Consumer-first supermarket reform:
The market, not government, knows how to best meet consumer demand

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1.0 Executive summary

• Consumers should be put before vested supermarket interests. Competition means more retail outlets, not less. Consumer demand should decide which outlets open, not regulator preference.

• Government policy should be designed to promote consumer-led competition, not create artificial competition and outcomes.

• Consumer-first policy justifies removing impediments to new and established retailers meeting market demands, not creating barriers in favour or against supermarkets, such as restricting shop trading hours.

• With more supermarket entrants (particularly the growth of ALDI and entry of Costco) the supermarket sector is more competitive and driving competitive pressure to cut prices.

• The expansion of private labelled goods by supermarkets is directly in response to competition driven by consumer demand.

• Government data shows consumers pay higher prices in smaller communities where non-major supermarkets operate.

• Based on the government’s own data, the absence of major supermarkets outside of capital cities can increase the price of groceries by 17 per cent.

• A 17 per cent increase could equate to a $34.68 per week rise on the average household food budget, or nearly $1,800 a year.

• The consequences of any increase would disproportionately affect lower income households who spend more of their income on food, and those in new suburbs, outer suburbs and rural and regional communities.

• The consequences of any increase would have a multiplier effect on local communities and employment levels.

• There have been efforts to regulate a competitive market in the Australian Capital Territory. Institute of Public Affairs calculations on the ACT government’s data shows these efforts place upward pressure on prices, with an increase in the mean price of an ACT basket of groceries of around $8.02 (or nearly 10 per cent higher) compared to the cheapest basket.

• Current regulation in the supermarket sector is driving unintended consequences, such as the creeping acquisition of liquor outlets.

• Australians are amongst the least loyal supermarket customers in the world with nearly 60 per cent of consumers prepared to change supermarkets for a 5 per cent price decrease.

• Current wholesale price deflation may be caused by the end of droughts and certain weather events, but retail price deflation only flows because there are competitive forces at work.
• Competition shouldn’t just drive lower prices, but also deliver goods and services that meet multiple consumer concepts of value that meet different market segments.

• There are multiple concepts of consumer value including price, experience and convenience.

• ALDI and Costco meet the demands of consumers that are price sensitive, Woolworths and Coles meet the demands of consumers seeking convenience, location and competitive prices, and IGA and convenience stores suit consumers that value long trading hours and convenience.

• The last reliable measure of market concentration of the two major supermarkets for pre-packaged groceries is around 60 per cent, but is now likely to be much lower following the strong growth of ALDI and entry of CostCo.

• Market share by the two major supermarkets decreases when they are compared against all relevant competitors and drops to 38 per cent in meat, fish and poultry, 58 per cent in liquor, 59 per cent in bread and cakes and 61 per cent in fruit and vegetables.

• Such market concentration is broadly equivalent to comparable countries in terms of population. Lower population countries have higher concentrations.

• The market share of the two major supermarkets is driven by consumer demand, as Coles and Woolworths only have broadly the equivalent number of stores to IGA and ALDI, who are quickly increasing their market presence.

• Profit margins (4 per cent) in supermarkets are low in comparison to other food retailers. Meat, fish and poultry is 4.5 per cent, Fruit and vegetables, tobacconists and specialists, and convenience stores are 5 per cent, liquor is 5.5 per cent and bread and cakes are 10 per cent.

• Much of the opposition against lower prices is driven by producerism and vested interests whose profits are enhanced when consumers pay more.

• Continual Parliamentary and government inquiries have found the sector is competitive.

Rather than seeking to regulate a competitive market governments should:

• Liberalise shop trading hours and remove remaining barriers to supermarkets meeting consumer demand.

• Refrain from regulating against supermarkets providing cheap goods in an effort to appease preferred producer interests. Doing so will lead to higher prices that disproportionately harm lower income households.

• Refrain from regulating against private labelled goods which are being provided in response to consumer demand and competition.

• Refrain from restricting expansion of any supermarket chain. Doing so would diminish competition and lead to higher prices disproportionately impacting those on lower incomes, those in new and outer suburbs and rural and regional communities.
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<td>Australian Bureau of Statistics</td>
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<td>ACCC</td>
<td>Australian Competition and Consumer Commission</td>
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<td>BITRE</td>
<td>Bureau of Infrastructure, Transport and Regional Economics</td>
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<td>CEDA</td>
<td>Committee for Economic Development of Australia</td>
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<td>CPI</td>
<td>Consumer price index</td>
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<td>Km</td>
<td>Kilometre</td>
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<td>MSC</td>
<td>Major supermarket chains</td>
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5.0 Introduction

Adam Smith’s maxim is often described as the “primacy of the consumer”. It is not, apparently, as self-evident as he believed.

Consumers win with open and competitive markets. Regulations and market restrictions boost vested interests, stop new market entrants and harm consumers.

But the recent price war between the two major supermarkets – Coles and Woolworths – shows some think otherwise. Price competition has inspired at least three parliamentary inquiries into food production and retail law.¹ Most importantly, it has underlined how the media and political system has an inbuilt and largely unquestioned bias to favour the interests of producers over consumers.

Of the 116 submissions to the 2011 inquiry into the impacts of supermarket price decisions on the dairy industry, only three were supportive of cheaper consumer prices for milk. The rest were a mixed representation of producer interests.

With nearly thirty years of macro and microeconomic reform the Australian economy is one of the most open in the developed world.

Despite problems, the Australian retail sector is generally open and competitive. High cost structures and online competition reduce the sector’s competitiveness.

One of the most competitive sectors is supermarkets. The Australian supermarket sector is regularly explained as a “duopoly” between Coles and Woolworths, and relevant subsidiaries.

Misconceptions of a “duopoly” lead to allegations one moment that the absence of competition leads to the chains gouging consumers, and then excessive competition leading to gouging primary producers. And in response politicians advocate for regulation of the sector.

The reality is quite different. Australia does have two major supermarket chains, but both face increasing competition on price from international competitors ALDI and CostCo, as well as on customer service and convenience from IGA stores. IGA stores are also seeking to compete on price.

Considering the average Australian family spends nearly 20 per cent of its income on food and alcoholic beverages, and the lion’s share goes to the two big supermarket chains, it is understandable that they come under scrutiny.²

Despite the absence of a duopoly, there is emerging enthusiasm amongst politicians and regulators to consider regulating the supermarket sector in favour of an ‘ideal’ competitive market.

Trying to regulate markets to achieve ‘ideal’ competition is fraught with difficulty. Regulations add cost and favour established interests against new market entrants. Preferential regulations advance

¹ Senate Standing Committees on Economics. 2011. “The impacts of supermarket price decisions on the dairy industry”, referred 10 February 2011; Select Committee on Australia’s Food Processing Sector, referred 24
the interests of rent seekers and can be corrupted. Only the free market properly holds companies accountable to the most deliberate and harshest critic – the consumer.

In attempting to regulate an ‘ideal’ market, politicians and regulators often ignore consumer interest, or think consumers win when a market is designed.

The best advocates for consumer interest are consumers themselves. They vote with their feet and decide market outcomes.

In a free market the number of market players and the influence they have is decided by the marketplace, not the government.

This paper explores an ‘ideal’ competitive market in the supermarket sector from the only perspective that should matter – the consumer.
6.0 The importance of competition and choice

Competition and choice are vital for any competitive market. In the supermarket sector competition is particularly important because of the high volume of sales and consumer spending that is directed through our nation’s supermarkets.

According to the recently released National Food Plan, in the 2010-11 financial year food retail sales were $130.4 billion. Expenditure at supermarket and grocery stores (excluding non-food grocery items) was $81.3 billion amounting to 62 per cent of food retailing expenditure. By comparison cafes and restaurant sales were $17.9 billion, takeaway food services sales were $14.2 billion, liquor retailing sales were $9.2 billion and other food sales were $7.8 billion.3

If the regulatory framework governing Australia’s food supply and retail markets does not favour consumers, it could have substantial negative consequences for households. As Adam Smith identified in The Wealth of Nations:

“Consumption is the sole end and purpose of all production; and the interest of the producer ought be attended to, only so far as it may be necessary for promoting that of the consumer. This maxim is so perfectly self-evident, that it would be absurd to attempt to prove it”.4

In a market exchange, consumers and producers search for partners where their interests are aligned. As producers are not compelled to sell, they search for the highest prices they can get. Consumers are not compelled to buy, so they search for the lowest prices. When a producer and consumer can negotiate a mutually agreeable price, the exchange is made.

But as Smith explained, the motives of both differ. The final goal of a producer is to consume – the profits made from production are ultimately directed towards consumption. On the other hand, no individual sees the purpose of consumption as to support the production of others; rather, they understand the purpose of their own activities in production to support their own consumption.

While in a market exchange producer and consumer interests necessarily align, that is not the case in a political environment. Public policy can favour some interests over others. Most obviously, government subsidies to firms favour some special interests over taxpayers. In housing, urban growth boundaries raise the price of houses, favouring sellers over buyers. Some policies which are intended to help consumers can have counterproductive effects. First home buyers grants superficially support buyers but, in reality, just raise the price of housing. Austrian Economist, Carl Menger, described the market economy as “a pattern of economic governance exercised by consumer preferences”.

The most important factor to ensure a marketplace prioritises the interests of consumers is that it is open and competitive. Competition occurs when private enterprises compete to provide the goods and services consumers demand. Hence, the ultimate arbiters of market outcomes in a free market are consumers. When markets are influenced by non-consumer objectives it comes at the expense of meeting consumer demand.

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Market forces occur both at the consumer and producer end. Consumers send their preferences in favour of a single retail outlet, or multiple outlets, based on their concept of value. At the producer end the number of outlets exists to provide sufficient choice to consumers based on what they demand. Not all consumers demand the same thing. Different consumers have concepts of value which can include price, branding and quality, to name a few. If a consumer market exists a producer can fill it. If a producer exits a market, or stops accommodating for it, a market opportunity exists for a new producer.

Markets are the evolution of an organic process between consumers and producers. They cannot be perfectly designed because of the information asymmetry that exists between consumers and producers. Whilst, there will always been information asymmetry between producers and consumers,. a key benefit of markets is that the gap is narrowed because the consumer expresses their will through their consumption and the producer’s interest is in understanding and meeting that demand.

Competition exists in different markets through different means. Multiple factors can influence the number of market players including the size of the market for a good or service and cost structures. Market opportunities also grow and retract. They are not stagnant.

Despite perceptions, there is no magical number of market players to achieve competition. Free markets evolve organically. Businesses are established, they buy each other out, they merge, they grow to be large and new competitors come along to provide an alternative good or service. A market can be competitive with only two or three players. It can also be competitive with thousands.

The biggest risk to a competitive market is creating artificial barriers to entry by government. Barriers to entry exist within any business. Businesses can have high upfront capital costs, labour costs and require major distribution networks. But many successful businesses can attract finance to cover those because they can establish a business case for repayment for investors. Many businesses compete by operating around assumed cost structures and find new and innovative ways to deliver goods and services at lesser cost.

Government-imposed barriers to entry do not operate in the same way.

First, government-imposed barriers to entry through taxation and regulations add cost to existing and potential new businesses alike. Adding regulatory costs make it harder for new competitors to establish operations. While some companies innovate to avoid regulatory costs their arbitrary nature means they are far more likely to be absorbed. The case study of cheaper milk (below) outlines a classic example of where consumers won with lower prices and the response of producers was to seek to use government to regulate against consumer interest.

Established businesses often like the imposition of certain taxes and regulations precisely because they unduly harm competitors or make the cost of a new competitor entering the market more difficult. The relationship is especially true for big business. Using scale big business can regularly diffuse the cost of taxes and regulations across their supply chain reducing the flow-through cost to the consumer. Small and medium businesses do not enjoy the same scale and capacity to diffuse regulatory costs across a large number of sales meaning the costs passed onto consumers is proportionately higher making them less competitive.

Second, government-imposed barriers to entry can create preferential treatment through taxes and regulation designed to stop the entry of market competitors. There have been many cases where
consumers can only been able to buy certain goods and services from a government-owned company, this has been particularly prevalent in utilities. Alternatively there are many cases when only government-approved businesses can operate and compete. To ensure there is a competitive market the number of government-imposed barriers should be minimal.

Case study 1 | Cheap milk and the dairy inquiry

The Senate inquiry into the impacts of supermarket price decisions on the dairy industry (Dairy Inquiry) was announced on 10 February 2011, just two weeks after the initial price cut by Coles. This followed a major Senate inquiry, ‘Milking it for all it's worth—competition and pricing in the Australian dairy industry’, which had tabled its report just ten months earlier.

Of the 160 submissions to the Dairy Inquiry, 157 are publicly available on the inquiry’s website. The submissions overwhelmingly opposed the price reductions: only 1.9% of respondents believed that cheap milk was beneficial.

<table>
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This striking imbalance was also reflected in the public hearings.

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<th>Inquiry participants</th>
<th>Opposed to milk price reductions</th>
<th>Supportive of milk price reductions</th>
<th>Neutral</th>
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Down the chain, milk processors condemned the price cuts. Parmalat argued that the price reduction “has the potential to destroy the Queensland and North NSW dairy industries” and “will put at risk future investment plans of both processor and farmers”.

