certainly not endorse it and any executive of Woolworths is committed to the law of the land. If we can get the incident you are referring to, we will certainly take appropriate action.

**Senator BOSWELL**—I do not want to get the gentleman into serious trouble.

**Mr Corbett**—Well, Senator, it will not make his life any easier.

**Senator BOSWELL**—But he did say that the laws on trading hours were silly and, paraphrasing it, that he was not interested in maintaining the law. I pointed out on television that Coles and Woolworths, and particularly you, are not bigger than Tasmania and not

bigger than Australia, and the parliament represents the people and that a person has no right to make that unilateral decision that he is not going to abide by the law of Tasmania. So I just said that I would mention it to you at the next opportunity.

**Mr Corbett**—Sir, by way of response, Woolworths is committed to obey the laws of the land and no-one has any authority in Woolworths to take any decision that would break the law.

**Senator BOSWELL**—Mr Corbett, we have had many discussions privately and in the committees, and you know where we are coming from. We are trying to maintain a competitive retail sector that has at least four players in it. You have advised us, and the chairman and I met the Aldi people the other day. We seem to be reaching the problem where your market share is increasing. You or Coles are not doing anything wrong, but you increase as the independents decrease. They are losing market share. Market share is reflected in their buying power and the buying power is getting less, and therefore their prices are not competitive and we go around in a circle.

If people buy the same quantities, do you believe they are entitled to the same discounts as Coles and Franklins? For instance, I do not know whether you heard the debate with Coca-Cola in here this morning, but we had them virtually say to us that if a wholesaler buys the same quantity the price will be the same. We then had one of the independent wholesalers say that that was not quite correct, that there was about a nine per cent discrepancy in the price between what Coles bought and what the independents bought. There was a bit of going around in circles there and we could not nail it completely down. Do you believe that if someone buys the same quantities in the same delivery then they are entitled to the same price?

**Mr Corbett**—The same quantity?

**Senator BOSWELL**—Quantity, yes. In other words, if Davids can buy a truckload of coke and Coles can buy a truckload of coke and Woolworths buy a truckload of coke, and that is the major buy, and when all discounts are netted out, all allowances are netted out or settlement terms netted out, in your opinion should the price be equal?

**Mr Corbett**—I do not want to equivocate in the answer to your question, but that is a difficult question to answer. In a general principle my answer is yes, but it depends on a lot of factors. It depends on the brand, the position in the brand, the marketing that you might be going to do, the space you may be going to give that product in your store. It might be having an end, it may be having an involvement in a promotional program. There are a lot of things that can affect it. Not only is it the buying price at one point in time; it is the volume over maybe a full year that also has an effect upon what is happening.

So in general principles, yes, but I must put some caveats on a whole lot of other factors that can bear upon a particular transaction. If there is any particular area that you would like to talk to us specifically about, then of course we would be happy to take that off-line and talk to you about it. We in Woolworths have nothing to hide. We buy at the best possible prices we can buy at, taking into account our distribution facilities, our volume and the

continuity of our business, our ability to be able to deliver to the supplier a strong and ongoing business.

**CHAIR**—If somebody wants to deal with another store, and they may be undercutting you, do you ever have any experience of putting pressure on suppliers not to deal with them?

**Mr Corbett**—If you are suggesting that we would say to a supplier by inference, ‘If you supply that person at that price we won’t deal with you,’ items of that nature, the answer is no. But equally, if we became aware in the marketplace of, let us say, Coles buying particularly better than us on a particular item, yes, of course we talk to the supplier.

**Senator SCHACHT**—But you do nothing of course contrary to the Trade Practices Act.

**Mr Corbett**—Naturally, Senator.

**CHAIR**—We have been given evidence of varying kinds around the place. We are just concerned about a body of evidence of pressure that occurred.

**Mr Corbett**—I have heard of one piece of evidence you were given—I have forgotten where it was—that suggested our buyers had gone to that supplier and suggested to them that they should not supply that person. I have checked with our buying office and the people who would have had the responsibility for that deal and they absolutely assure me that that has never happened, and I have good reason to believe it.

**CHAIR**—It obviously disturbs the committee when we hear things like that.

**Mr Corbett**—Sir, can I put the point that it is very easy to make comments of that nature that could be enormously damaging but without any grounds of fact.

**CHAIR**—I understand that. I understand it is easy to make allegations. The view of some members on the committee is that, while at the top of the organisation there are lots of people of integrity and so on—I am sure most of them are—individual managers can cause problems as they look to maximise their own bottom line and profit position, both in terms of buyers and in terms of those managers who have got to deal with small supermarkets nearby, and that concerns us. To what degree are those people made accountable for their actions and codes of conduct that apply to them?

**Mr Corbett**—We have very clear codes of conduct and some very detailed training in conformance with the ACCC. We have got 120,000 people in Woolworths. I know you are not suggesting that I can stand here and say all are true and lilywhite every day of the year. Of course some people must err, but they err against the company policy, and if we find out about it not only is the situation corrected but suitable disciplinary action is taken because our policies are clear on these matters.

**CHAIR**—I went and spoke to the Berry conference, of all things. It was a very pleasant conference and I was there for a day. Quite a number of people came up to me informally and said, ‘You need to know what goes on with the majors. We sign agreements with the majors for a price and then they get up to various tricks.’ You just happen to be the first

major, and it equally applies to the other two, so you are not being singled out, because the stories apply to all of them.

So the price is agreed and then they say, 'Look, something is wrong with the quality.' They tell them on the Monday, Tuesday the market is not open, Wednesday they say quite often the majors will come down and buy the product back or, alternatively, they will create an artificial glut. They say, 'Look, we're not taking any of that fruit.' By the next weekend there is a glut and they sign you up to a lower price and, lo and behold, the price goes up and they cannot share it. I was told of one case where there was a cascading of products down the east coast to lower the prices, et cetera.

The extent to which people came up to me could not have been orchestrated. They said, 'We are not going to appear before the inquiry. We are concerned because the majors are sitting up the back; they get our names and then we are finished as suppliers.' How confident are you that that doesn't occur? I know there must be cases where fruit does not meet the standards. I was speaking to a guy from the UK who said, 'Look, this happens here too, but we have bigger cooperatives to have a market power that is somewhat equal.' But the small guys are in no position to argue. Quite a few of them said, 'We are barely surviving.' I do not know what the situation is, but it is in line with the evidence we had in South Australia and other places, albeit they were careful when they came to this inquiry. I know that there are some other players here as well, but it is an issue that concerned me when I heard it.

**Mr Corbett**—Chairman, it concerns me too. I want to continue to say that I cannot say there is not anyone somewhere in the organisation who at some time errs. If they do err then we have, I hope, very clear policies and a very clear understanding of what is expected of our executives and their behaviour in marketplaces, particularly sensitive marketplaces. Peter Pokorny is here and he might like to add a comment. We spend a lot of time walking around the marketplaces and I, personally, have been with Peter out into the growing fields, as has Naum, and talked to growers first-hand. On some occasions I have made it a point of talking to growers without anyone else there.

**CHAIR**—I said to some of these people, 'I almost feel as though I would like to get you together with the majors'—yourself and the three key representatives that were here today from Franklins and Mr Williams, et cetera, and get you together with these guys and say, 'Okay, tell them the problems. Tell them what happens'—so that you can answer directly, because I do not know whether this is inspired from the top that this is the way—I suspect it is not. But it is obviously another facet of what happens in the marketplace.

