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CONSUMER-DRIVEN COMPETITION AND BUSINESS MODELS DRIVING SUPERMARKET RETAIL PRICES DOWN BY AT LEAST 5%

“Pressure from consumers to increase efficiencies, scale and competition are cutting supermarket retail prices by at least five per cent”, said Tim Wilson, Director of the IP and Free Trade Unit at the free market Institute of Public Affairs today.

Mr Wilson’s comments follow the release of his new research paper, *Consumer-driven price cuts through scale*, into the role consumers are playing to drive supermarket competition and business models that follows earlier research work into consumer-first supermarket policy reform.

“Over the past two decades supermarkets have been consolidating and extracting efficiencies of scale through their logistics and supply chains to meet consumer demand for lower prices”, Mr Wilson said.

“ALDI keeps prices low by leveraging their global supply chain, Coles and Woolworths reduce prices by fractionalising costs through millions of sales and IGA stores cut prices by bulk purchasing through Metcash wholesaling. Scale is the essential ingredient for lower prices”.

“Consumer-driven competition is pushing supermarkets to extract maximum value from their high volume, low margin business models to deliver lower prices”.

“Against a decade-long trend, prices indicatively appear to be around five per cent lower than the average, leading to savings of nearly \$500 per year for the average worker”.

“While a five per cent reduction may appear modest, data from the ACCC’s 2008 inquiry into grocery retail prices concluded 60 per cent of Australians are likely to change their supermarket for a five per cent reduction”.

“Consumers identify that the two most important factors influencing their choices are quality and price. Quality is subjective; price is not and has forced supermarkets to respond, especially since ALDI has entered the market and met the demands of price-sensitive consumers. With fierce competition other supermarkets have been responding”.

“There is still room for more consumer-focused competition by removing regulatory barriers that make it harder for new stores to be opened, increases costs that are passed through to consumers in higher prices and makes it harder for new players to establish themselves.

“When consumers are put first the market responds with lower prices and greater convenience. Currently the ACCC is bizarrely focusing on what choices consumers should have which won’t lead to lower prices”, Mr Wilson said.

Consumer-driven price cuts through scale: How consumers are driving business models to deliver lower prices and improve convenience and quality is available at www.ipa.org.au

For media and comment: Tim Wilson, Director, IP and Free Trade Unit, 0417 356 165

**Institute of Public Affairs, Level 2, 410 Collins St. Melbourne
ph: 03 9600 4744 fax: 03 9602 4989 www.ipa.org.au**