Norco claimed Coles’ price cut would “adversely impact farmer returns, reduce processor margins, reduce consumer choice, cause significant damage to regional communities in Queensland and New South Wales and, ultimately, see the possible demise of the dairy industry.”

The bulk of the submissions came from dairy farmers themselves. They expressed concern that they would be forced to bear the brunt of the price cuts, that cost reductions would lead to an exodus out of the industry, that market consolidation would lead to corporate dominance over Australian agriculture, and that the supermarket discounting plan would ultimately lead to a shift from fresh milk to UHT long life milk. More generally, these issues were packaged up in concerns about “food security” - a belief that these trends were going to undermine the ability for Australia to feed itself.

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Similarly, governments cannot design a perfect market. A top-down perspective on regulation of any sector assumes that the power of government and regulation can tinker with individual activities and actions to achieve a more competitive market equilibrium. It is a false assumption. The best possible outcome for consumers is achieved by the market itself based on price signals sent by consumer behaviour that identify which good or service is most desired and has the highest demand. That is not the same as the one approved by government.

Government barriers are a particular risk in limiting new market entrants in the case of monopolies, or near monopolies. If a business has a monopoly and other businesses are regulated out of competing consumers will lose. But if an organic monopoly develops because a single business secures a very high share of market power it can only maintain that power for so long as it meets consumer demand. If a monopoly abuses its market power it creates opportunities for new market players to enter and provide goods and services based on what consumers want. By their nature monopolies tend to fail because they institutionally become less responsive to the demands of the marketplace.

Despite concerns about monopolies they very rarely occur and their hold on market power, except when it is endorsed by government, is short.

For example, in the past decade the world’s largest global software company, Microsoft, was regularly attacked for its monopoly power. The assumptions surrounding Microsoft were always wrong. Microsoft’s market power was driven by consumer demand. Yet despite the nature of Microsoft’s dominance, throughout the past decade the European Union, in particular, sought to undermine Microsoft’s dominance through the judicial system to direct its commercial behaviour to ensure competition. It was ineffective and did little, or nothing, to stop Microsoft’s dominance. Instead Microsoft was undermined by an open and competitive marketplace where competitors (old and new) provided goods and services that were in greater demand. Today Microsoft is considered an albatross of the software world. The Microsoft monopoly that never existed is a shadow of its former self.

An example closer to home exists in the banking sector. With the ‘four pillars’ policy of major banks the Australian banking sector has concentrated around four major banks and their sub-brands. Because these larger banks focused on city-based customers, institutional customers and businesses they ignored individual and non-city customers where branches were merged or closed. As a result Bendigo Bank identified a market opportunity left deserted by Australia’s major banks and, working with local communities, opened Bendigo community banks throughout the country. Ultimately all businesses would prefer absent competition. Competition places pressure on businesses, makes securing profits more difficult and means that they need to remain nimble to consumer demand. Competition also ensures that business has to take on different cost structures than they may otherwise prefer to by reducing profit margins through reduced prices and absorbing additional costs.

One of the great concerns around the Australian supermarket retail sector is that it is dominated by a duopoly – Coles and Woolworths. The concern, backed up by complaints from competitors, suppliers, politicians and even consumers, is that a duopoly has no reason to compete and, as a result, extracts monopoly rents from consumers through the absence of competition.

This assumption is false.
7.0 Perceptions of Australia’s supermarket sector

There is no ambiguity that, based on market share on pre-packaged goods, there is some concentration in the marketplace. But the supermarket sector is not static and the power and influence of the two major supermarkets only exists with the sanction of consumers.

However, the gift of market share from consumers has not stopped increasing criticism of the sector from commercial vested interests, politicians and regulators who argue the concentration of market share has unintended consequences for competition.

7.1 Recent business competition concerns

Business self-interest has played a key role in critiquing the supermarket sector in its current form. Current criticism only plays a part in the long continuum of criticism that comes from primary producers, manufacturers and wholesalers and retail competitors. Their criticisms are outlined in Figure 1.

Figure 1 | Criticism of the two major supermarkets and their market share

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<th>Criticism</th>
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<td>• Market share undermines their negotiating power in sales</td>
<td>• Reduces income and profits</td>
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<td>• Market share enables supermarkets to drive down prices at the farm gate</td>
<td>• Reduces income and profits</td>
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<td>• Market power is used to impose standards through the supply chain</td>
<td>• Increases business costs</td>
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<tr>
<td>Manufacturers</td>
<td>• Market power enables supermarkets to impose purchasing arrangements for private labelled goods that directly compete with their own products</td>
<td>• Reduces market share, income and profits</td>
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<td></td>
<td>• Market share undermines their negotiating power in sales</td>
<td>• Reduces income and profits</td>
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<tr>
<td></td>
<td>• Market share enables supermarkets to drive down prices through volume</td>
<td>• Reduces income and profits</td>
</tr>
<tr>
<td></td>
<td>• Market power is used to impose standards through the supply chain</td>
<td>• Increases business costs</td>
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<tr>
<td>Retail competitors</td>
<td>• Market power squeezes out competition</td>
<td>• Reduces market share, income and profits</td>
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<tr>
<td></td>
<td>• Engage in predatory pricing to shut down competitors</td>
<td>• Reduces market share, income and profits</td>
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<tr>
<td></td>
<td>• Achieve supply chain volumes making alternative business models uncompetitive on price</td>
<td>• Reduces market share, income and profits</td>
</tr>
<tr>
<td></td>
<td>• Opening large stores early in preparation for expected growth in populations</td>
<td>• Reduces market share, income and profits</td>
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<tr>
<td></td>
<td>• Buying up smaller competitors incrementally to avoid regulatory barriers</td>
<td>• Reduces market share, income and profits</td>
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</tbody>
</table>
The relevance of these arguments will be discussed throughout this paper. However, the arguments proposed come from vested interests as either suppliers or competitors of major supermarkets. Many suppliers and competitors to major supermarkets are impacted by their conduct and do lose income and profits. But those impacts only result from supermarkets seeking to provide the best value for consumers. Higher prices paid by supermarkets from primary producers and manufacturers result in higher prices for consumers. In the example of competitors attacking supermarkets for opening large stores in areas expecting population growth, The Australian’s John Durie outlines the absurdity of the criticism:

“Some small businesses complain they [the major supermarkets] abuse their market power and the latest loony-tune attack came from a group called MasterGrocers, which argues Woolies and Coles are deliberately opening huge stores in small markets to drive out competitors. Suffice it to say that’s a tough claim to prove”.

7

In the case Durie cites there is no dispute that the MasterGrocers’ members risk competitive pressure from supermarkets. But they only do so because consumers choose to shop at supermarkets and not their stores. Consumers are motivated by varying factors and the appropriate response is not to seek to limit the commercial environment of competitors, but to identify better ways to meet market demand.

Even the arguments around the influence of supermarkets in their capacity to increase standards through the supply chain can be motivated by consumer concepts of value. If consumers want goods to meet certain environmental, ethical or social standards throughout their supply chain and supermarkets only stock products that meet those standards, that influence only comes as a result of consumer demand. Problems only arise when supermarkets seek to impose standards throughout the supply chain that are not demanded by customers that do add cost. In some cases this has occurred.8

7.2 Recent political competition concerns

Political criticism of supermarkets has jumped between extremes in recent years. In the lead up to the 2007 Federal election politicians attacked the supermarket sector claiming that the rise in cost of living was, at least in part, caused by the market power of the two major supermarket chains. The Rudd opposition questioned whether there was sufficient competition to drive down prices. After his election in 2007 then Prime Minister Kevin Rudd, and his Ministers, prompted an ACCC inquiry into the supermarket sector. The over-riding conclusion of the inquiry was that there were not wide-scale problems with competition. The ACCC review found that the sector was competitive, but there were limits to price competition, including:

• “High barriers to entry and expansion, particularly in relation to difficulties in finding new sites for development.

• The limited incentives for Coles and Woolworths to compete aggressively on price.


• Limited price competition that Coles and Woolworths face from the independent sector. Independent supermarkets tend to focus on convenience and service. A key factor inhibiting price competition from the independent retailers is the wholesale prices of packaged groceries supplied by Metcash”.

Individual MPs have made similar arguments but from the perspective of suppliers to the two major supermarkets whom they represent. In particular Federal Member for Kennedy, Bob Katter, has been a regular advocate against the Coles and Woolworths ‘duopoly’ arguing that their purchasing power and market share drives down farm gate prices. As a representative of a regional electorate Katter makes these arguments principally as a representative of local industry in his electorate, but also from the perspective of the consumer and the perceived national interest.

As Katter’s criticism outlines, the arguments against supermarkets move quickly from one extreme to another. In 2007 and 2008 Kevin Rudd and his government attacked the supermarkets for not being competitive enough. Today the argument is that they are too competitive.

In 2011 the two major supermarkets launched a price war between each other over staples to attract customers. The price war was primarily started by Coles who has sought to increase its market share from Woolworths after its takeover by Wesfarmers. From 2011 Coles launched the price war by heavily discounting private label goods such as milk and other staples. Other goods discounted included “bread, toilet paper, meat, and, as of January 2012, fruit and vegies [and] in January 2012, Coles announced it would slash the price of some fresh fruit and vegetables by as much as 50%”.

The objective of the competition war is clear: attract customers through cheaper staples with the hope that they would complete their entire shop at Coles supermarkets. Coles followed up their efforts with the expansion of their FlyBuys program and the permanent discounting of a certain number of products. Woolworths has responded in-kind by matching lower prices on select staples as well as heavily discounting other goods.

Considering only five years ago the criticism against the supermarkets was absent competition, the tables have now turned. In its place politicians have attacked Coles and Woolworths because of the downstream consequences of their competition war. Arguments have ranged from lower prices being unsustainable and therefore the cost of other goods are increased, to lower prices leading to degraded products, to lower prices ultimately resulting in higher prices in the medium and long term to lower prices harming producers at the farm gate. Similar attacks are now emerging over the growth and expansion of private labelled goods because of the impact they have on manufacturers.

For example, Nationals Senator, John Williams, has been pushing for tighter regulation on supermarket chains because he fears that any short term price decrease in retail margins has longer term impacts on producers, processors and manufacturers whose profitability is lessened.

What both extremes show is that for politicians there is always political gain from treating food as a political football, but rarely do consumers come first. Despite the impact on consumers there is now

a growing movement to further regulate supermarket competition from across the political aisle.\textsuperscript{12} Only a small number of politicians are publicly willing to support consumer-interest outcomes.\textsuperscript{13}

In response to concerns around competition, politicians regularly propose policies designed to regulate a more competitive market. However, that would ultimately compromise the interests of consumers in favour of alternate interests such as producers and other retailers whose interests are not lower and more competitive prices.

While politicians, and governments, continue to have concerns about the competitiveness of the supermarket sector it’s notable that government has made it clear it does not intend to oversee competition concerns. According to the National Food Plan, “the government believes the ACCC is best placed to deal with some competition issues”.\textsuperscript{14}

The National Food Plan outlined that despite the concerns of stakeholders, “the government believes that so far there is insufficient evidence to support many of the misuse market power allegations against supermarkets”.\textsuperscript{15}

7.3 Recent regulator competition concerns

Off the back of politicians’ concerns, the primary regulator of retailers, the ACCC, has raised its own concerns about supermarket competition. While the ACCC’s 2008 report highlighted that there were no fundamental concerns around supermarket competition, the regulator is now focusing on concerns around creeping acquisitions by Coles and Woolworths of smaller retailers in groceries and liquor.

Though, in the 2008 Inquiry, the ACCC did identify the prospect of future concerns by the major supermarkets about creeping acquisitions. The report stated:

“The ACCC does not consider that acquisitions by Coles and Woolworths of smaller competitors over time are a significant current concern in the grocery retail sector. Most of the new growth by Coles and Woolworths in recent years has not come from acquisitions of independent supermarkets. Of all new store openings by Coles and Woolworths in the last two years, only 10 per cent have involved acquiring or leasing a site which was previously operating as an independent supermarket. However, that figure has been significantly higher for certain periods in the past. Although such acquisitions do not appear to be a significant current concern in the supermarket retail sector, the ACCC maintains its support for the introduction of a general creeping acquisition law. The ACCC considers that the supermarket

\textsuperscript{12} Ferguson, A. 2012. “Heat to go on grocery duopoly”. The Age. 12/06/2012.


industry, because of the particular structural features of the market, is one where creeping acquisitions are a potential area of concern”. 16

These broad concerns have now been converted into more explicit concerns. In June 2012 the head of the ACCC, Rod Sims, gave a speech to the Committee for Economic Development of Australia. In that speech Sims argued that supermarkets, in particular the two majors Woolworths and Coles, were engaging in incremental acquisitions of smaller outlets that raised competition concerns. In his speech Sims argued:

“When the major supermarket chains (MSC) acquire an independent player they remove an alternative from the market, with potentially a different product range and service offering. This reduces consumer choice as well as, for example, competition generally if the number of players in a local market were to reduce from, say, four to three much less three to two. That competition is unlikely to be replaced by either a chain or a new independent given local and/or national entry barriers”.