**Mr Corbett**—Chairman, I suppose one of the good things that has come out from this—

**Senator SCHACHT**—You all say the perception may be greater than the actual problem, but it is a fact—what the chairman has said. I had this as a small business minister, where people would not put their hand up, would not come forward because, whether you were going to kill them or not, they believed you were. That is the real problem. When you suggest getting them together around the table they all hesitate and say, 'They will get my name and I will be got at next year or the year after, or the year after, one way or the other.'

I agree completely with the chairman that this is a thing which has to be broken down. Certainly if you want to be a quality value added country and you want to grow your horticultural industries at a quality level to be export based, et cetera, and they need your critical mass to sell to you to grow to become exporters, which we want them to do. I had the same stories when I was minister for small business—just endless. Whether they were true or not, the perception is you would kill them if they put their hands up.

**Senator BOSWELL**—Even in evidence we were given—I think it was in Queensland—and I am not sure whether it was Coles or Woolworths who would go onto a farm and say, ‘We want to run your product. It’s a loss leader. We’ve got an agreement on the price but we’re going to discount the price, so you’re going to have to cop the loss.’ The farmer would say, ‘It’s your loss leader, you cop the loss.’ The farmers would have to carry a loss or fight like crazy not to. But I have had these same experiences. Particularly what comes to mind was in Mareeba with mangoes, where people have said, ‘We sold mangoes. The price was \$15. The next day we were told the mangoes weren’t up to scratch so we’d have to give a credit.’ This is this perception out there and I intend, after this is over, to invite both you and Mr Williams out to meet these people and let them tell you their war stories directly.

**Mr Corbett**—Senator, I am grateful for your invitation and I would certainly be more than happy to come. I would like to just make a couple of observations: first of all, Chairman, there are people who do make comment and do write. There are people who have had problems and those problems have been corrected and they have gone on being very happy suppliers. I think one of the worthwhile things to come out of this committee’s work is that it has made us, the major retailers, even more sensitive to these questions than we may have been in the past.

But I would also say, sir, that I have been in this business for about four years and I can tell you that talk like this is always present. There is no place more so than the markets of Sydney and Melbourne. I walk through the markets and I talk to people and there are always deals going on and there is always a point of view, ‘I never got this’ and ‘I didn’t get that.’ It is part of the life of the community and where you do not have to very often give account of it, you only have to tell one person, he is only going to listen to your story, you are even a little bit more enthusiastic often in what you say. Peter Pokorny is responsible for this part of Woolworths business and maybe he might like to comment to the committee.

**CHAIR**—I do not think we want a long address in response because—

**Mr Corbett**—We will make it brief, sir.

**CHAIR**—we have Coles coming up.

**Mr Pokorny**—Mr Chairman, can I just talk about the berry fruit conference. It was a conference at which we also had a representative talk on that occasion. I think you met up with Barry Ross, our field services manager. That is something we are—

**CHAIR**—That is right. It reminds me that Coles would not send anybody. So that is something I shall raise with them next.

**Mr Corbett**—I think it is unfair to warn them of the questions!

**Mr Pokorny**—We certainly had a representative there because one of the things that we are very conscious of are these perceptions. It is interesting that in berry fruits we have very little direct supply relationships outside of the state of Victoria and some in South Australia—most of the berry fruit actually comes through central market supply. For some reason a perception seems to be there about us wanting to—can I say—dilute the viability of some producers. Nothing could be further from the truth. We do take the opportunity to attend such forums and very much open up the lines of communication.

**CHAIR**—How do you suggest that we try and solve that, though? We have this problem; it is one aspect of it. Perhaps somebody like an ombudsman or a centre where these claims can be thrashed through?

**Mr Pokorny**—I can only talk for the practice of Woolworths and that is to make sure that we have very open lines of communication, to make sure that we put into place objective forums where, if there is a concern or there is an issue, we can address them very rapidly. That, at times, involves also bringing in an independent auditor. If someone feels that—

**CHAIR**—They seem often terrified of you, though. Not only you but the other majors.

**Mr Corbett**—Chairman, I have been at places where people have spoken very freely and have quite major issues and we have discussed the issues there.

**CHAIR**—Surely they would speak as freely to you as to me.

**Senator BOSWELL**—They would speak more freely to you than your buyers, put it that way.

**Mr Corbett**—Yes, very much so, and that is why, Senator, I make my person available in the marketplace, walking around in the morning. Naum Onikul does it. We walk around and talk to the agents and the growers. But I appreciate that from the committee's point of view this is an issue and we would be happy to work with the committee on any appropriate solution.

**CHAIR**—As Ron says, you can tell after a while those people who are shooting the line and those people who seem to have a genuine concern; something like this guy who was forced out of business who we saw in Bundaberg and so on. You know, it is tough for them.

**Mr Corbett**—It is.

**CHAIR**—They have this ring of authenticity when they tell you these stories. It is an issue that we should look at. The final question that—

**Mr Corbett**—Chairman, may I say that if any members of the committee come across any information of that nature, if you give it to me I can undertake that that person will

never be discriminated against by Woolworths. Whatever they have to say will be treated fairly and equitably.

**CHAIR**—An example of that though, Mr Corbett, is that the organiser was having trouble getting Coles and Woolworths up to this conference because they did not want to answer questions. Eventually this guy, on the morning that I was there, agreed that they would send somebody: the state manager came up.

**Mr Corbett**—Woolworths.

**CHAIR**—Yes, Woolworths did come up—the state manager.

**Mr Pokorny**—Mr Chairman, certainly that is not my understanding. We were given a very late invitation to attend and to present—

**CHAIR**—That may be true, too.

**Mr Pokorny**—We accepted that and in fact we sent a very senior person who could speak with authority about our procurement practices and who operates above the day-to-day trading so that there was a degree of objectivity. He responded to the questions and was able to—

**CHAIR**—From where I sat coming in they said, ‘We can’t get these majors to come and talk to us. You know, there is no dialogue.’ Anyway, I accept your point. I have a final question in terms of trade. One of the things that came up in terms of cigarettes, which I know is full of different issues, is that these guys in some of the regional towns were saying, ‘We have to pay within seven days. The majors have got 90 days to pay.’ True or false?

**Mr Onikul**—I cannot answer this question, Mr Chairman, without checking facts and figures.

**CHAIR**—Surely you would have a fair idea.

**Mr Corbett**—I can tell you the terms of trade in cigarettes are very short. We hardly make any money on cigarettes and neither does anyone else.

**Mr Dunn**—It is seven days, weekly.

**CHAIR**—It is payable in seven days, is it, for you as well?

**Mr Dunn**—It is a weekly cheque for us as well.

**CHAIR**—That is very interesting.

**Senator BOSWELL**—Is there a settlement discount on that?

**Mr Dunn**—To the best of my knowledge, not on cigarettes. But that is one I would have to check.



**CHAIR**—We will be going back to Rothmans because I also asked questions this morning. One of the benefits of these inquiries is that at least they sort out the myths from the reality.

**Senator FORSHAW**—I will put a proposition to you in a different way. Throughout this inquiry we have heard anecdotal and other evidence about practices of the majors which people were concerned about, concerns about the domination of the market and so on. There were particular concerns about the slow death, or even fast death, of small businesses in country towns. You said earlier that your company has a responsibility to customers or consumers, to your employees and no doubt to your shareholders. Do you see that your company also has a responsibility to the broader community and the broader economy, particularly in trying to assist and promote the small business sector alongside the big supermarket chains?