Sims continued:

“There is no provision in our legislation to cap market shares or to take account of previous acquisitions when reviewing the competitive effect of the next transaction – that is, there is little or no scope to consider the accumulated effect of a series of separate acquisitions over time and instead we can only consider the competitive effect of each transaction ... With a number of markets at the state/national level already being quite concentrated the ACCC is concerned to ensure that further acquisitions in local markets do not ultimately lead to retail or indeed wholesale industry structures that may adversely affect the competitiveness of these markets and reduce choice for consumers”. 17

Resulting from these concerns Sims argued:

“Either we can ignore the many current local acquisitions by Wesfarmers and Woolworths and in, say five years, see what market structure we have in key sectors. Or we can examine each local acquisition now, as best we can and within our legislation, to see if there is a substantial lessening of competition. The ACCC is choosing the latter course”. 18

Sims’ speech should not come as a surprise. Questioning the behaviour of the Australian supermarket sector has become an increasing component of the public focus of the ACCC and concerns about their market structures.\(^{19}\) Though, at least the ACCC does acknowledge that a consumer driven market does deliver dividends. Sims argued in the same speech that, “growth by the major supermarket chains has brought benefits to consumers as a result of their scale”.\(^{20}\)

In September the ACCC started acting and has threatened to block one of the major supermarket’s acquisition of land in Western Sydney.\(^{21}\)

The ACCC has also raised concerns about the growth of private labelling because of the market power it can afford supermarkets with efficient vertical integration. According to Sims, “when you’ve got a supermarket that is selling both its own products and selling the products of competing businesses, that vertical relationship is a situation that always is a concern for misuse of market power”.\(^{22}\)

Combined with the arguments put forward by politicians and suppliers to the market place, competition concerns from the ACCC compound the probabilities that government and regulators will attempt to regulate markets.


\(^{22}\) Sims, R. cited in Murphy, J. 2012. “Sims to target house brands”. Australian Financial Review. 02/08/2012.
8.0 Consumers benefit from competition

Groceries continue to play an important role in household expenditure. Food is a non-trivial part of Australian household budgets.

Supermarket price decisions can have a significant effect on household expenditures. Regulatory imposts which increase the cost of food have a concrete effect on household budgets.

Australians spend more on food per week than any other expenditure, with the exception of housing costs. Food and non-alcoholic beverages constitute 16.5 per cent of the average weekly expenditure of Australians. This is more than transport (15.6 per cent), recreation (13.1 per cent), fuel, electricity, alcohol, tobacco, clothing and footwear, and medical care and health expenses combined (15.1 per cent). It is only slightly lower than housing (18 per cent).

Figure 2 emphasises this: the average Australian household spends $204 on food a week, just slightly below the $223 Australians spend on housing.  

**Figure 2 | Average weekly household expenditure on goods and services**

![Graph showing average weekly household expenditure on goods and services](image)

Source: Australian Bureau of Statistics, Household expenditure Survey, Summary of Results, 2009-10, catalogue no 6530.0.

The importance of food as part of the weekly budget is even more obvious for lower income households. While housing costs remain the highest across all income brackets, Figure 3 illustrates that the poorest Australians spend substantially more on food and non-alcoholic beverages than those with the highest incomes.

**Figure 3 | Percentage of income spent on food and non-alcoholic beverages**

<table>
<thead>
<tr>
<th>Lowest income quintile</th>
<th>Second income quintile</th>
<th>Third income quintile</th>
<th>Fourth income quintile</th>
<th>Highest income quintile</th>
</tr>
</thead>
<tbody>
<tr>
<td>19.4</td>
<td>18.4</td>
<td>17.6</td>
<td>15.7</td>
<td>14.5</td>
</tr>
</tbody>
</table>

A Galaxy survey commissioned by the Institute of Public Affairs in March 2012 found that 22 per cent of Australians were more concerned about food prices than all the other major household expenses. The respondents most concerned about food prices were those in the lower income brackets: those who are unemployed, work part time, or self-describe as “blue collar” workers.\(^{24}\)

Many households are highly sensitive to food prices. An Australian National University Poll conducted in July 2011 found that 16 per cent of Australians sometimes or often worried that their food would run out before they had enough money to buy more. While only 8 per cent said that their food did often or sometimes run out, again there was a significant skew towards lower income households. 86 per cent of respondents who only had a primary and secondary education reported that they ran out of food.\(^{25}\)

Concerns around food prices fits within a broader trend around prices. ABS data shows that the cost of living is rising faster than inflation.\(^{26}\)

**Figure 4 | ABS CPI data – average percentage change from previous period for food and non-alcoholic beverages, alcohol & tobacco**


In recent years there has been no ambiguity around the increased price competition between the two major supermarket chains. Since the 2008 ACCC report there has been an aggressive price war between Coles and Woolworths that has resulted in grocery price deflation.

The current price war was largely started by the dramatic resurgence of Coles as an aggressive competitor following the takeover of the chain from Wesfarmers. The Coles-led aggressive competition is a deliberate attempt to increase Coles waning market share for consumer sales. Recently Coles’ Managing Director, Ian McLeod, was reported as saying, “I feel the focus on the customer has led to greater competition and given Australians a better supermarket offer than they had before, with better stores and better prices”.”

That is certainly the experience in practice. As Figure 4 shows, trend data from the Australian Bureau of Statistics (ABS) on price inflation for groceries identifies a notable decrease in price since aggressive competition has commenced. In particular, Figure 5, shows that there has been a clear trend when food and alcoholic beverages have been aggregated since the millennium and has since declined. OECD data shows that Australian grocery prices have increased by 41.3 per cent since 2000 and 18 per cent by 2004.

Similarly, Figure 5 shows that there has been notable deflation in the cost of fruits and vegetables after earlier price spikes in Australia. These earlier price spikes were largely caused by natural weather events that reduced the available supply of fresh produce.

In recent trends all categories have started to trend downward, except for alcoholic beverages. Alcohol is a relatively unique product because it is less susceptible to the environment and heavily influenced by government policy. In addition to the GST, excise taxes contribute a very large share of the final retail purchase price. These taxes do not decrease. Even with extreme competition the likely direction of CPI of alcohol is to increase.

By comparison dairy and related products have had a marked decreased from price high points in 2008/09, followed by a lesser decline in meats and seafoods. Breads and cereal prices have stabilised. As outlined earlier, fruit and vegetable prices are particularly volatile, but a rapid decline and trajectory consistent with other categories suggest there is a healthy degree of competition in the marketplace.

What’s important is to note the comparison with international data. Figure 6 shows the average direction of food prices for major comparable OECD countries. Australia stands out for average price deflation in comparison to the rest of the world. As Figure 6 shows, public concern around rising household bills in the lead up to 2008 were legitimate. At the time Australians have the fastest rising average food prices of the countries sampled. But since 2008 Australia has been overtaken by the United Kingdom and New Zealand.

The key notable and relevant trend that has occurred has been since the middle of 2011. Since then the average food prices of Canada, the United Kingdom, the United States and the average of all OECD countries has continued to rise. The notable exceptions have been Australia and New Zealand which have both seen a drop.

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Considering New Zealand’s trade exposure to the Australian market it is not surprising to see a correlating pattern. What’s noticeably different is that in New Zealand there was a short, sharp decline in the average food price around the middle of 2011 that has now stabilised. By comparison Australia’s average food price also declined at the same time and continued falling from the start of 2011 for a full four quarters until the beginning of 2012.

Australia’s average food price has since stabilised and fallen below all averages, except the United State. Australia’s average food price now sits below the average of all OECD countries – the first time since 2005.

Neither set of data confirms resolutely the influence of competition. Both sets of data correlate strongly with the end of extreme weather events that impacted on primary producers as well as
increased competition. But the fact that there has clearly been a drop in prices overall, and in almost all sectors except alcohol, indicates there is a clear trend in favour of the consumer.

Similarly, not all factors are local. As the Australia Bureau of Agriculture and Resource Economics identified in 2005 the, “Australian food industry – producers, processors and retailers alike – competes with a global food market, and so while Coles and Woolworths are actively seeking to maximise returns, they are themselves responding to wide market pressures.”

Figure 6 | Moving averages of food price indexes for select OECD countries, 2005 = 100

The report continued identifying that, “many of the recent changes evident in the industry and the developments that are now unfolding reflect this. For example, producers and processors compete in global export markets as well as with importers in the Australian domestic market.” As a

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consequence key competitors are, “forcing producers, including those in Australia, to achieve yet further productivity improvements and cost reductions in response”.\textsuperscript{32}

The key point about price deflation is that without price competition individual supermarkets needn’t cut prices from previous highs. Instead the wholesale cost could drop and they could simply extract higher profits. Only competition forces supermarkets to pass on savings to consumers because not doing so would result in loss of market-share and profitability.

Food price deflation is flowing through to retail tenancies. Supermarket land holdings are particularly unique because of the large parcel of available retail space needed in advance to establish a supermarket. Because of food price deflation hitting the margins of the major supermarkets, landlords in shopping centres are turning to newer market entrants, such as ALDI, to rent stores.\textsuperscript{33}

The importance of competition will come more to the fore in the next few years. Food price deflation is expected to end by 2013. Based on current analysis the cost of primary commodities is expected to rise in 2013 and is likely to be passed onto the consumer.\textsuperscript{34}


\textsuperscript{33} Cranston, M. 2012. “Falling grocery prices hit mall values”. Australian Financial Review. 09/05/2012.

9.0 The current state of supermarket competition

A competitive market cannot be designed by government. Even a relatively concentrated market can be part of a competitive market.

Assessing whether there is enough competition partially comes down to the metric used. If competition is based on the floor space and number of outlets then no one market player has dominance. If it is based on retail sales then Coles and Woolworths hold significant market share.

There seems little dispute that some market players do hold considerable market power. And as the ACCC’s 2008 report identified, it can be at both the retail and the wholesale end. This is partly a consequence of the nature of the retail food and processing sectors.35

Popular perception is that Australia has a supermarket duopoly and that this duopoly is controlled by two major supermarket chains – Coles (owned by Wesfarmers) and Woolworths. Data regularly cited argues that Coles and Woolworths’ market concentration is around 70 – 80 per cent combined. In December 2012 the head of the ACCC, Rod Sims, was quoted as saying, “With over 40 per cent of the supermarkets in the country in the case of Woolworths and over 30 per cent in the case of Coles – two players with over 70 per cent of the market – people can make their own view of whether its a concentrated market”.36

But this has not traditionally been the position of the ACCC.37 Such data also assumes that all products in a supermarket are essentially only available from other supermarkets.

The ACCC’s 2008 Inquiry took a different view. According to the Inquiry:

“Based on the information available to it, the ACCC’s view is that the MSCs account for between 55 per cent and 60 per cent of consumer expenditure on grocery items. Woolworths accounts for at least 30 per cent and Coles around 25 per cent. Although each of these shares of retail grocery sales are large for a single company, to say that the MSCs enjoy an 80 per cent share of grocery sales exaggerates the position of the retailers.”

Figure 7 | Market participants in the grocery industry, 2007

<table>
<thead>
<tr>
<th>Market participants</th>
<th>Turnover</th>
<th>Stores</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top 2 – Woolworths and Coles</td>
<td>78 – 79%</td>
<td>1,493 (24%)</td>
</tr>
<tr>
<td>Top 4 – Woolworths, Coles, ALDI &amp; Pick ’n Pay (Franklins)</td>
<td>80%</td>
<td>1,683 (27%)</td>
</tr>
<tr>
<td>Independent grocery banner groups – IGA, Foodworks, Ritchies</td>
<td>18.9%</td>
<td>2,140 (35%)</td>
</tr>
<tr>
<td>Other independent grocery retailers</td>
<td>1.1%</td>
<td>3,291 (53%)</td>
</tr>
</tbody>
</table>


37 IBIS World. 2012. “Supermarkets and other grocery stores in Australia: Major companies”. GS111
Interestingly, since 2008 the market has become more competitive, particularly with the entrance of ALDI and Costco. With these two new market entrants the market share of the two major supermarkets is likely to have declined.

Despite the lion’s market share of supermarket retail sales falling to Coles and Woolworths, they are not doing so because they dominate the number of physical stores. As Figure 7 outlines, based on 2007 data, Woolworths and Coles only account for around one quarter of the nation’s grocery stores. No individual sector dominates the number of grocery stores on offer.

Recent data, as outlined in Figure 8, from the Productivity Commission shows a roughly similar picture, but includes recognition of new market entrant, Costco, and the influence of non-supermarket retailers also owned by Woolworths and Wesfarmers.

**Figure 8 | Major retailers and the number of their stores**

<table>
<thead>
<tr>
<th>Firm</th>
<th>Major supermarkets</th>
<th>Alcohol retail</th>
<th>Convenience / Petrol</th>
</tr>
</thead>
<tbody>
<tr>
<td>ALDI</td>
<td>&gt;260</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Costco</td>
<td>3</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Woolworths</td>
<td>883</td>
<td>507(^b)</td>
<td>599</td>
</tr>
<tr>
<td>Coles</td>
<td>749(^a)</td>
<td>792(^b)</td>
<td>627</td>
</tr>
<tr>
<td>Metcash</td>
<td>2,065(^c)</td>
<td>N/A</td>
<td>&gt;420</td>
</tr>
</tbody>
</table>

**Notes:**

- \(^a\) Includes Bi-Lo banded stores.
- \(^b\) Excluding hotels.
- \(^c\) Includes some convenience stores.