If so, rather than concentrate and focus on all the negatives we have been putting to you, which we have been hearing over time, what corporate philosophy and positive things can you and the majors do to maintain and promote a healthy small business sector? I am picking up the points Senator Schacht made. At the end of the day that must benefit you people and must benefit the economy and the country generally.

**Mr Corbett**—Senator, that question goes to the seat of the type of corporate citizenship responsibilities we have. Let me cite a couple of things. I commented that when there is a small trader trading against us we will not deliberately undercut their prices. That is policy No. 1. Policy No. 2 is that I am not so sure that the basic premise you are making, that small businesses are going out of business, is right. I think small business across Australia is really prospering and small retail business across Australia is prospering. There are thousands of new and specialist retail businesses in Australia, right across urban and some strong regional areas, that are prospering. But in the free enterprise economy there is always an ebb and flow.

Certainly I am most sensitive, as are my colleagues, to the situation in rural Australia where there is a drop. The drop is because of the net revenues into rural Australia. Indeed, many country towns are held together because of a Woolworths or a Coles investment in that town. This keeps spending in the town. Take Dubbo and the Orana Mall, which is a vigorous shopping centre. Raymond Terrace is another example of shopping centres around Australia where there is considerable shrinkage or slippage out of that town. By that investment a lot of jobs and opportunities have been put into those towns. A lot of senior managers in Woolworths have actually started their careers in country towns.

**Senator FORSHAW**—We have been looking at the chart in terms of some of the positions.

**Mr Corbett**—It is very interesting. We have heard a lot from Mr Richardson in Tasmania. I would like to comment upon some of his testimony where he said:

The most efficient way for independents to procure, distribute and transport their goods, that is, provided they have sufficient critical mass, is by means of central warehousing and distribution centres. For the independent retail grocers this is a most efficient way of running the supply chain from the manufacturer to the consumer.

I point out to this committee that the statewide operation in Tasmania, which is the background to Mr Richardson's operation, is something that has been provided and supported by Woolworths. In fact, recently a refrigeration facility there has been put in, supported by Woolworths. Eighty per cent of the volume is supported in that distribution centre through Woolworths. Of course, the independents get the benefit of that operation. There are many examples around Australia of that participation in these distribution centres and I am particularly proud of those in Warwick and Monarto. It is reinvestment by Woolworths in country Australia.

**Senator FORSHAW**—When you start to consider putting a new store into a particular township in a regional area, do you actually try and factor in what spin-off benefits will flow to that community, as distinct from what Woolworths is going to get out of it, or is it a case of just looking at the margin?

**Mr Corbett**—No, we would always try, for example, to locate our retail facilities in the centre of the town. This is in order to reinforce the shopping facilities that are already in that town. We try to stimulate more volume in the central district of the town. That would be one of our objectives. The centre we built in central Wagga has been a colossal success and it has anchored the centre of that town. The Orana Mall was built, by planning decree, on the outside of the town. We would have much preferred to have seen that built in the centre of Dubbo, as we were able to do in Bathurst and Orange. If we can build a facility that consolidates the retail activity in the centre of those towns, we are very—

**Senator FORSHAW**—Do you have much input from the local chamber of commerce, which traditionally would represent the small businesses, or the local council? I know they would have a role in the planning process but do you actively seek their input?

**Mr Corbett**—Indeed. And I can think of several projects we have in hand at the present time where there has been protracted discussion. In one such development only last week the mayor, deputy mayor, town clerk and planners all came for a meeting to discuss what would be best for this country town. We talked for several hours about issues along the lines that you are talking of. They desperately wanted a Woolworths and Big W facility in that town because they wanted to give their residents the opportunity of the range and prices available. But they wanted to put it into the town in such a way that it reinforced the existing retailing. We worked hard to achieve that objective.

**Senator BOSWELL**—Mr Corbett, you have told us that you would not predatory price. We have been given evidence that in Ferntree Gully there is a supermarket that had an arrangement with a petrol station of 2c off a litre, which matched yours. You then increased that to 6c a litre and advertised it was only at the Ferntree Gully outlet. Would you like to comment on that?

**Mr Corbett**—I do not know about the individual example of Ferntree Gully. What I said about predatory pricing stands. But it could well be that in an area where we want to create more traffic volume in a particular store, we do offer additional discounts on petrol. This would not be against any particular petrol station but in order to build our volume in that market. Our entry into the petrol business gives us that freedom.

**Senator BOSWELL**—Yes, but isn't that contrary to what you have just said, that you would not predatory price? You were giving 2c a litre off; someone else put a proposition that they would give 2c a litre off and made an arrangement with the local service station; then you went to 6c a litre.

**Mr Corbett**—It would not be directed against them. Naum, would you like to comment on this?

**Mr Onikul**—Thank you, Roger. To my knowledge we are discounting petrol in seven or eight locations around Melbourne, so that particular activity is not confined to Ferntree Gully. There are seven or eight locations right around the metropolitan area where we offer the same discount to our consumers.

**CHAIR**—In one of the regional centres we went to guys there were going out of business. There were several service station proprietors who just went to the wall.

**Mr Corbett**—I would like to make a comment on petrol. Rural Australia has paid very high prices for its petrol, prices that have no association with the transport costs from one location to another, and certainly Woolworths has brought a competitive nature to petrol pricing in many country towns that was not there previously.

**CHAIR**—Is it being sold, though, below price? Is it being sold as a lead loss item so that it is being sold below actual cost? These guys who are in competition with you say they are having trouble surviving.

**Mr Corbett**—No, at the petrol point it is not sold below cost, but in areas where we want to stimulate sales in a particular supermarket—and Naum has just said that there are seven or so petrol stores around Melbourne—we are using petrol as an additional benefit and giving an additional discount when people shop in our store.

**Senator BOSWELL**—That is almost third-line forcing, isn't it? You are not making them buy the petrol, I suppose, in order to buy the other goods, but you have a huge advantage over the independent that has not got a service station.

**Mr Corbett**—I would suggest to you that we are also giving the customer a very significant advantage if we are able to deliver the customer the benefit and we are able to deliver customer benefits right across Australia.

**CHAIR**—It is tough, though, for these guys to survive when you have the cross-subsidy occurring.

**Senator BOSWELL**—Yes.

**CHAIR**—I think we need to wrap it up.

**Senator BOSWELL**—Can we just ask Mr Corbett why we need seven chains in Bundaberg. Bundaberg is a town of 35,000 people. I think you have put in the seventh.

**Mr NAIRN**—The sixth.

**Senator BOSWELL**—The sixth, is it?

**Mr NAIRN**—It will be six when the Woolworths store that is currently under construction is completed.

**CHAIR**—There are all these vacant shops, people are struggling to survive, and there is another one going in.

**Mr Corbett**—I think I have given evidence at the previous committee on this. Before we put a store into Bundaberg we would seek evidence from independent market assessment that we could get adequate turnover out of that store to give our return on investment and, without referring to Bundaberg in detail and the demographics, that would be the basis on which we would enter into a store in Bundaberg.

**CHAIR**—It just seemed to us difficult to understand, when the ones that were there were struggling to survive, there were lots of vacant shops, and in was going another one. Everyone, including the council, was saying, ‘Why are they doing this?’ The council was also saying, ‘It’s been zoned retail,’ and, ‘Why should they be going into it?’ Anyway, you may not be familiar with the exact case, but it was just an example of regional Australia.

I think we had better wrap it up there. In terms of the presentation, it has been very comprehensive, and it has been a very professional performance, as normal. We hope it is being taken seriously. We noticed the comments in the paper. We were a little bit disappointed in Bundaberg when your representative stood in amongst the committee and phoned home and said, ‘There’s nothing much happening in this inquiry. Just the same old conspiracy theories—nothing worth telling you about.’ We were not terribly impressed with that.

**Mr Corbett**—Neither am I, Chairman.

**CHAIR**—I am sure that you at Woolworths would not regard it this way. We have heard some pretty sad stories of people who have gone out of business. We know it is the marketplace and these things happen but, just having been through that evidence, I think it was a little bit insensitive. But thank you for today’s presentation. It was extremely good.

**Mr Corbett**—Chairman, may I say a closing word?

**CHAIR**—Yes.

**Mr Corbett**—First of all, we appreciate the courtesy that the committee and members have extended to me and my colleagues when we have talked privately and also to the committee. We take it very seriously. I disassociate myself entirely, as do my colleagues, from the comment made in Bundaberg. You have heard the comments that I have made publicly to the press, and I make them on behalf of Woolworths. We take it very seriously. We are very sympathetic to the issues that you raise and we will respond appropriately.

Next year Woolworths will invest \$500 million, half a billion dollars, into Australia. It will provide customers of Australia with service and choice and it will provide jobs, but, in doing that, we are very sensitive to how we do it. We understand that the committee's work has got quite a way to go in arriving at your conclusions and we at Woolworths are very happy to work with the committee in whatever your final solutions are and to provide any information that you may require.

**CHAIR**—You will help us put in the cap! Is that right?

**Mr Corbett**—With that caveat! Thank you.

**CHAIR**—Thank you very much.

[5.03 p.m.]

**ECK, Mr Dennis, Chief Executive Officer, Coles Myer**

**SCOTT, Mr Peter Richard, General Manager Perishable Merchandise, Coles Supermarkets**

**WILLIAMS, Mr Alan, Managing Director, Coles Supermarkets**

**ABRAHAM, Dr Darryn Ross, Senior Economist, Access Economics**

**CHAIR**—I welcome Mr Dennis Eck, Mr Alan Williams, Mr Peter Scott from Coles Myer and Dr Darryn Abraham. Maybe you are fortunate you are the last for the day in that the committee has been worn down by this stage. The committee prefers all evidence to be given in public. However, you may at any time request that your evidence be given in camera. If that is the case, you should put in a formal request to the committee and they will consider it. But I point out the Senate may at some time in the future decide to make the evidence public. I would also remind witnesses that the giving of false or misleading evidence may constitute a contempt of the parliament. The committee has before it original submissions Nos 168, 168A and 168B. Are there any alterations or additions you wish to make to the submission at this stage?

**Mr Williams**—No, none, thanks.

**CHAIR**—I now invite you to make an opening statement, at the conclusion of which we will ask questions.

**Mr Williams**—Good afternoon and thanks very much for the opportunity. I am going to give a brief introduction. We will then go on to the questions, and then I would like to make a two-minute conclusion before handing over to Dennis Eck, who will make a statement on behalf of himself and Coles Myer.

In our supplementary submission we believe that we have responded where we could to the commentary that has been made against particularly ourselves during the inquiry. At the time of going to print, we believed we had answered every comment that we could at that time. We have covered them off in general comments, and also specifically. Where we have had some rather vocal comments made against us, we have answered those in significantly more detail. In looking at those comments that have been made significantly against us, having had the opportunity to investigate them and review them, we believe in all cases we have acted legally and ethically, albeit that it has been in a very competitive market.

There are a couple of general issues that I would just like to comment on because some of these comments are consistently coming up. The first one I would like to talk about is jobs. We in Coles believe that we are offering good career prospects for our people. We have moved from a heavy reliance on casual staff four or five years ago to significantly more reliance on permanency. In fact, our casual ratios dropped from 60 per cent to a target of just under 30 per cent this current year.

We have also increased our job numbers commensurate with the market growth that we have had. Our market share has improved by 25 per cent over a five-year period. Our job numbers have actually increased by 24 per cent. But it is not just the numbers and the permanency; it is the training and the development and all of those other things that we are offering that we believe is perhaps being a little overlooked.

There have been many comments about Coles Myer and what it puts back into the local community, what it donates and what it does not donate. Last week Coles Myer donated in excess of \$7 million to the community. I accept the criticism that that is not widely publicised, and I also accept the criticism that there is a bureaucracy in place that ensures that the donations are properly accounted for, et cetera. We have already got a process in place that will alleviate that and the store managers will be given significantly more autonomy to respond to the local communities.

One of the other issues that I think has been coming up consistently has been our move into fresh foods, our move into bakery, et cetera. The first supermarket we opened in Australia was at Frankston in 1962. That store had a butcher shop, a deli, a fruit and veg shop, a florist, a snack bar, an in-house bakery and, by 1962 standards, a very extensive range of groceries. So the things that we have been doing to expand our customer offer has really been there for a long period of time.

I listened with interest to the comments that are made about the plight of the independent. From where we sit and from looking at the situation, taking on board everything that has been said over the last three or four months, and having a chance to reflect on the industry, I would suggest that one of the major issues in regard to what is going to happen to the independent grocer is to have a good look at what wholesaling and support facilities they have. I am not just talking about the moving of stock into their stores. I am talking about the real estate, planning and marketing support they need. All of those things are going to be very important if those independents are going to reverse the trend and perhaps continue to survive.

It has been rightly noted that trading hours is not in the realms of the control of this committee, but it has been an issue as far as criticism of our industry is concerned. We have responded to what the consumers have wanted and, in all cases where we have opened, the consumer response has been very strong. If you look at what has happened, for example, in Victoria—the improvement in jobs, the improvement in the overall economy—it is on record and we have covered that in our submission.

We believe that we have earned any market share increases that we have been able to attain. We do not believe that we have bought it. We believe we have looked at what the consumer was looking for and catered for it. There were discussions earlier on today about price. Price is important but range is also important, and some of our large stores now carry up to 40,000 SKUs. We offer service and convenience. Also, food health, food handling and food safety is one of the most significant concerns that consumers have.

As far as the primary producers are concerned, yes, we recognise very clearly that there are a lot of issues, there are a lot of opportunities there and there is a real opportunity for us to be far more transparent. But, in saying that, I would just like to point out to the

committee that this year we have attended over 12 industry forums. Mr Chairman, you brought the Berry conference up. Unfortunately, we only received the invitation for that three days prior to the event and we were unable to attend. But our executives have made over 2,200 field visits in the last 12 months and our alliance partners have made significantly more than that. I personally have visited approximately 25 farms and Peter Scott next to me has visited significantly more than that.

Six months ago I would have said the primary function in my job was to look after the three key stakeholders in our business, that being our customers, our suppliers and our staff. I would say, on reflection now, there is a key component that has been missed out of that, and that would be involvement with government, involvement more with the industry bodies. I guess I am serving notice that there is probably a few of you around the table that are going to see a little bit more of us than perhaps you have in the past. My first trip to Canberra was a few months ago when I went around to see each of the individual ladies and gentlemen sitting around this table. So there are some lessons we have learnt from that.

We have put a suggestion to the committee, through the chair, for the formation of a retail forum which we believe gives the suppliers, and particularly the smaller suppliers, an opportunity to be able to seek help and guidance and to really cut through some of the red tape that seems to be a major problem for them at the moment. We have also discussed internally what we can do to help, in a non-competitive way, some of the retailers out there. We are prepared, wherever we can, to offer things such as the food handling and safety procedures that we have in place and, if their wholesaler is not prepared to supply that to them, we will.