**Source:** Productivity Commission, Coles, Woolworths and ALDI.

Figure 8 clearly outlines the significant growth of ALDI within a very short timeframe with more than 260 stores now operating across Australia, and the strong competitiveness that Metcash stores now pose to Woolworths and Coles. In fact, what Figure 7 shows, disproportionate to the number of stores, Coles and Woolworths achieve their market share based on consumer demand as they attract a disproportionate number of sales in comparison to the number of stores.

Interestingly, Metcash is having an increasing influence in the sector. Independent Grocers of Australia, or IGA, now has four major retail offerings including:

- Supa IGA – large format, full department offer and designed to compete with Woolworths and Coles.
- IGA – medium “top up” stores, selected department ranging and designed to fill market gaps where major supermarkets may not operate, and competes on geographic convenience and local identity.
- IGA X-press – Convenience format stores, targeted demographic range and designed to compete on geographic convenience and trading hours.
- IGA Marketplace – New ‘up market’ larger format supermarkets that compete on quality of produce and service. Each of these different IGA supermarket offers is designed to compete in a market segment based on an identified need. As Figure 9 outlines, the number of stores is now considerable and on par with the extent of Coles and Woolworths.

**Figure 9 | Metcash Food and Grocery retailers**

<table>
<thead>
<tr>
<th>Firm</th>
<th>Stores</th>
</tr>
</thead>
<tbody>
<tr>
<td>IGA branded</td>
<td>1,365</td>
</tr>
<tr>
<td>Foodworks stores</td>
<td>700</td>
</tr>
<tr>
<td>Lucky 7 (convenience) stores</td>
<td>420</td>
</tr>
<tr>
<td>Others</td>
<td>520</td>
</tr>
</tbody>
</table>


The extent of competition now in the sector is driving each retailer to recapitalise and invest in their offers. All chains are investing in their store offerings to ensure they are modern and meet the demands of a contemporary consumer ranging from design to product offerings.

**Figure 10 | Newly renovated ‘market format’ Coles supermarket in Southland, Victoria**

*Photographer: Tim Wilson*

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The weight of supermarket retail expenditure can partly be explained by the fact that supermarkets compete on different factors and also that consumers do buy a bulk of their groceries in one store during single visits. But Australia’s supermarket sector has some of the least loyal customers in the world,39 ensuring that market share can only be retained so long as the supermarket is competitive and responsive to consumer demand.

The lack of loyalty amongst supermarket shoppers can also be found in data from the 2008 ACCC Inquiry. According to the Inquiry, as Figure 11 outlines, customers are extremely price sensitive and nearly 60 per cent of all shoppers are very likely or somewhat likely to change supermarkets for a mere 5 per cent price difference.

**Figure 11 | Customers likely to change supermarkets for a 5 per cent price decrease**

<table>
<thead>
<tr>
<th>Likelihood</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very likely</td>
<td>26%</td>
</tr>
<tr>
<td>Somewhat likely</td>
<td>33%</td>
</tr>
<tr>
<td>Somewhat unlikely</td>
<td>15%</td>
</tr>
<tr>
<td>Definitely unlikely</td>
<td>24%</td>
</tr>
<tr>
<td>Don’t know</td>
<td>2%</td>
</tr>
</tbody>
</table>


Similarly, part of the problem with understanding supermarket competition is that they are not standalone operations. They compete against other supermarkets as well as other retail outlets that offer a portion of the goods available in a supermarket, particularly in fresh produce. As Figure 12 outlines, supermarkets dominate food retail, but they also compete against many competitors. Supermarkets compete against traditional fresh produce markets, fruit and vegetable retail stores, butchers, bakeries and convenience stores within the same product categories, as well as pre-prepared, restaurant and fast food.

**Figure 12 | Australian food retail market share, by outlet category, 2003-04**

<table>
<thead>
<tr>
<th>Retail outlet</th>
<th>Turnover AUD$m</th>
<th>Market share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supermarkets and grocery stores</td>
<td>55,136</td>
<td>62.1</td>
</tr>
<tr>
<td>Café and restaurants</td>
<td>11,634</td>
<td>13.1</td>
</tr>
<tr>
<td>Takeaway food outlets</td>
<td>8,556</td>
<td>9.6</td>
</tr>
<tr>
<td>Other food retailing</td>
<td>8,087</td>
<td>9.1</td>
</tr>
<tr>
<td>Liquor retailing</td>
<td>5,322</td>
<td>6.0</td>
</tr>
<tr>
<td>Total</td>
<td>88,735</td>
<td>100</td>
</tr>
</tbody>
</table>


As Figure 12 shows, despite having a large market share of supermarkets, once disaggregated against all competitors, the influence of the two major supermarkets declines significantly. Combined, their market share only amounts to around 60 per cent of fruit and vegetable sales, 59 per cent of bread and cakes, 58 per cent of liquor and only 38 per cent of meat, fisher and poultry.

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39 IBIS World. 2012. “Supermarkets and other grocery stores in Australia: Competitive Landscape”. GS111
At only 38 per cent of the market share consumers are clearly seeking to purchase fresh meat, fish and poultry outside of the major supermarkets.

Based on this IBIS World data the two major supermarkets’ influence is in processed foods and grocery items. Their influence in fresh food is limited.

The extent of Coles and Woolworths market share regularly leads to allegations that their influence amounts to a ‘duopoly’, and is inconsistent with the degree of competition that operates in other markets. A 2005 study by the former Australian Bureau of Agriculture and Resource Economics (ABARE) found that the range of market share achieved by Australia’s two major supermarket brands is only achieved when a larger group of supermarkets are aggregated.

The study found that, “comparable market shares (50 – 70 per cent) are typically only reached when the sales of the five largest food retailers are aggregated. For example, the five largest food retailers account for 80 per cent of total retail food sales in France, 64 per cent in the United Kingdom, 62 per cent in Germany, 58 per cent in Spain and only 32 per cent in the United States”.  

But each market has their own unique conditions and are impacted based on the urbanisation and concentration of populations, population size and regional differences. With a highly urbanised population around geographically dispersed capital cities, it is hardly surprising that companies have to take advantage of market size and efficient logistics to achieve market competitiveness and reduce costs for consumers.

The ABARE report that analysed data from differing OECD economies generally reflects the conventional wisdom of the competitiveness of the sector. But more recent data sheds light that Australia is not dissimilar to other countries. In the Productivity Commission’s 2011 review into the economic performance of the Australian retail sector the Commission identified the market, “share held by the top two and top four retailers is higher than in some countries, though overall is roughly in the middle of the range”. As Figure 14 shows the market share of the top grocery retailers in Australia is high, but roughly equivalent to Canada and not nearly as concentrated as New Zealand.

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Figure 13 | Market share by industry players, 2011

<table>
<thead>
<tr>
<th>Retail outlet</th>
<th>Fruit &amp; vegetables</th>
<th>Meat, fish &amp; poultry</th>
<th>Bread &amp; cake</th>
<th>Liquor</th>
<th>Tobacconists &amp; specialised</th>
<th>Convenience stores</th>
</tr>
</thead>
<tbody>
<tr>
<td>Woolworths</td>
<td>32.0%</td>
<td>21.2%</td>
<td>30.8%</td>
<td>37.0%</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Wesfarmers</td>
<td>29.0%</td>
<td>16.9%</td>
<td>27.7%</td>
<td>21.3%</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Combined majors</strong></td>
<td><strong>61.0%</strong></td>
<td><strong>38.1%</strong></td>
<td><strong>58.5%</strong></td>
<td><strong>58.3%</strong></td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Independent Grocers of Australia</td>
<td>2.5%</td>
<td>3.7%</td>
<td>-</td>
<td>-</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>ALDI</td>
<td>2.0%</td>
<td>2.1%</td>
<td>-</td>
<td>-</td>
<td>N/A</td>
<td>-</td>
</tr>
<tr>
<td>Lenard’s Pty Ltd</td>
<td>-</td>
<td>1.4%</td>
<td>-</td>
<td>-</td>
<td>N/A</td>
<td>-</td>
</tr>
<tr>
<td>De Costi Seafood</td>
<td>-</td>
<td>&lt;1.0%</td>
<td>-</td>
<td>-</td>
<td>N/A</td>
<td>-</td>
</tr>
<tr>
<td>Independent Brands Australia</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>17.0%</td>
<td>N/A</td>
<td>-</td>
</tr>
<tr>
<td>7-Eleven</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>N/A</td>
<td>25.0%</td>
</tr>
<tr>
<td>Night Owl</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>N/A</td>
<td>1.5%</td>
</tr>
<tr>
<td>Bakers delight</td>
<td>-</td>
<td>-</td>
<td>8.2%</td>
<td>-</td>
<td>N/A</td>
<td>-</td>
</tr>
<tr>
<td>The cheesecake shop</td>
<td>-</td>
<td>-</td>
<td>4.5%</td>
<td>-</td>
<td>N/A</td>
<td>-</td>
</tr>
<tr>
<td>Michel's Patisserie</td>
<td>-</td>
<td>-</td>
<td>4.0%</td>
<td>-</td>
<td>N/A</td>
<td>-</td>
</tr>
<tr>
<td>Don’t King Australia</td>
<td>-</td>
<td>-</td>
<td>4.0%</td>
<td>-</td>
<td>N/A</td>
<td>-</td>
</tr>
<tr>
<td>Brumby’s Bakery</td>
<td>-</td>
<td>-</td>
<td>3.8%</td>
<td>-</td>
<td>N/A</td>
<td>-</td>
</tr>
<tr>
<td>Muffin Break</td>
<td>-</td>
<td>-</td>
<td>2.5%</td>
<td>-</td>
<td>N/A</td>
<td>-</td>
</tr>
<tr>
<td>Other</td>
<td>34.5%</td>
<td>54.7%</td>
<td>14.5%</td>
<td>24.7%</td>
<td>N/A</td>
<td>73.5%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

Source: IBIS World
Figure 14 | Grocery retailing market shares, between 2005 and 2007

<table>
<thead>
<tr>
<th>Market share (%)</th>
<th>Australia</th>
<th>UK</th>
<th>Canada</th>
<th>New Zealand</th>
<th>Ireland</th>
<th>Netherlands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top 2</td>
<td>54</td>
<td>42</td>
<td>51</td>
<td>100</td>
<td>35–45</td>
<td>Around 45</td>
</tr>
<tr>
<td>3rd &amp; 4th</td>
<td>19</td>
<td>24</td>
<td>25</td>
<td>Neg.</td>
<td>15–25</td>
<td>Around 16</td>
</tr>
<tr>
<td>Top 4</td>
<td>73</td>
<td>65</td>
<td>76</td>
<td>100</td>
<td>50–70</td>
<td>Around 60</td>
</tr>
</tbody>
</table>


As the Productivity Commission states, “Market concentration alone does not provide much guidance to the competitiveness of a market. What matters more are barriers to entry and, associated with these, the extent of market contestability. There are many examples in Australia of highly concentrated markets where barriers to entry are low, exposure to international trade is high and competition is intense”.

Even with significant market share, competition is not undermined unless there is a clear case that the absence of competition is allowing businesses to abuse their market share. This is not the case. The recent National Food Plan came to this conclusion identifying, “that despite the concentration in the food retail sector, there is no evidence that market players are abusing their power.”

The evidence suggests this is the case and has been backed up by government inquiries.

Empirical data does not support the argument that there is absent competition. If there is negligible competition within the marketplace the relevant players will be able to extract high profit margins. High profit margins are attainable because the opportunities for consumers to choose alternatives are diminished and therefore providers can increase their margins without harming their market share. But the data suggests this is not occurring in the case of supermarkets.

According to IBIS World data that appears in Figure 15 the profit margins in the supermarket sector, as a share of revenue, only sits at around 4 per cent. The lion’s share of revenue goes to purchases at 75 per cent, wages at 9 per cent and depreciation on assets at another 9 per cent. Considering the volume of sales from the supermarket chains and the capacity to achieve efficiencies, a 4 per cent profit is not significant especially when compared across the food retail sector.

The same data shows all other sectors that supermarkets compete with extract equivalent or higher profit margins. Most profit margins are around 1 per cent higher, despite speciality stores not having the volume and supply chain advantages of supermarkets. The only food retail sector that enjoys a much healthier profit margin is bread and cakes doubling supermarkets and the rest of the sector at ten per cent. Though its disproportionately low purchasing costs highlight the value-add contribution that the bread and cakes retailers provide enabling them to extract higher profit margins.