I note with interest that the Northern Territory Price Inquiry Committee was here earlier on. We offered them the services of our people and our trainers and our financial analysts, et cetera, to help that committee come forth with some of the recommendations to help solve some of the problems of those isolated communities that exist in the Northern Territory. There is a lot of detail, I believe, in our submission in regard to the various comments that have been made. With that, I would like to close my opening and throw it open for questions. Thank you.

**CHAIR**—Do you want to speak now, Mr Eck? Let Mr Eck speak now.

**Mr Eck**—I am here to represent the importance of this to Coles Myer. I state all of what we do within Coles Myer from a simple point of view and I talk within the business about that. Ultimately the quality of our business will be a reflection of the quality of the community that it is in and that, if you have a poor community, you have a poor business. That has been my experience as I have moved around the world. Five to 5½ years ago my first experience with question time in parliament was the way we were dealing with our suppliers being vigorously questioned in parliament, and we think we took that as a wake-up call. We immediately brought in a group of suppliers to talk to us about, ‘What are the things that we are doing that cause you this concern and this level of anxiety and anger?’ That was a group of 20 who said that they were quite nervous that day because they were not sure that we were not just on about shooting the messenger. What we heard that day was not very flattering and many of the people sitting at this table today were in that room. From that we took an undertaking to attempt to deal more effectively with our suppliers, whether



they be big or small, because from there we went out and brought in another 200 small suppliers and said, 'What's it like to deal with us? We must be very difficult.' What we try to do is take on board those issues.

I have read documents and have followed along with the inquiry. What I find disappointing is there does seem to be a disconnection between the intention that we set for ourselves and the belief or understanding of that intention out in the marketplace. Personally, Alan and I and the others in the business think that should spur us on to try to do better at this.

The other group that we had alienated at that time was our staff. Our staff did not necessarily think of us as a very good place to work, and that was what caused us to think about the decasualisation, adding training, adding full-time work, and attempting to develop what we call a contract for mutual benefit between our staff and ourselves that if we did well they would do well. At the end, the primary purpose of both the supplier and the employer was to get us far more engaged with people within the community and to improve our focus. It was said with pride early on that we had gone from I think it was 2,500 suppliers in dairy down to 200 or something, and we have since rebuilt that under Peter's work to where we are buying products locally where that can make sense.

The whole thing that we are trying to do is have our efforts add up and, if we focus on the community, if we focus on ourselves as people, if we focus on our suppliers, that will lead us to an outcome with our consumers that will have us growing. Many of those things did start five years ago. Since then I think the consumers have taken up our offer, and we have gone from where we were considered to be not a very good competitor in Australia to where we are now considered to be fairly rapidly growing and fairly well focused on our customers.

The final thing I would say is I think Alan has been communicating and coming back to all of the managing directors of our business and, hopefully, we can gain the insight from what we are doing here to improve our level of understanding within all of the businesses of Coles Myer. While I do not have solutions to the problems that you are dealing with, it seems to me that something that was designed to not let the pressure build up to this level again would be what would make sense because there are a lot of people with apparently a lot of pressure that they did not feel either comfortable expressing or were not expressing and we need some rapid way of eliminating that pressure in a way that is suitable to both parties. I have thought about what I would do if I were you, and you have a very difficult situation, but this pressure just cannot be allowed to be built to this level. Thank you.

**CHAIR**—We appreciate your openness and honesty, and we recognise the good intent by all the parties here. Whether it be yourselves or Woolworths, Franklins and NARGA, you are all grappling with individual market situations and we, the committee, also have to come up with solutions. With the indulgence of the committee I would ask Gary Nairn to go first as he has a dinner to speak to in a country area soon.

**Mr NAIRN**—Thanks, Mr Chairman. First of all, Mr Williams, could I ask you to respond to the claims made by COSBOA and others in relation to the jobs situation—this claim that for every job created within the large retailers 1.7 jobs are lost in small

businesses. Maybe Mr Abraham from Access Economics may be able to make some comment as well. Have you done any work on that at all?

**Mr Williams**—Yes, we have, and obviously we are in dispute on the figures. Dr Abraham has certainly done some work and it is in our submission.

**Mr NAIRN**—Was that in your—

**Mr Williams**—It was in our original submission and we have made mention of it in our supplementary submission.

**Mr NAIRN**—We have had so much to go through. I did not see that specifically addressed.

**CHAIR**—In short, could you tell us what the situation is? This goes to the core. I am sorry Senator Murray is not here. He kept talking about social failure, which relates to employment. Where do we stand? What is your view?

**Mr Williams**—What I touched briefly on in my opening address—again the figures are in here—is that our market share has increased by 25 per cent and our employment numbers have increased by 24 per cent, and that is despite the fact we have actually reduced a lot of the five-, six- and seven-hour casuals and moved them into more permanency—maybe it could be part time with 20-hour weeks, et cetera and also moved into more permanency. That is one of the things that needs to be taken into consideration here. It needs to be full-time equivalent as well. You can have one person working a 38-hour week or you can have four people working 10 hours a week. That is one of the things that we have been moving towards, to give more people a 38-hour week.

**Dr Abraham**—The figures are set out in page 1 of attachment B to the new rejoinder submission. The employment issue is one of the areas that Coles particularly asked Access to examine in the first instance; in particular, the 1:1.7 claim made by NARGA and backed up by COSBOA figures. We were unable to reproduce the COSBOA number on the basis of the published sources; that is, that their figure was based on the retail census values for small supermarkets and annual report figures for the large retailers. When you go back to the ABS numbers and look at the turnover to employee figures for small supermarkets, you will find that the figures are almost on par, virtually one job for one. In fact, it is actually slightly skewed towards one job in a small supermarket will take away just over one job in a large supermarket. The COSBOA numbers seem to have come from small speciality retailer turnover to employment, and that is not an appropriate measure in our opinion of the employment in small supermarkets. What we would expect is that, if you had an independently owned and operated supermarket of similar scale to any Coles or major chain supermarket, the level of employment to turnover would be almost on par.

**Mr Williams**—That is also supported. When there has been an acquisition, the existing staff structures, as far as the total hours worked, would be fairly close to the total hours that we believe we would want to work in that particular store for that turnover.

**CHAIR**—Before we let you off the hook on that, isn't it really a bit hard to believe that, with the economies of scale, you would not have less people to do the task and that is why you can lower your prices?

**Mr Williams**—No, I am talking about a supermarket with a similar turnover. One supermarket is doing \$200,000 a week and we have 105 staff or equivalent to 50 full-time staff to man that store. An independent doing \$200,000 a week would be very similar to what our requirement would be. There are still the same manual tasks that need to be done in a supermarket. There is still the same amount of stock that needs putting away and the transactions over the checkouts would be very similar, et cetera.

**CHAIR**—Aren't you saying also, Dr Abraham, that it is still very difficult to measure? It is not an exact science.

**Dr Abraham**—The numbers we have to work on, the best numbers we have to hand, are the 1991-92 retail census figures. I have no reason to think that the situation has changed substantially in the time since then. The structure of retailing is essentially the same as it was then and I would expect to find more or less the same result now as was then.

**Mr NAIRN**—Mr Williams, in your evidence back in April you were asked some questions about contracts with suppliers and you were asked about some of the terms and the claim that you were stringing some of your suppliers out to 30 to 90 days, and you said that you had actually had that checked and the external auditor, Price Waterhouse, had also looked at it and that you had no record of it—which is fine. How about on the other side? You heard earlier some evidence that some of the small people said that they were required to pay cash or, at best, seven days, to some suppliers whereas for the very same product from the same supplier the chains were getting 90 days. The specific example we were given last week was in relation to cigarettes where a 90-day payment deal was supposedly given. Would you like to comment on that?

**Mr Williams**—Yes. I can answer that because we made a phone call about the cigarettes. Our payment terms are 14 days on cigarettes.

**CHAIR**—So you take twice as long as Woolworths, who just said seven.

**Mr Williams**—Maybe we have got a better deal than Woolworths, I do not know.

**CHAIR**—It certainly is not 90, however.

**Mr Williams**—It is 14 days, and we checked out Coca-Cola as well and that was 30 days. Also the sell price of our 1,250 millilitre bottle of coke is actually \$1.69 in Melbourne, not \$1.30 that was mentioned here earlier.

**Mr NAIRN**—Could I ask you a similar question that I raised with Woolworths and this is the price differentials between urban and rural areas. Also in your evidence in April, in using Tasmania as an example, you talked about some of the additional operating costs and therefore, although you have a similar pricing structure, there were some additional costs that you would have to recover. Would you agree that under normal circumstances then, in more

country and remote areas, at any one time prices would be probably marginally higher than the urban areas or what sort of circumstances within your supermarkets would you have where that could be reversed?

**Mr Williams**—Using Tasmania as an example, the economies of scale in Tasmania are significantly less than we get in, say, Victoria. The volume going through our stores per store is less than we get in Victoria. That has an impact. So in Tasmania, yes, the prices of groceries are generally a little higher than they are in Melbourne. We have just been giving evidence at the Northern Territory inquiry into prices and we have been through with the committee and the various politicians the various add-ons in costs that we have in that particular territory, in particular Darwin, and that includes freight costs and higher building costs. We need more refrigeration in those areas because we only get three or four deliveries a week instead of seven deliveries a week. There are higher depreciation costs, et cetera. It costs us more to advertise, more to market that particular town than it does a larger city. They are some of the variations that we would have where the price in Darwin or the price in Tasmania would be different to the prices that we would have in, say, Victoria or New South Wales as a general rule. There would be differences by store, as each store responds to its local market to ensure that it is offering value to the customers in regard to the prices that they are charging.

**Mr NAIRN**—It would be unusual then in those sorts of locations that your prices at a particular time might be substantially less than you might be selling the same product for in Melbourne or Sydney?

**Mr Williams**—That could happen, yes.

**Mr NAIRN**—It could happen?

**Mr Williams**—Yes, it could happen. It happens from time to time.

**Mr NAIRN**—Because of a particular deal that you might get or because of the pricing of your competitor?

**Mr Williams**—It could be a myriad reasons. It could be a competitive response, it could be a glut of local product—it could be a number of things.

**Senator BOSWELL**—Mr Eck, Mr Corbett told us that there was going to be more competition coming into the market. Do you think Aldi will present more competition or can you give us a view of how their entering the market will react with Coles and Woolworths and the independents?

**Mr Eck**—I have actually gone through the experience of having all the interim market that I was working in, so I can speak fairly forthrightly about that. Typically, they will be own-label but they will be branded so that the customer will see them somewhat as branded goods. They will typically purchase from the supplier on what is called a tolling basis, which would be the cost and then anything that was added on to the raw material would be cost justified going up through the system. They are a company that has built, literally, a worldwide business based on being a very low cost producer in the basic goods.

One of the things that they might find when they come to Australia is that the typical market basket that they would need to be successful with to meet their expectations is already aggressively priced because, as I think has been indicated in the submissions, we are one of the lowest places in the world to buy basic groceries. Clearly it will have an impact, just as, if you put a ripple in a pond, the ripples will go out until it touches something. We are not terrified of them. We think if we provide the things that we think we are good at, which is good value, staff that are involved, a focus on what the customers want, we will be able to deal with that. It just points to the fact that the world has become a place that is far more borderless. If people run out of their top-line growth in one place, they have a tendency to go some place else in the world to get it. I think it is just a sign of the times, Senator.

**Senator BOSWELL**—Of course, what this committee is concerned with—and this is your first appearance—is the maintenance of a viable retail sector. We are concerned that, with the way it is going, we will be down to two players in the sector where farmers and manufacturers would not have any countervailing power. That is why I have always been concerned to be able to maintain the independent sector. Your organisation and Mr Corbett's are not only moving from groceries but trying to get into pharmacies and newsagencies and liquor and so forth. These tentacles are going out. It is a concern. It is a very large concern to a lot of people out there. They acknowledge you do a good job, but I do not think they want to see Coles and Woolworths owning the world.

**Mr Eck**—Could I just respond on the petrol issue. We elected not to go into petrol. However, in Tasmania, where petrol was introduced, we actually put together a cooperative arrangement with Mobil to the benefit of, I think, 34 independent petrol station operators in Tasmania. People who shop at a Coles store are able to get a similar discount as they would get at our competitor. Rather than enter, we actually attempted to work cooperatively with what was there. We have also, I think, been fairly forthcoming on the newsagency issue. We have not submitted an interest in that. I have indicated quite publicly that, if we were to consider chemists or pharmacies, we would do it within the same context of trying to work cooperatively within the infrastructure.

**Senator BOSWELL**—So you would not put a chemist in, you would not employ a chemist, and run it as Coles Myer?

**Mr Eck**—To date, the only things that we have done on the chemists is that we have actually approached some independent chemists and said, 'Can you still make money dispensing pharmaceuticals and, if you can, would you be interested in tying your business together with the traffic we can bring you at a Coles store or a Bi-Lo store? Can you make the same amount of money dispensing chemicals as you can selling the newsagency, the candies and the cosmetics and all of the things that have gotten into the chemist's domain?'

It was quite interesting. We tried this about 2½ years ago, thinking that it would be a natural convenience for our customers and, as you can see, we have not moved from that. But it came back that one of the things that was making it difficult was that there had been a law passed that above \$100 you could only get, I think, \$12 for a prescription, and therefore they were beginning to feel some squeeze on the margins of their pharmaceuticals. As a

result, they had a hard time pencilling a business inside of our store and we elected not to move forward with that.

At the risk of prolonging this, could I just make a comment. We changed the store in Greensborough in Victoria and I was invited to address the small business men that were in that centre. I went to the movie theatre, and there were about 100 small business people in attendance, and they had a very vigorous point of view about the changes that we wanted to make, what it did to their real estate deal and the transaction that they had entered into in good faith. I got a pretty good earful for maybe a couple of hours and, after it was over, I went out with our people and I said, 'Rather than thinking of why this isn't true, why don't we go look at what they've said and why it could be true.' What we found was, entering into a lot of that debate and a lot of that rancour, there were issues with the landlord, there were issues with franchise agreements and there were issues with placements in centres that maybe had not met the criteria. I am only using that to point out there are a number of moving and independent variables as you get into this disputation. So we actually took in a number of the franchising agreements, for example, and just busted them down to see if you could take your superannuation and invest it and have it be a good deal.