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In 2008 the ACCC completed an inquiry into the state of the grocery sector. The ACCC’s *Grocery Inquiry report into the competitiveness of retail prices for standard groceries*\(^{44}\) concluded that there was not a problem with supermarket retail competition concluding, “grocery retailing is workably competitive”.\(^{45}\)

However, the ACCC did identify some principal issues, including, “high barriers to entry and expansion, particularly in relation to difficulties in finding new sites for development”, “limited price incentives for Coles and Woolworths to compete aggressively on price”, and ‘limited price competition … [because] Independent supermarkets tend to focus on convenience and service [and caused by] wholesale prices of packaged groceries”.\(^{46}\)

The most candid refutation that there are legitimate concerns surrounding competition came from the National Food Plan. According to the National Food Plan, “at this stage there is no clear demonstration of a fundamental problem with the current competition law and policy framework as

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it applies to the food industry. To date, insufficient evidence has been presented to substantiate various allegations raised in the media by some stakeholders.”

### 9.1 Growth in other retailers

While there is clearly a degree of concentration in supermarket retailers in Australia, it is also clearly driven by consumer demand. The number of non-major supermarket chains across the country is considerable. But an area that should remain under a watching brief is the emergence of new players that have not fully been considered in the retail market.

Since the publication of the 2008 ACCC report there has been a change in the marketplace that addresses many of these concerns. This point was made recently in the Federal government’s National Food Plan, which stated:

> “The retail grocery market has continued to evolve since the ACCC’s grocery report. ALDI has continued to expand and Costco has entered in three jurisdictions. These businesses have the size and supply chains in place to provide substantial and differentiated choice to consumers in some parts of Australia”.

The view of the National Food Plan was supported by the Treasury that stated in its submission:

> “International supermarket chains such as ALDI and Costco are also emerging as a new source of competition for the major supermarket chains in Australia. Further retail competition is likely to put more downward pressure on prices, foster innovation and increase consumer choice”.

On 25 January 2001 German supermarket retailer, ALDI, entered the market with a small number of stores. ALDI identified that amongst price sensitive consumers there was a market for a no-frills supermarket offering. Backed with the resources, finance and logistics of a major supermarket competitor ALDI has increased its total number of stores to more than 200 within 11 years. While data remains limited assessing ALDI’s contribution, there is no ambiguity that ALDI’s entry has placed downward pressure on prices. The entry of ALDI had a big impact on retailers that targeted price sensitive consumers, particularly Bi-Lo. By 2007 Bi-Lo had reported an annual decline in its market share of 0.2 per cent.

Similarly, the entrance of US-based multinational, Costco, has had a similar impact. Unlike ALDI which provides a no-frills alternative to Coles and Woolworths, Costco provides an alternative warehouse supermarket shopping experience. Costco also requires a membership to shop acting as

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50 IBIS World. 2012. “Supermarkets and other grocery stores in Australia: Competitive Landscape”. GS111
a modest consumer barrier to entry. Costco currently operates three stores in Canberra, Melbourne and Sydney. But it is currently looking to expand the number of stores offered with new stores in Melbourne, Sydney and Brisbane.\footnote{Fielding, Z. 2012. “Costco to expand its footprint”. Australian Financial Review. 09/07/2012.}

Based on the US experience, the entry of Costco, “has placed further pressure on industry retailers to ensure their products are competitively priced and offer value for money to budget conscious shoppers”.\footnote{IBIS World. 2012. “Supermarkets and other grocery stores in Australia: Competitive Landscape”. GS111} Costco intends to expand to 15 stores across Australia.
10.0 What do consumers want?

In purchasing products from supermarkets consumers want different product offerings. Concepts of ‘value’ depend on circumstance. For example, at 9pm on a weekday evening many consumers after a litre of milk may value convenience more than price. At 9am on a Saturday morning a family doing their weekly shopping may value price over convenience. High-income earners may place a higher premium on quality, brands or merely the feel of the store. Middle-income earners with large families may value the capacity to shop in bulk to achieve discount prices.

Traditionally value has only been considered as price. Price remains a very important factor in a consumer’s concept of value. Price is particularly important for many consumers, especially for those on lower and fixed incomes. But it is not alone.

There is conflicting data, but there may have been a decline in the contribution of food as a share of household final consumption. According to IBIS World data in 1980-81 around 15 per cent of household final consumption was spent on food. By 2010-11 it was only 10.7 per cent. However ABS data suggests it is closer to 17 per cent by 2009-10.

Contemporary factors to inform a consumer’s concept of the selection of a supermarket can include:

- Brand identity & association
- Car park access
- Convenience
- Customer service
- Individual product qualities
- Individual products for sale
- Price
- Product diversity & range
- Product quality
- Reward & loyalty schemes
- Store cleanliness
- Store design & layout
- Store furnishings
- Store location
- Store opening hours
- Store proximity to home & work
- Taste
- Tradition
- Uniqueness

And different supermarkets clearly offer different concepts of value. ALDI supermarkets only stock around 600 product lines, whereas Coles stocks nearly 30,000.

These different concepts of ‘value’ are backed up by an ACCC survey completed for its 2008 grocery inquiry report. As Figure 16 shows, the ACCC survey found that consumers ranked influencers on their concept of ‘value’ in priority, in approximate order, as food quality, price, store characteristics, availability of favourite brands, parking, range of types of products, range of brands, travel time, opening hours, fuel discounts, customer loyalty programs and then attached liquor store.

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54 Australian Bureau of Statistics, Household expenditure Survey, 2009-10, number 6530.0
55 IBIS World. 2012. “Supermarkets and other grocery stores in Australia: Competitive Landscape”. G5111
And from this data, the breakdown of priority placed on different groups based on their shopping frequency also varied. Price was the primary factor for those who are likely to do one large shop a week. Those who do multiple shops rated highest for the importance of travel time. Those that do one large shop and some smaller shops rated highest for the range of brands stocked. Parking was comparatively a lesser issue for those that did a number of small shops throughout the week. Speculatively, that result is likely to be because they are less likely to shop during peak periods, though the data does not clearly show that is the case.

Similarly, according to the survey the biggest motivator to shop at a ‘speciality store’ – generally a range specific store such as a fruit and vegetable store – was quality, followed by price and then range.56 The same survey also found nearly half of all consumers compared their prices, but the majority didn’t compare them.

Within supermarkets there’s limited publicly available data on consumer preferences. However, data collected for the Martin Review into supermarket competition in the Australian Capital Territory provides an insight into the different values that consumers place on the different major supermarket offerings. At the time Costco was not operating in the ACT and was therefore not surveyed.

As Figure 17 shows, in the ACT, Woolworths and Coles both rank highly for differing characteristics for consumer satisfaction and within the same categories:

- They have convenient trading hours.
- The offer discounts on petrol.
- They are close to home.
- The have easy parking.
- They are located where I do other shopping.

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Woolworths only secured a ranking in the top 5 was that ‘they are close to home’. Instead Coles was rated more highly that their stores were ‘clean and tidy’, though not at a level significantly different from Woolworths.

What the data appears to show is that there is no single motivator for attending a major supermarket, though the top rating categories do point towards the two major supermarkets providing a more desirable customer experience. Coles and Woolworth customers are not just price-sensitive.

By comparison, ALDI and IGA stores got their highest rankings in alternate categories. ALDI secured its strongest support from customers that:

- They have low prices.
- They are good value.
- They have easy parking.
- They have trolleys that are clean and work well.
- They are close to home.

Interestingly, ALDI secured the highest score of the survey for ‘they have low prices’ at 76 per cent, as well as the fourth highest result for ‘they are good value’ at 70 per cent. What this consumer data shows is that price-sensitive consumers are more likely to shop at ALDI because they see prices and value as a better product offering, than the alternatives. That conclusion is backed up with ALDI securing the highest scores for low fruit, vegetable and meat prices across the board.

IGA stores didn’t attract such emphatic responses, but scored its highest ranks for:

- They are close to home.
- They have easy parking.
- They have convenient trading hours.
- They are clean and tidy.
- They give good service at the checkouts.

Like with the two major supermarkets, consumers who shop at IGA are looking for a different product offering than just price. But the three highest ranking responses suggest that IGA consumers prefer convenience.

The absence of one consistent clear consumer preference between different retailers demonstrates that consumers are motivated by differing value propositions. The fact that different retailers offer different value propositions also demonstrates that the market is being generally responsive to the expectations of the consumer marketplace. They have good reason to do so.

According to surveys of Australian consumers they are some of the least loyal in the developed world who regularly change stores based on differing factors, though predominantly price. It is part of the competition strategy of supermarkets that they poach customers from different outlets because of high mobility. In fact, it is argued that the supermarket chains have “trained” consumers to be disloyal.

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57 Smith, M. 2012. “No end to this food fight”. Australian Financial Review. 24/04/2012.
**Figure 17 | Survey among store’s own shoppers in the ACT, 2009**

<table>
<thead>
<tr>
<th>Feature</th>
<th>Woolworths</th>
<th>ALDI</th>
<th>Coles</th>
<th>IGA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sample size</td>
<td>525</td>
<td>276</td>
<td>418</td>
<td>261</td>
</tr>
<tr>
<td>They have convenient trading hours</td>
<td>75%</td>
<td>31%</td>
<td>69%</td>
<td>44%</td>
</tr>
<tr>
<td>They offer discounts on petrol</td>
<td>72%</td>
<td>0%</td>
<td>64%</td>
<td>3%</td>
</tr>
<tr>
<td>They are close to home</td>
<td>68%</td>
<td>48%</td>
<td>49%</td>
<td>68%</td>
</tr>
<tr>
<td>They have easy parking</td>
<td>64%</td>
<td>55%</td>
<td>62%</td>
<td>45%</td>
</tr>
<tr>
<td>They are located where I do other shopping</td>
<td>62%</td>
<td>45%</td>
<td>56%</td>
<td>13%</td>
</tr>
<tr>
<td>They have a good range of brands</td>
<td>55%</td>
<td>9%</td>
<td>51%</td>
<td>18%</td>
</tr>
<tr>
<td>You can buy everything there</td>
<td>55%</td>
<td>6%</td>
<td>45%</td>
<td>10%</td>
</tr>
<tr>
<td>They are clean and tidy</td>
<td>51%</td>
<td>47%</td>
<td>53%</td>
<td>38%</td>
</tr>
<tr>
<td>They have a good range of homebrands</td>
<td>48%</td>
<td>27%</td>
<td>41%</td>
<td>6%</td>
</tr>
<tr>
<td>They have a good delicatessen</td>
<td>47%</td>
<td>2%</td>
<td>30%</td>
<td>9%</td>
</tr>
<tr>
<td>They have good weekly specials</td>
<td>47%</td>
<td>45%</td>
<td>44%</td>
<td>19%</td>
</tr>
<tr>
<td>They have the brands I want</td>
<td>47%</td>
<td>15%</td>
<td>43%</td>
<td>15%</td>
</tr>
<tr>
<td>They have a good range of fruits and vegetables</td>
<td>45%</td>
<td>18%</td>
<td>39%</td>
<td>12%</td>
</tr>
<tr>
<td>They are well laid out</td>
<td>44%</td>
<td>31%</td>
<td>43%</td>
<td>23%</td>
</tr>
<tr>
<td>They have a good range of packaged groceries</td>
<td>41%</td>
<td>25%</td>
<td>39%</td>
<td>14%</td>
</tr>
<tr>
<td>They are good value</td>
<td>39%</td>
<td>70%</td>
<td>36%</td>
<td>17%</td>
</tr>
<tr>
<td>They have a good range of bread and bread rolls</td>
<td>38%</td>
<td>13%</td>
<td>29%</td>
<td>10%</td>
</tr>
<tr>
<td>They have good quality fresh bread and bread rolls</td>
<td>36%</td>
<td>21%</td>
<td>24%</td>
<td>12%</td>
</tr>
<tr>
<td>They have good quality fresh meat</td>
<td>36%</td>
<td>30%</td>
<td>29%</td>
<td>16%</td>
</tr>
<tr>
<td>They have good quality fresh fruits and vegetables</td>
<td>35%</td>
<td>30%</td>
<td>27%</td>
<td>15%</td>
</tr>
<tr>
<td>They have internet shopping facilities</td>
<td>34%</td>
<td>0%</td>
<td>15%</td>
<td>0%</td>
</tr>
<tr>
<td>They provide good service at the delicatessen</td>
<td>32%</td>
<td>2%</td>
<td>22%</td>
<td>7%</td>
</tr>
<tr>
<td>The brands I buy are always in stock</td>
<td>30%</td>
<td>12%</td>
<td>28%</td>
<td>10%</td>
</tr>
<tr>
<td>They have trolleys that are clean and work well</td>
<td>30%</td>
<td>52%</td>
<td>28%</td>
<td>13%</td>
</tr>
<tr>
<td>They have low prices</td>
<td>29%</td>
<td>76%</td>
<td>26%</td>
<td>9%</td>
</tr>
<tr>
<td>They have high standards of food safety</td>
<td>29%</td>
<td>20%</td>
<td>24%</td>
<td>15%</td>
</tr>
<tr>
<td>They have friendly and helpful staff</td>
<td>29%</td>
<td>26%</td>
<td>28%</td>
<td>31%</td>
</tr>
<tr>
<td>They give good service at the checkouts</td>
<td>28%</td>
<td>38%</td>
<td>26%</td>
<td>34%</td>
</tr>
<tr>
<td>They offer good nutritional food</td>
<td>27%</td>
<td>25%</td>
<td>28%</td>
<td>17%</td>
</tr>
<tr>
<td>They have hygienically prepared food</td>
<td>26%</td>
<td>18%</td>
<td>21%</td>
<td>13%</td>
</tr>
<tr>
<td>They have good convenience food</td>
<td>24%</td>
<td>16%</td>
<td>23%</td>
<td>12%</td>
</tr>
<tr>
<td>They have good quality seafood</td>
<td>23%</td>
<td>6%</td>
<td>12%</td>
<td>3%</td>
</tr>
<tr>
<td>They have a good range of already prepared/semi-prepared meals</td>
<td>22%</td>
<td>11%</td>
<td>20%</td>
<td>5%</td>
</tr>
<tr>
<td>They are handy to work</td>
<td>21%</td>
<td>13%</td>
<td>15%</td>
<td>15%</td>
</tr>
<tr>
<td>They have low fruit and vegetable prices</td>
<td>20%</td>
<td>47%</td>
<td>20%</td>
<td>5%</td>
</tr>
<tr>
<td>They have low meat prices</td>
<td>20%</td>
<td>42%</td>
<td>21%</td>
<td>4%</td>
</tr>
<tr>
<td>They offer discounts to their shareholders</td>
<td>9%</td>
<td>1%</td>
<td>9%</td>
<td>1%</td>
</tr>
<tr>
<td>They have special discounts for regular shoppers</td>
<td>9%</td>
<td>4%</td>
<td>8%</td>
<td>2%</td>
</tr>
<tr>
<td>They offer a good range of financial services</td>
<td>6%</td>
<td>1%</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>They are a fun and entertaining place to shop</td>
<td>3%</td>
<td>6%</td>
<td>3%</td>
<td>5%</td>
</tr>
</tbody>
</table>

Legend | Top 5 responses for each outlet (bolded)

The high mobility of supermarket consumers is evidence in action that consumers are not always after the same value proposition. Consumers do seek different offerings based on external factors which could include their income, their geographic location to supermarkets at the intended time of shopping as well as the time of day.

Considering the significant market share between Coles and Woolworths the lack of supermarket loyalty adds a high degree of competitive pressure between the two retailers. If both Coles and Woolworths had reliable, predictable consumers evidence of competition would be more scarce.

In recent years that degree of competition has materialised in Coles and Woolworths both investing in their overall store appearance, branching out with new supermarket offerings – such as speciality supermarket retailer, Thomas Dux, that caters to higher quality, less price competitive groceries and fresh produce – and the current price war.

The competition from ALDI and Costco, predominantly on price, is also having an impact. The increase in the number of private labelled goods in the two major supermarkets is a direct result of the increasing influence of the non-majors, particularly ALDI, which offers a limited range of generic goods.
11.0 Consumer trends

Concepts of value vary from consumer to consumer. Some are clearly motivated by price. Others are motivated by a holistic approach to shopping. But there are broader trends driven by consumers that the market is responding to.

11.1 ‘Upmarket’ stores

While many consumers are clearly motivated by price, other factors are at play in different consumer market segments. Inner-city consumers in traditionally wealthier suburbs are seeking value propositions including upmarket brands and produce that achieves certain qualities including that it is organic, free range or complies with certain certification standards. As a result a new market has been opened for upmarket supermarket chains.

The trend was clearly started with the small chains, Macro, which were heavily modelled on the US supermarket chain, Wholefoods. Macro was bought out by Woolworths who established the Thomas Dux brand of supermarket stores. Thomas Dux currently has 11 stores around the nation. They are all located in the inner-city suburbs of Melbourne and Sydney.

Woolworths are now being followed by IGA. In May 2012 Metcash announced it would introduce IGA Marketplace. IGA marketplace is designed to target more upmarket consumers in inner-city locations starting with Sydney’s Darlinghurst. It is the intent of Metcash to open 25 IGA Marketplace stores in the inner-city of Sydney, Melbourne and Brisbane.

11.2 Convenience

There is a strong trend by consumers towards convenience retailing. It takes multiple forms. Supermarkets do not just compete against other supermarkets. They increasingly compete against other food retailers that provide consumers with convenience for their lifestyles. Supermarkets are now adapting to this trend and offering more pre-prepared meals targeting time-sensitive consumers and the rising number of single-person households.

Similarly, convenience also takes the form of goods being available at times convenient to consumers and at a convenient location. Convenience stores compete directly with consumers, but rarely on a price basis. Products sold by convenience stores are often the same as a supermarket, but with less stock and a more limited range, and at higher prices to reflect higher cost structures. Though there has been growth in the range of products available in convenience stores which now include small supermarkets. Because consumers that use convenience stores are less price-sensitive with the purchases they make the potential for profits is also considerable. According to IBIS World, “competition from supermarkets and other grocery stores will increase over 2012-13 as operators seek a larger share of the convenience market”.

11.3 Private labelling

Considering price remains an important motivator for some consumers, it is not surprising that they have responded to food price inflation over recent years by switching to cheaper product ranges. Similarly household budgets have been under strain with price increases faster than the rate of inflation.\(^{62}\)

Australian expenditure on private label goods has grown from $9.96 billion in 2008 to $19.7 billion in 2012. The increase has been reciprocated with supermarkets increasing the number of private label goods available for sale to be approximately a quarter of all stocked goods.\(^{63}\) By 2018 private label goods are expected to account for a third of all supermarket sales and be valued at $31.8 billion annually.\(^{64}\) The increase in private labelled goods is global. A Nielsen survey across 53 countries surveying 27,000 consumers found, “more than half of the respondents stated that they purchased private label goods during the economic downturn and 91 per cent believed that they would continue to do so”.\(^{65}\)

The motivation to adopt private labelling is clear. According to the Eye on Australia report, 51 per cent of Australians site, “the price of groceries” as one of their major concerns. Australian consumers clearly associate private labelling with competitive pricing, a particular concern incomes are challenged by stagnation and rising prices.

The Eye on Australia report also found that 38 per cent spend more on housebrands, 55 per cent are checking supermarket prices more often, 53 per cent are checking the weekly grocery bill more and 59 per cent believe, “that many house brands are the same as regular brands”. That belief is most strongly felt by younger Australians.\(^{66}\)

Private labelled goods packaged and branded by the supermarket chain tend to be cheaper than other retail goods stocked up supermarkets. Supermarkets have expanded their private label goods also in response to competition, particularly from ALDI that has recognised they offer a key area of competitive advantage for the relatively new entrant into supermarket retailing in a new country.\(^{67}\) Supermarkets have also expanded their private labelled goods range with private labels designed to target price sensitive consumers to private labels targeted at health conscious consumers.

According to IBIS World the introduction of private labels, “has led to supermarket price wars and intense competition across the industry ... coupled with a recessive economic climate that cause consumers to be swayed by the tides of economy and value in their grocery purchases thus fanning the fires of discounting and aggressive price competition”.\(^{68}\)

Private label goods have been a source of attention recently. Traditional manufacturers have become increasingly concerned about the presence of private labels on supermarket shelves that

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\(^{64}\) Mitchell, S. 2012. “Private-label grocery share tipped to reach 33pc”. Australian Financial Review. 19/07/2012


\(^{68}\) IBIS World. 2012. “Supermarkets and other grocery stores in Australia: Industry at a Glance”. G5111
increase competition. Their concerns are heightened even further because supermarkets are in the position to decide how products are displayed on supermarket shelves. If private labelled goods are placed prominently a supermarket chain is in a position to capture a higher share of the profit from a basket.

11.4 Loyalty schemes

Some of the most aggressive competition within the supermarket sector has come from the introduction and recent expansion of loyalty schemes. Both Coles and Woolworths have substantial reward schemes designed to attract and hold customers by offering them discounts and reward opportunities for their custom.

Considering the low level of loyalty of Australian consumers to an individual supermarket brand or store, loyalty schemes are specifically designed to increase the likelihood that consumers will keep their custom within a specific supermarket chain by channelling the ‘rewards’ they can secure through ‘points’ and other schemes which are redeemable for flights, consumables and discounts.

Coles recently sent out 8 million Flybuys membership cards to Australian households that allowed them to select a ten per cent discount from five ‘favourite’ items as well as reward redeemable points for every dollar spent. Woolworths is now responding on how to expand their everyday rewards scheme and also discount lead items in their stores.69

While not aligned to a rewards scheme, IGA supermarkets have responded with price cuts as high as 25 per cent on some items to address perceptions that they do not compete on price.70

11.5 Online shopping

Traditionally online shopping has been dominated by non-perishable consumables. But online retailing is increasingly expanding in the groceries market. Supermarkets are not the only providers of online retailers with others operating to meet market niches including speciality goods, alcohol and local Australian produce.

In its report into online shopping PriceWaterhouseCoopers & Frost Sullivan identified the trend. According to the report, “growing categories [for online shopping] include Food/Groceries and Alcohol – indicating a change within the consumer online shopping habits, where commonplace tasks such as buying groceries are increasingly being transacted through digital channels”.71

According to the ABS, in 2009 Australians spent between $19 and $24 billion online. Of that expenditure around 10 per cent was for food, groceries and alcohol. The primary justifications for shopping online were convenience, lower prices and the wider availability of goods and services.72

Online grocery shopping is growing through major supermarket channels with both of the major supermarkets now offering an online service coupled with delivery designed to suit the needs of principally time-poor consumers.
12.0 The failure of recent policies

In light of the increasing focus by competitors, the Federal government and regulators to regulate the supermarket sector recent efforts to regulate the sector are worth analysis.

12.1 GroceryChoice

Responding to rising prices the then Rudd-led Labor Opposition committed to seeking a reduction in grocery prices. The basis of the Opposition’s concern was competition between the major retailers. As a consequence the 2008 ACCC Inquiry into groceries was completed looking at competition between the major retailers. Following the Inquiry the ACCC questioned the incentives for the two major supermarket chains to compete, but identified that there were no major issues to retail competition between supermarkets.

In response to the absent conclusions for policy reform, the Rudd government announced a government website to provide aggregate data of grocery prices in regions throughout Australia in August 2008.73 The site, GroceryChoice,74 collected the data for a basket of groceries from select supermarkets throughout the nation and then aggregated the data and averaged it across geographic regions. The site did not include store-specific data.

While the GroceryChoice website initially attracted a lot of attention from the public its success in promoting competition was quickly brought into question. Without store specific data the site provided little useful information to consumers. Aggregate data for regions provided consumers with no information about which stores offered cheaper prices. The site also did not provide information that recognised the multiple preferences of consumers, including trading hours and location etc. What data the site did provide reinforced existing knowledge. The site confirmed that on price ALDI provided the cheapest products, followed by Coles and Woolworths, and IGA had the most expensive stores.

While intended to increase competition, the intention of the site was arguably illogical in the first place. Each week supermarkets spend thousands of dollars providing information to consumers on the price of groceries through catalogues to attract their custom. There is a clear incentive for them to do so. According to market research firm, IBIS World, “on average, catalogues can contribute between 20 per cent and 25 per cent sales lift”.75

These catalogues are provided to consumers in their own homes with product specific and store specific data. Importantly catalogues provide consumers with information about products that were specifically on special and attracted heavy discounts. Catalogues also provide store-specific data, not aggregate data. GroceryChoice did not provide any of this data.

The relative failure of GroceryChoice saw the government outsource management of the site in December 2008 to activist non-government organisation, CHOICE, with the support of a grant.76 By

74 The site was available at www.grocerychoice.gov.au
June 2009 the site had been closed down. At the time the Consumer Minister, Craig Emerson, claimed, “The fact is that in Australia, there are thousands of supermarkets and even more thousands of grocery items … the information requirements would have been enormous and they’re just not feasible, in my view”.  

12.2 Reform proposals in the Australian Capital Territory 

As outlined in the IPA’s June 2010 paper, *Forcing Prices Up*, in June 2009 the ACT Chief Minister, Jon Stanhope, commissioned consultant, John Martin, to complete a review of the ACT’s supermarkets policy. In his brief Martin was required to report on the adequacy of the existing policy in light of the outcome of the ACCC Inquiry, the current and future dynamics of the sector, how government can support competition in both retail and wholesale, and frameworks, policies and procedures to promote competition.

Importantly, the brief did not include policies that would result in cutting the price of grocery items, only competition.

The review concluded with fifteen recommendations about how the ACT government could address supermarket competition through policy. Many of the recommendations mirrored those made by the ACCC in its Inquiry and principally focused on how government could foster competition for both grocery retailers and wholesalers, specific recommendations of which stores could be set up in growth areas and specifically recommended that, “any form of cap on the market share of participants should be rejected”.

However, the Martin Review attracted criticism from ACCC Chairman, Graeme Samuel. Mr Samuel raised concerns that sections of the Martin Review were in conflict with the conclusions of the ACCC Inquiry and principles of the Trade Practices Act.

Following the completion of the Martin Review the ACT government released its ACT Supermarket Competition Policy Implementation Plan. According to the Implementation Plan the ACT government developed a new framework to support supermarket competition, including supporting new entrants and larger and independent full line supermarkets to operate, supporting more wholesale competition, flexibility in zoning provisions, no cap on the market share of participants, interdepartmental coordination on policy and regular industry consultation. Importantly the implementation plan included proposals for land release assessments for new supermarkets based on weighting criteria to support market outcomes.