**CHAIR**—I think Harry Jenkins would like to ask a question on that.

**Mr JENKINS**—I do not want to cut across Senator Boswell's questions, but because Greensborough, which is my electorate, was mentioned I just put on the record that I appreciate the comments that have been made by Mr Eck arising out of the discussions he has had with the traders. It would appear that he has taken on board a number of the issues that were raised. It is very interesting from Coles Myer's point of view that the original boutique type Myer store was a 'failure', although some within the local community might not have thought that way but felt a bit cheated about the standard of store that had arrived. Whether the Target concept and Target Homes is going to be the winner that Coles Myer hope, I suppose, is for down the track. But certainly the way that it was perceived by the traders within the shopping centre—the change of retail mix, the change of traffic, those types of issues, which from time to time during this inquiry have been raised—are very important. You came to that conclusion after discussing it with them.

**Mr Eck**—But actually it does appear that it is going to be quite a bit more successful than Myer, maybe about half again more foot traffic to the centre, so that would have been a good change for the people within that centre.

**Mr JENKINS**—I have a number of disjointed avenues of questioning. First of all, can I ask about the basket of goods in price monitoring, whether you have one or you are like the other two majors that do it on the basis of thousands of lines.

**Mr Williams**—Basically, over a three-week period we would check all the grocery lines. We do approximately a third a week, so over that month period that gives us the opportunity to work through that. There is a list of lines, the very high volume lines, that we would be checking on a weekly basis. Sometimes we check them more frequently and, depending on what is happening in a particular area, we could be checking them daily or even hourly, depending on what the competition's situation is. As a general rule, though, we are checking Franklins, Woolworths, and Action in Western Australia, which are our major competitors.

**Mr JENKINS**—How many high volume lines might there be?

**Mr Williams**—Around about 100 that we would check on a regular basis. It could be on almost a daily basis. They are things like coca-cola, sugar, margarine, that type of merchandise.

**Mr JENKINS**—Is that a sensitive list of high volume lines? Can you provide that to the committee?

**Mr Williams**—No, absolutely not. There is what you would expect to find on it. There would be bread, bananas, coca-cola, that type of merchandise. They are what we call the image lines. They are the lines where, if you are out of court in your value offer, the customers will notice it very quickly, and if you get out of court with your prices it does not take very long for the customers to react, and they will react very quickly. They will leave you and go somewhere else.

**Mr JENKINS**—Do you have any problem with the notions that have been put about transparency of pricing between yourselves and your suppliers? When I say ‘transparency’ I mean making that type of information available to the ACCC. I am sure that if Senator Murray was here he would be pushing this notion of like terms for like customers.

**Mr Williams**—If the ACCC wants information now we would supply it to them, under the condition, of course, that it was sensitive information.

**Mr Eck**—To go back to that situation five years ago, it is interesting that the supplier was angry with us because we were not giving value for money. They thought they were giving us money and not getting consumer take-away from it. That was what we set out to resolve: to align marketing and attempt to get value for money spent.

**Mr JENKINS**—I apologise in advance that these questions are all over the place a bit, but I am trying to make them brief and short and sharp. One of the things that has intrigued me is that your local stores are perceived as if they are not part of the community, and it is not just Coles. It is almost like an ‘X File’. It is as if extraterrestrials are in there. We go into so many communities where it is consistent, and sometimes I think that everybody who works in this store is probably a member of the local community, but there is this real perception that in some way they are an extension of the office in Tooronga. Why is that so?

**Mr Williams**—It is something that I think has been really brought to the fore by this inquiry and it is something I covered very briefly in my opening introduction. We have got plans in place and have already got procedures in place to make sure that we start breaking down those barriers. But, as far as being involved in local communities, we purchase significant amounts of primary produce from many of those local rural communities, and in some communities there are far more dollars in product coming out of those areas than our turnover in our stores. We employ staff locally of course and, as is outlined in our submission, we do make some fairly significant donations and contributions to local communities, although we have always done it very quietly. We have never made a fuss about what we have been doing. We just believe that that is what we should be doing, and I

guess at the end of the day that was wrong. We certainly need to raise our profile a lot more and it is something we will be doing.

**CHAIR**—It is also something you would have heard Senator Ferris raise. It is about empowering your local manager, telling him not only to go out there and maximise your profit but to lift the profile—get involved in Rotary—and when the local footy team comes you do not say, ‘Refer it back to head office,’ and three months later they tell them, ‘Sorry, you missed out.’ I think part of this is just corporate PR and that all three majors are not aware of the profile they have got in the community.

**Mr Williams**—It is more of process. The intent is there; it is just that we need to speed the processes up. As I said, we have processes in place now and, in short, the local store managers will be empowered with guidelines to make donations.

**CHAIR**—Put it in the budget.

**Mr JENKINS**—My final question goes to the broader Coles Myer group. This inquiry has, whilst it is into the retail sector, concentrated very much on supermarkets, and then we have had to remind people from time to time that even Bi-Lo is part of the group. But it has gone a bit further and we have even had evidence about a cap of 15 per cent for the whole of the retail sector. As I understand it, Coles Myer under some calculations might already be 18 per cent. Again, if Senator Murray was here, he would probably mention that there must be truth in branding. For instance, Katies, Officeworks or other parts of your group would have to be identified as being part of Coles Myer. What is your initial response to those types of concerns that are floated?

**Mr Eck**—First of all, I take it as at least some recognition that we are on our way back. I think about three or four years when our share price was trading at about \$3.80 most people did not think that we could manage what we had. You know all that. I do not mean that to be flippant, but we have tried to make improvements in each one of the businesses. It is always following, hopefully, the same formula of focusing on the customer, the supplier and the community. The offer we make in improving it, we think, is what will make us a successful business and will continue to build it and grow it.

If you look at the issues of cross-branding, I would suspect that, given the way we report, given the way annual reports are done, we break up those businesses within the context of our reporting, so I would hope that most customers around Australia knew that if they went to Target it was owned by Coles Myer, for example. That would be the way we would look at that.

**Senator FERRIS**—I have an issue I would like to raise with you. It came up during evidence that we took in Perth, and I think, Mr Williams, you may have been present when this issue was raised. It was raised by a man in a small chain in Western Australia, Advantage Supermarkets.

**CHAIR**—I think Mr Eck knows him well.



**Senator FERRIS**—He made some quite serious allegations of what appears on the surface to be predatory pricing. Not only did he talk about how people from your store went and did price checks—and I am looking at the evidence here now—but he then said:

They then put a ticket on their shelf—last week it was the same price; this week they will apply the 4c per item—which says ‘Coles price \$1; Advantage price \$1.04.’

So having checked out his prices you would then go back to your store and not only lower the price but put a ticket on your price showing that his price was more expensive. Do you think that is fair?

**Mr Williams**—I was not in Perth when that happened, but I have certainly read Mr Gale’s comments. We have covered that off in our submission. We strongly deny that we did anything unfair or wrong.

**Senator FERRIS**—Does that mean you did not do it?

**Mr Williams**—I am not saying we did not do it; I just want to explain to you what we did. We have a strategy, as we have already discussed, in individual stores where we need to do different things to what we do across the rest of the chain to continue to offer the value we do to our consumers. Part of the processes and things we have done in Rockingham has been to counter some of the very aggressive marketing that the Advantage supermarkets do. Neville Gale and the Advantage stores are a very strong and a very fierce competitor. We have elected to compete in one way, and one of the issues that Mr Gale raised was our meat strategy. We adopted that strategy about seven or eight years ago to counter some of the additional marketing he was doing. But we have never dropped any prices to manipulate a marketing situation, and that is what I am saying we did not do.

**Senator FERRIS**—How often would it be that you would engage in that sort of—to use your words—marketing campaign where you would go to a nearby supermarket and get their prices and then go back to your store and not only run a sticker that shows what your price is but run a sticker that also shows the name of the other store and their price—in principle, I imagine, always when it is more expensive?