82 Department of Land and Property Sales, 2010, “ACT Supermarket Competition Policy Implementation Plan”,
Following the release of the implementation plan on the 6th of May the ACT Chief Minister Stanhope announced the government’s first implementation response to its new supermarkets policy. As part of its announcement the ACT government decided that in:

- Kingston, a car park would be converted to develop a new Supabarn supermarket without the opportunity for any other supermarket chains to bid.
- Dickson, a large format supermarket site would be available for all players, except Woolworths, to bid for the development of a new store.
- Casey, sites would be released for an ALDI and Supabarn store.
- Amaroo, a site would be released for a large format supermarket that would be exclude Woolworths and Coles.  

The government is now in the process of implementing its proposals, and has claimed that, “importantly for Canberra shoppers there should, over time, be greater choice, lower prices and improved service”.  

It is also clear that reducing prices was also the objective of industry. Following the Chief Minister Stanhope’s supermarkets policy announcement Managing Director of Supabarn, Eric Koundouris, said, “competition means lower prices”.  

However the claims that the government’s implementation will result in lower prices is highly contestable, as evidenced in its own data.

In 2010 the ACT Treasury released data based on the cost of a 29 item supermarket basket for most ACT supermarkets. The data is provided as Figure 18. According to the ACT Treasury data the twenty cheapest baskets were all found at Coles and Woolworths stores, which are predominantly the stores locked out of bidding for new supermarket sites following the introduction of the ACT’s supermarkets Implementation Plan.

But the impact of the Implementation Plan is not to lower prices, but to increase them. Based on calculations using the ACT Treasury’s data of the mean cost of a basket of groceries for those chains entitled to bid at the Kingston, Dickson, Casey and Amaroo sites the impact of the ACT’s competition model is to:


• Require the price of groceries at these news supermarket sites to be between $6.52 and $13.45 more expensive than the cheapest ACT supermarket site.

• Increase the price of the mean ACT basket of groceries to $8.02 compared to the cheapest basket available in the ACT amounting to a mean price nearly ten per cent higher than necessary.

• Increase the price of the mean basket of groceries in the ACT by $1.05 or 1.18 per cent, adding an additional third increase on top of inflation.

The conclusions of the likely price increases by interfering in the market appear to be supported by a little known 2009 analysis by Federal government agency, the Bureau of Infrastructure, Transport and Regional Economics. Rural centres that have a Coles or Woolworths are, on average, likely to grocery prices 17 per cent lower than those that do not.86

Figure 18 | Impact of ACT Supermarkets policy on grocery prices

<table>
<thead>
<tr>
<th>Location</th>
<th>Supermarket</th>
<th>Cost of basket</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Existing ACT Treasury Sample Data</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coles</td>
<td>Central Belconnen</td>
<td>$82.32</td>
</tr>
<tr>
<td>Woolworths</td>
<td>Woden</td>
<td>$82.33</td>
</tr>
<tr>
<td>Woolworths</td>
<td>Central Belconnen</td>
<td>$82.45</td>
</tr>
<tr>
<td>Woolworths</td>
<td>Dickson</td>
<td>$82.48</td>
</tr>
<tr>
<td>Woolworths</td>
<td>Holt</td>
<td>$82.85</td>
</tr>
<tr>
<td>Woolworths</td>
<td>Gungahlin</td>
<td>$83.08</td>
</tr>
<tr>
<td>Coles</td>
<td>Jamison</td>
<td>$83.10</td>
</tr>
<tr>
<td>Woolworths</td>
<td>Weston Creek</td>
<td>$83.14</td>
</tr>
<tr>
<td>Woolworths</td>
<td>Condor</td>
<td>$83.20</td>
</tr>
<tr>
<td>Woolworths</td>
<td>Hyperdome</td>
<td>$83.27</td>
</tr>
<tr>
<td>Woolworths</td>
<td>Kambah</td>
<td>$83.81</td>
</tr>
<tr>
<td>Woolworths</td>
<td>Calwell</td>
<td>$84.33</td>
</tr>
<tr>
<td>Coles</td>
<td>Manuka</td>
<td>$84.68</td>
</tr>
<tr>
<td>Woolworths</td>
<td>Wanniassa</td>
<td>$85.03</td>
</tr>
<tr>
<td>Coles</td>
<td>Hyperdome</td>
<td>$85.15</td>
</tr>
<tr>
<td>Woolworths</td>
<td>Charnwood</td>
<td>$85.29</td>
</tr>
<tr>
<td>Coles</td>
<td>Chisholm</td>
<td>$85.40</td>
</tr>
<tr>
<td>Woolworths</td>
<td>Queanbeyan</td>
<td>$85.41</td>
</tr>
<tr>
<td>Coles</td>
<td>Gungahlin</td>
<td>$86.00</td>
</tr>
<tr>
<td>Coles</td>
<td>Woden</td>
<td>$86.14</td>
</tr>
<tr>
<td>Supabarn</td>
<td>Wanniassa</td>
<td>$88.47</td>
</tr>
<tr>
<td>Supabarn</td>
<td>Civic</td>
<td>$89.21</td>
</tr>
<tr>
<td>IGA</td>
<td>Kaleen</td>
<td>$96.82</td>
</tr>
<tr>
<td>IGA</td>
<td>Civic</td>
<td>$96.88</td>
</tr>
<tr>
<td>IGA</td>
<td>Yarralumla</td>
<td>$97.31</td>
</tr>
<tr>
<td>IGA</td>
<td>Richardson</td>
<td>$97.76</td>
</tr>
<tr>
<td>IGA</td>
<td>Fraser</td>
<td>$104.86</td>
</tr>
<tr>
<td>IGA</td>
<td>Hawker</td>
<td>$107.30</td>
</tr>
<tr>
<td>IGA</td>
<td>Waramanga</td>
<td>$110.08</td>
</tr>
<tr>
<td>IGA</td>
<td>Lyneham</td>
<td>$110.64</td>
</tr>
</tbody>
</table>

**Mean** $89.29

<table>
<thead>
<tr>
<th>Location</th>
<th>Supermarket</th>
<th>Cost of basket</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Additional Sample Data resulting from Supermarkets policy</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supabarn</td>
<td>Kingston</td>
<td>$88.84</td>
</tr>
<tr>
<td>Non-Woolworths¹</td>
<td>Dickson</td>
<td>$92.08</td>
</tr>
<tr>
<td>Supabarn and ALDI²</td>
<td>Casey</td>
<td>$88.84</td>
</tr>
<tr>
<td>Non-Woolworths and Non-Coles³</td>
<td>Amaroo</td>
<td>$95.77</td>
</tr>
</tbody>
</table>

**Mean** $91.39

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Consequences of Supermarkets policy</strong></td>
<td></td>
</tr>
<tr>
<td>Revised average⁴</td>
<td>$90.34</td>
</tr>
<tr>
<td>Difference</td>
<td>$1.05</td>
</tr>
<tr>
<td>Percentage increase⁵</td>
<td>1.18%</td>
</tr>
<tr>
<td>Inflation rate</td>
<td>2.9% – 3.0%</td>
</tr>
</tbody>
</table>

**Sources:** ACT Treasury data sourced from Kretowicz, E., 2010, "It pays to shop around for groceries", Canberra Times, Canberra, Australia, IPA Calculations and Reserve Bank of Australia

**Notes:**
1 Based on the mean price of a basket of groceries from available data for non-Woolworths stores
2 Data for ALDI is not available
3 Based on the mean price of a basket of groceries from available data for non-Woolworths and non-Coles stores
4 Mean of all supermarkets included in the table
5 Increase of the revised mean on the ACT Treasury’s mean price for a basket of groceries
13.0 Consumer first competition policy

GroceryChoice was a wasteful, but ultimately harmless, effort by the Federal government to interfere in the marketplace. The same cannot be said for the proposed ACT supermarket regulations that would lead to higher average prices for consumers. Considering the growing interest of stakeholders to have government regulate the market in their favour the unintended consequences of further regulation needs to be properly assessed.

13.1 Liberalise shop trading hours

There’s a clear trend by consumers toward convenience. The growth in online shopping and the growth of convenience shopping reflects the demands of time-poor consumers. Yet in some States shop trading hours continue to be regulated diminishing the capacity of the market to meet consumer demand. However the general trend is toward deregulation. In the 1990s the Victorian government liberalised shop trading hours against regular criticism that it would lead to negative economic consequences and decline in morality resulting in attendance at Church. In both New South Wales and Victoria there is near full market liberalisation in shop trading hours except for a few days a year.

As Figures 19 and 20 show, there is still considerable inconsistency between shop trading hours during the week and on weekends. Clearly those States that have liberalised their laws have not returned to regulated hours. More rigid trading regulations continue to operate in South Australia, Queensland and Western Australia.  

Shop trading hours sits within the domain of State governments and should not be regulated by the Federal government. Competitive federalism and policy innovation are still important considerations in policy development and delivery. However, it would be worth State governments learning from the experiences of other State governments and liberalising their trading hours accordingly, especially when they deliver unintended market consequences.

But the primary reason States should liberalise shop trading hours is because they are clearly the preference and benefit consumers. A recent report from the University of Western Australia looked specifically at WA shop trading hours and concluded:

“Consumers show a clear preference for the ability to shop outside of those hours historically allowed by government regulation [and that] in each jurisdiction that has undertaken shop trading hour reform, roughly equally divided consumer sentiment for deregulation pre-reform changes to overwhelming support post-reform. Indeed, in those few examples that exist, most notably the Australian Capital Territory, attempts to reintroduce shop trading hours regulation following previous deregulation met with overwhelming consumer opposition”.

And:

“Shop trading hours deregulation best accords with an approach that respects economic and personal freedom, including the freedom to choose without unnecessary government restraint or distortion”.  

88 Atkins, T. 2011. “Shop Trading Hours in Western Australia: A research report: A legal, social and economic analysis of the regulation of shop trading hours in Western Australia”. Faculty of Law, The University of Western Australia. At http://www.law.uwa.edu.au/research/ccr/?a=1903423.
Figure 19 | The inconsistency of weekly shop trading hours across the States

<table>
<thead>
<tr>
<th>State</th>
<th>Monday to Saturday</th>
<th>Sunday</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSW</td>
<td>Unrestricted</td>
<td>Unrestricted</td>
</tr>
</tbody>
</table>
| QLD   | Independent retail shops: unrestricted
                   Non-exempt stores: Monday to Friday 8am to 9pm & Saturday 8am to 5pm | Independent retail shops: Unrestricted
                   Non-exempt shops: Generally prohibited (except by hardware stores and building supply shops or in areas where a Trading Hours Order is in place)
                   Trading Hours Orders: A number of Trading Hours Orders have been issued by the Queensland Industrial Relations Commission to provide for Sunday trading. Such orders have been issued primarily in popular tourist areas |
| SA    | Greater Adelaide Shopping District: Monday to Friday until 9pm & Saturday until 5pm
                   Boat shops and car yards: Monday to Wednesday until 6pm, Thursday and Friday until 9pm & Saturday until 5pm
                   Proclaimed Shopping Districts: Monday to Wednesday and Friday until 6pm, Thursday until 9pm & Saturday until 5pm | Greater Adelaide Shopping District: 11am and 5pm
                   Boat shops and car yards: Prohibited
                   Proclaimed Shopping Districts: Generally prohibited (shops selling hardware and building materials, furniture, floor coverings or motor vehicle parts and accessories may open between 9am to 5pm but only if the sale of these goods is 80 per cent or more of the aggregate price of all goods sold at the shop during that period) |
| TAS   | Unrestricted       | Unrestricted |
| VIC   | Unrestricted       | Unrestricted |
| WA    | Small Retail Shops: Unrestricted
                   Special Retail Shops: may trade between Monday to Saturday 6am and 11.30pm (with restrictions on the types of goods sold)
                   Filling Stations: hours unrestricted (with restrictions on the types of goods sold)
                   General Retail Shops: Monday to Friday 8am to 9pm & Saturday 8am to 5pm
                   Motor vehicle shops: Monday, Tuesday, Thursday and Friday 8am to 6pm, Wednesday 8am to 9pm & Saturday 8am to 1pm | Small Retail Shops: Unrestricted
                   Special Retail Shops: 6am and 11.30pm (with restrictions on the types of goods sold)
                   Filling Stations: Hours unrestricted (with restrictions on the types of goods sold)
                   General Retail Shops: Prohibited (unless in a Special Trading Precinct)
                   Motor vehicle shops: Prohibited
                   General Retail Shops in Special Trading Precincts: 11am to 5pm |
| ACT   | Unrestricted       | Unrestricted |
| NT    | Unrestricted       | Unrestricted |

Figure 20 | The inconsistency of Easter shop trading hours across the States

<table>
<thead>
<tr>
<th>State/Territory</th>
<th>Good Friday</th>
<th>Easter Saturday</th>
<th>Easter Sunday</th>
<th>Easter Monday</th>
<th>Tuesday</th>
</tr>
</thead>
<tbody>
<tr>
<td>WA</td>
<td>Closed</td>
<td>Open 8am – 5pm</td>
<td>Closed</td>
<td>Closed</td>
<td>Open 8am – 5pm</td>
</tr>
<tr>
<td>SA</td>
<td>Closed</td>
<td>Open 9am – 5pm</td>
<td>Closed</td>
<td>Closed</td>
<td>Closed</td>
</tr>
<tr>
<td>NT</td>
<td>No restrictions – general closed</td>
<td>No restrictions</td>
<td>No restrictions – generally closed before 12pm</td>
<td>No restrictions</td>
<td>No restrictions</td>
</tr>
<tr>
<td>TAS</td>
<td>Closed</td>
<td>No restrictions</td>
<td>No restrictions</td>
<td>Closed before noon</td>
<td>No restrictions</td>
</tr>
<tr>
<td>VIC</td>
<td>Closed</td>
<td>No restrictions</td>
<td>No restrictions</td>
<td>Closed before 1pm</td>
<td>No restrictions</td>
</tr>
<tr>
<td>NSW</td>
<td>Closed</td>
<td>No restrictions</td>
<td>Closed</td>
<td>Closed before 1pm</td>
<td>No restrictions</td>
</tr>
<tr>
<td>ACT</td>
<td>Closed</td>
<td>No restrictions</td>
<td>No restrictions</td>
<td>No restrictions – generally close before 1pm</td>
<td>No restrictions</td>
</tr>
<tr>
<td>QLD</td>
<td>No restrictions – general closed</td>
<td>Dependent upon local area</td>
<td>Dependent on local area</td>
<td>Closed</td>
<td>No restrictions</td>
</tr>
</tbody>
</table>

Legend
- Public holiday
- Substitute public holiday

Note: * unless exempt


13.2 Competition requires choice

It should be a matter of fact, but competition requires consumer choice. When businesses are successful, market signals are being sent to reward that business because it is reflecting consumer preferences. When it is not it is a sign that the store is not meeting consumer demand.