**Mr Williams**—That would be something that we would not be doing very often.

**Senator FERRIS**—I am pleased to hear that.

**Mr Williams**—Depending on the given week, we could have individual actions in 40 or 50 of our stores, which is about 10 per cent of the chain, because there could be opposition activities against us: refurbishments; new store openings; aggressive marketing campaigns; et cetera.

**Senator FERRIS**—In all of the evidence that we have taken around Australia, that is the only place where we have heard that. It does lead me to wonder whether you have a special policy of dealing with Mr Gale, not only in the labelling of the prices but in this quite remarkable rump steak war that he also detailed. I will not go back through it because I am sure you are aware of it.

**Mr Williams**—I saw the television—

**Senator FERRIS**—Where the price of rump steak in your stores near his was \$1 per kilo less than in all your other stores in Perth. Can you understand how he feels pretty angry about that? You advertise around Perth a certain price but, where his store is near your store, \$1 a kilo less, which is quite significant.

**Mr Williams**—It was not an advertised price. They were our standard prices where they were cheaper in those particular stores. That is a strategy that we—

**Senator FERRIS**—Doesn't it just beg the question though?

**Mr Williams**—No, it does not.

**CHAIR**—Isn't it a bit suss? You make your comment here that 'No business should ever have to apologise for being successful'—that is true—and Mr Eck talked about getting in with the local community, and I think that is fine. Why do you need to get into that situation where, if you look at the prices, they are consistent across the whole of WA and in one location where you are involved in a price war you are going out to blitz this guy?

**Mr Williams**—Hang on, 5 per cent under our normal list price is not blitzing.

**CHAIR**—But in one location—

**Mr Williams**—I have already said that Neville Gale is a very good and very aggressive operator.

**Senator FERRIS**—All I can say, Mr Williams—

**Mr Williams**—He runs a good store.

**Senator FERRIS**—is thank goodness he is, because little guys around Australia, just generally speaking, cannot take that.

**Mr Williams**—He was simply taking our business. We needed to put a—

**Senator FERRIS**—Fancy that!

**Mr Williams**—We need to put a policy in place to defend ourselves.

**Senator FERRIS**—Dear, oh dear—to the extent that you go and put his name on your shelves with his prices. That seems to me to be going further than most people would go, to have in a Coles store the name Advantage on a number of goods in your store just simply to stick it into his eye. That is the only place we had that evidence, and I must say there are not many stores that I have ever gone into in all of my life as a good shopper that I have ever seen a label in a Coles store advertising the price of the Foodland down the road.

**Senator FORSHAW**—That is because there is no point because once you are in the store it makes no difference really.

**Senator FERRIS**—It does not matter. It is just the principle of it.

**Senator FORSHAW**—No, but I mean the question is—what is the point?

**Senator FERRIS**—I am interested to know whether you have a marketing box that that belongs in and you think, ‘Right, we’ll take that tactic out in this town, this town and this town.’ How often do you use it and why do you use it?

**Mr Eck**—Senator, could I just make a comment? To my knowledge, we do not have a marketing program against an independent of that nature that is going on anywhere in Australia. In fact, we are operating under instructions within our business that, other than matching the price of the bananas of the fruiterer out the front of the door, we will not go after that person’s pricing. I cannot 100 per cent guarantee that, as I speak, there is not some violation of that going on but that is the policy that we are working under.

**Senator FERRIS**—So maybe Mr Gale is a special case.

**Mr Eck**—Mr Gale did open his store in Rockingham after the Coles store was there.

**Senator FERRIS**—Yes, but that is a change because it is usually the other way around.

**Mr Eck**—Sometimes. Remember he was also voted the store of the year within the IGA group the prior year and at that time was considered to be, by his own admission, the highest volume store in Western Australia.

**Senator FERRIS**—You are just building my case for him being a target.

**Mr Eck**—Perhaps. I do not intend to do that. I have indicated to you the policy that we have and, as far as I know, that is not allowed under our rules.

**CHAIR**—That is what we have been trying to look at and I think in discussions with you, Mr Eck, I just wonder why, for the overall corporate image, you would bother about that one store. As we said to Franklins, who I regret are not here: why do they choose to blitz a particular individual with this so that somebody ends up giving away free eggs? To build the corporate image up seems to be fine and the concept of being inclusive, having discussions with small retailers, seems to be the way to go. The all-out war against the small guys, who just do not have the resources—they do not have the discounts and leasing charges, the electricity costs, all the way through—that you guys have. That is where we end up with this type of inquiry where, instead of playing the good corporate citizen, you are out there mixing it with the small guys, and the small guys have got the ears of a lot of us—but we take your point.

**Senator FERRIS**—Because I asked you this question, I suppose it follows on in the sense about corporate philanthropy. I must say I am quite impressed by the appendix you have given me here with donations to such organisations as the chihuahua club. It poses the

question: how on earth did the chihuahua club manage to get through your head office when the local footy teams cannot? I will just say this: do you understand that it does not matter how much you might give to the Rockingham footy club if you have got this little war going on where, when shoppers go into your Coles store, they see pokes in the eye for the Advantage supermarket all down your aisles? Even if you have got 'Coles sponsored this footy team' on the back of a footy jumper—how much do you think it enhances your PR when people are now thinking very seriously about competition or the lack of it in food retailing?

**Mr Eck**—I do not think it does. As I have indicated, that situation was actually going on 5½ years ago when I got here, so—

**Senator FERRIS**—Yes, sure.

**Mr Eck**—it is a longstanding issue.

**Senator FERRIS**—I would have thought it was pretty negative for Coles, though.

**Mr Eck**—Yes, I agree.

**CHAIR**—There is evidence that we have seen that things have improved under your regime in an attempt to address these issues. Obviously it has not gone quite far enough—otherwise we would not have ended up here. As it is 6 o'clock, we had better wind up. I want to thank, in particular, the majors in terms of your involvement, your attempt to answer the key issues that you have presented to us and your willingness to come and talk to us. We appreciate that. We also appreciate the work of the ginger groups that have been represented here, for example, the Coalition Against Major Chain Dominance, and some of the interesting things they came up with. I will quote from their submission we had today:

For example, in their presentation to the Committee on Tuesday 6 April 1999, Woolworths were determined to play down the extent of their domination by quoting their market share in terms of somebody's stomach, thereby defining their share as a mere 20%.

In contrast, not four weeks later, Chief Executive Roger Corbett was reassuring his shareholders that, according to A C Nielsen packaged grocery scan data, Woolworths market share had risen from 35.1% to 35.6% in the past twelve months. (page 18, Financial Review, Wednesday 5 May 1999)

So there is a role in terms of the groups and they would not have had such an ear if there had not been problems out there in the marketplace. So I think there is a willingness of the major chains to listen to what some of the problems are. You know that this is the committee from hell. All of us wish we were elsewhere—holidaying in Bali—but solutions we have got to have. To all of you, for your contribution to that process, we want to say thank you.

**Mr Williams**—Thanks, Bruce, and can I just have one minute of indulgence. I would like to recognise the hard work and the diligence of the committee members. We have had senior executives at every hearing and we know the questioning has been vigorous and fair. We recognise that there are a lot of difficulties in how you work your recommendations up and we wish you well on it. Thanks very much for listening to us a second time.

**CHAIR**—Thanks very much, we appreciate it.

**Committee adjourned at 6.03 p.m.**