There is increasing concern that the major supermarket are creeping their influence, particularly in new and outer suburban areas, and rural and regional areas, by purchasing smaller retailers and pre-purchasing land for the development of new sites. There are multiple factors at play.

The cost of purchasing land the size of a supermarket is significant, and the competition to buy this land is high. The need to acquire assets with long lead times was identified in the 2008 ACCC and 2009 ACT Martin Review. The Reviews specifically identified that the high upfront costs of land purchasing acted as a barrier to entry in the supermarket sector.

Both Coles and Woolworths have been accused of progressively increasing their market share of smaller retailers by stealth. There is certainly a dimension of truth to the claim. In the past decade
Woolworths has expanded its market share from 13 per cent to 37 per cent. Coles is now around 21.3 per cent. In Queensland both have also invested in pubs. 89

While the practice of Coles and Woolworths may appear to be a sneaky attempt to increase market share by stealth, it is largely a response to the unintended consequences of regulation. In Queensland liquor sales are restricted to pub owners. Similarly, in some States there are restrictions on the number of caps for new licenses for liquor retailers, prompting acquisitions of existing retailers. The purchasing of existing retailers has also come as a consequence of accessible land where existing pubs provide larger retail space. 90

Much of the regulation being advocated for supermarkets by competitors and suppliers, regulators and politicians will disproportionately impact on those in newly established suburbs and rural and regional communities. Established suburbs are rarely the target by the sector because the markets are already mature.

Supermarkets logically target new and pending development suburbs because they are markets for growth and early market entry can assist them in securing necessary land at more affordable prices. New suburbs are also hotly contested because market penetration by an existing provider rarely exists.

Regional communities are also a target, though they already have established markets. For chains the advantage of targeting regional communities is that with population growth their market size can grow and populations can reach a size where they can support a large supermarket when a smaller alternative may have previously sufficed.

As the ACCC has raised, there are multiple stakeholders in the community that are concerned about the rise in influence of major supermarkets. But restricting their expansion also has consequences.

Unsurprisingly, further away from capital cities and major regional centres the number of major supermarket stores declines with the capacity for stable communities to support them as viable businesses. Instead smaller supermarket retailers, such as IGAs, often fill the marketplace because their size is better suited for smaller populations and are often an evolution of smaller, local stores. But single supermarket towns also tend to have higher costs because of both absent competition and because the stores operate on higher cost structures by lacking the efficiencies of nation-wide logistics.

The downward impact from large supermarket chains is backed up by Federal government data.

The Commonwealth Department of Infrastructure and Transport’s Bureau of Infrastructure, Transport and Regional Economics (BITRE) completed a study analysing the impact of having major supermarkets on rural and regional communities. The results are compelling on prices. 91

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study collected data from 236 supermarkets in 132 locations across Australia in 2005 and 2006 across 200 food items and 20 non-grocery items. 92

As Figure 21 from the study shows, there is a very high correlation between price levels and population sizes – particularly amongst independent retailers. There is a higher consistency amongst major chain stores though they are less likely to have stores in lower population centres.

**Figure 21 | Grocery stores by supermarket index and population, locations under 100,000, 2006**

Similarly, in lower population centres major supermarket chains have less of a presence. Instead ‘independent stores’ have a much higher market penetration, especially when towns have a population under around 4,000 persons. At that level the number of major supermarket chains declines rapidly and is almost entirely serviced by independent stores.

The low number of major supermarket chains also has an effect on prices. Figure 22 clearly shows that with lower population centres the cost of groceries can quickly escalate and can be exceedingly more expensive in small population centres. These high prices above the mean are almost entirely provided by smaller independent retailers.

The conclusions are hardly surprising once additional costs, such as transportation, as well as lower levels of competition are factored in.

92 More information on the methodology is available in the original paper.
Importantly, the same impacts are rarely felt within the major supermarkets which have much more consistent pricing despite the remoteness of the location of the store.

As Figure 22 outlines the deviation of the cost on groceries vary within a limited range within 1,000 km of capital cities, excluding a couple of very remote stores.

Figure 22 | The effects of distance on prices charged by major chains


In this context it is clear that major supermarket chains bring at least a steadying influence on prices in smaller communities. Though, the BITRE study went further. The BITRE report concluded, “larger chains often maintain the price of a larger number of items regardless of location … [and that] from the consumers’ point of view, the presence of a major chain store in a locality is likely to provide groceries at price levels broadly similar to those obtained in similar stores in the capital cities”.

Overall the study concluded that there is a 20 per cent saving in the cost of goods in areas that have a major supermarket chain, and 17 per cent when adjusted for population. Similarly, positive data was reported on product range. According to the study major chains contained an average of 96 per

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cent of all available sampled goods, whereas smaller independent stores only held an average of 63 per cent.\textsuperscript{94}

The unintended consequences of restricting expansion of major supermarkets would clearly result in price increases. The best arbiter of whether new and regional communities can support a major supermarket is consumers, based on population size and consumption levels that prompt different supermarket chains to invest in their communities.

**Figure 23 | Current and adjusted household food and non-alcoholic beverages expenditure**

<table>
<thead>
<tr>
<th></th>
<th>Current average expenditure</th>
<th>Average expenditure with lesser competition</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Per week</strong></td>
<td>$204.00</td>
<td>$238.68</td>
<td>$34.68</td>
</tr>
<tr>
<td><strong>Annual</strong></td>
<td>$10,608.00</td>
<td>$12,411.36</td>
<td>$1,803.36</td>
</tr>
</tbody>
</table>

*Source: IPA calculations based on ABS data*

If ABS data is used for the approximate average household expenditure for food and alcoholic beverages the consequences of diminishing competition can broadly be calculated. Such calculations assume that all food purchases are made in supermarkets, but the ABS does not provide disaggregated data.

As Figure 23 outlines, if a 17 per cent increase was applied on the ABS data because of reduced competition a rough estimate is that it could add up to $34.68 per week to household food bills, or up to $1,800 a year.

Food expenditure already disproportionately impacts on lower income households who spend a substantially more on food and non-alcoholic beverages than those with the highest incomes. Any price increase from lesser competition will also disproportionately impact the poor.

Similarly, any price increase from less competition would hit those in regional communities and the new and outer suburbs of Australia’s capital cities. Considering many families move to new and outer suburbs and outside capital cities specifically because of cost of living pressure, especially related to housing, such increases in cost of living staples diminishes any advantage in moving to new and outer suburbs and the regions.

Any increase in the price of groceries would also have a multiplier effect. By increasing the price of groceries those costs would then flow on to less available money for other businesses in regional communities and the new and outer suburbs of Australia’s capital cities. The impact would be a reduced standard of living as well as an impact on other small and medium businesses that also operate within those communities.

\textsuperscript{94} Major chains product range varied from a low of 88 per cent to a high of 100 per cent, and independent stores varied from a low of 7 per cent to a high of 93 per cent.
14.0 Conclusions and recommendations

Consumer focused policy would lead to liberalisation of shop trading hours and removing impediments to new and established market entrants, not creating regulatory barriers.

While there may have been concerns about supermarket competition a few years ago, especially amongst the major supermarkets, the entrance of ALDI and Costco has driven heavy price competition. The expansion of private labelled goods is directly in response to consumer demand.

Competition shouldn’t just drive lower prices, but also deliver goods and serves that meet multiple concepts of ‘value’ in demand from different segments of the market.

Consumers clearly want diverse product offerings. Amongst some segments of the market consumers are demanding more upmarket goods. Price-sensitive consumers are demanding cheaper products, including private labelled goods. Convenience is consistently in demand from consumers.

The government’s own data shows that where major supermarket are absent the average cost of groceries can rise by an average of 17 per cent. When such price increases are applied to the average household food expenditure ABS data households could indicatively see an increase of around $34.68 per week in food bills, or more than $1,800 a year.

Higher prices disproportionately harm lower income earners who spend more of their income on food than higher income earners. Higher prices also disproportionately harm new and outer suburban families and families in rural and regional communities who are less likely to have pre-existing access to major supermarkets.

Efforts by governments to promote competition rarely result in price decreases, but can increase costs to consumers, as has been identified as a consequence of supermarket regulation in the ACT.

Rather than seeking to regulate a competitive market, governments should:

- liberalise shop trading hours and remove remaining barriers to supermarkets meeting consumer demand.

- not regulate against supermarkets providing cheap goods in an effort to prefer producer interests, doing so will lead to higher prices that disproportionately harm lower income households.

- not regulate against private labelled goods which are being provided in response to consumer demand and competition.

- not restrict expansion of any supermarket chain. Doing so would diminish competition and lead to higher prices disproportionately impacting those on lower incomes, those in new and outer suburbs and rural and regional communities.
15.0 References


16.0 About the Institute of Public Affairs

The Institute of Public Affairs, founded in 1943, is the world’s oldest free market think tank. The IPA is a not-for-profit research institute based in Melbourne, Australia with staff and associates based around Australia. Think tanks act as public policy incubators and develop public policy solutions.

The objective of the IPA is to promote evidence-based public policy solutions rooted in a liberal tradition of free markets and a free society. The IPA achieves these objectives by undertaking and disseminating research; participating in national and international policy debate through the media; and engaging with opinion leaders, stakeholders and public policy makers.

All work completed by the IPA is published in the public domain for the consumption of governments, politicians, domestic and international policy makers and the public-at-large.

The IPA has a demonstrated track record of contributing to, and changing the terms of the public policy debate in Australia and internationally. In particular, in recent years the IPA has been at the centre of public discussion in Australia and in appropriate international fora on:

- Regulation
- Trade
- Intellectual property
- Water
- Energy
- Housing
- Industrial relations
- Taxation
- Investment
17.0 About the authors

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Chris Berg is a research fellow at the Institute of Public Affairs. He is a regular columnist with the Sunday Age and Sydney Morning Herald and the ABC’s The Drum. He is an award-winning former editor of the IPA Review.

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Tim Wilson is an international public policy analyst and commentator and Director of the IP and Free Trade Unit and Climate Change Policy at the Institute of Public Affairs. He also serves on the Department of Foreign Affairs and Trade’s IP industry consultative group and a Senior Fellow at New York’s Center for Medicine in the Public Interest.

Tim is currently a Director of Alfred Health Board and a board of the national health regulator. He previously served on the Board of Directors of Monash University, Australia’s largest University.

He regularly appears on Australian and international television, radio and in print media. He is regularly published in The Australian and Australian Financial Review and hosts Talking Policy on 3AW Talk Radio and previously co-hosted ABC News 24 TV’s Snapshot segment. Tim has contributed chapters to a series of books, international policy reports and journals.

He’s worked in international development across South East Asia, consulting and politics, including delivering Australia’s aid program for the Vietnamese government to host APEC and advising State and Federal politicians.

In 2009 The Australian newspaper recognised him as one of the ten emerging leaders of Australian society and is a recipient of an Australian Leadership Award from the Australian Davos Connection. At University Tim was twice elected President of the Student Union.

Tim’s currently completing a Graduate Diploma of Energy and the Environment (Climate Science and Global Warming) at Perth’s Murdoch University.

He has a Masters of Diplomacy and Trade and a Bachelor of Arts from Monash University, a Diploma of Business and has completed Asialink’s Leaders Program at the University of Melbourne. He has also completed specialist executive education on intellectual property at the World Intellectual Property Organisation’s Worldwide Academy, Geneva and international trade and global health diplomacy at the Institut de Hautes Études Internationales et du Développment, Geneva.