

# The grocery game in Australia



What is happening in the grocery game in Australia? Are consumers being ripped off by an increasingly powerful duopoly of Coles and Woolworths?

ARE PRICES in this country soaring ahead of inflation—and at a faster rate than those in other nations?

Who are the main players?

What is the Australian Competition and Consumer Commission doing to encourage competition between stores and to hold down prices?

## WHAT IS HAPPENING IN THE GROCERY GAME IN AUSTRALIA?

The 2008 *Report of the ACCC inquiry into the competitiveness of retail prices for standard groceries* provides the most recent authoritative snapshot of the grocery game.

**The grocery inquiry found Australia had a 'workably competitive' market that could do with more competition.**

And competition is emerging from ALDI, which has at least 200 supermarkets and plans to expand to about 700, and Costco, the giant US operator, which opened its first warehouse in Melbourne last August. Costco also plans to expand throughout Australia.

## ARE CONSUMERS BEING RIPPED OFF BY AN INCREASINGLY POWERFUL DUOPOLY OF COLES AND WOOLWORTHS?

The grocery report found that a range of domestic and international factors contributed to food price inflation in Australia, including:

- › Australian weather conditions, such as the current drought and cyclones
- › the world commodities boom, increasing the input costs and prices at which some Australian farmers and food producers can sell their products to export markets.

The lack of strong price competition in retail groceries could have played only a very minor part in food price inflation.

At most, roughly one-twentieth of the increases in food prices in the five years before the grocery inquiry could potentially be attributable to increased gross margins of Coles, Woolworths and the wholesaler Metcash. However, over the

five-year period 2001–02 to 2006–07, the gross margins for these players increased by between 0.2 and 1.6 per cent.

**The ACCC believes there is little evidence that any weakening of price competition in grocery retailing and wholesaling has played a significant role in explaining recent increases in food price inflation.**

#### **ARE PRICES IN THIS COUNTRY SOARING AHEAD OF INFLATION—AND AT A FASTER RATE THAN THOSE IN OTHER NATIONS?**

**Over the past 10 years food prices have been rising faster than general inflation in most Organisation for Economic Cooperation and Development (OECD) countries—and Australia is not special in that regard.**

Over the last 10 years, the rate of food price inflation in Australia has been higher, as a whole, than the rate of general inflation.

Australia had the 10th highest food price inflation rate in 2009. Both Canada and the United Kingdom had higher rates of food price inflation. (*Statistics from the Organisation for Economic Cooperation and Development.*)

What is the Australian Competition and Consumer Commission doing to encourage competition between stores and to hold down prices?

#### **THE ACCC HAS BEEN ENCOURAGING MORE COMPETITION IN THE SUPERMARKET SECTOR THROUGH A NUMBER OF MEASURES.**

These include its scrutiny of anti-competitive mergers, the introduction of unit pricing to make it easier for consumers to compare prices, recommending changes to planning laws and opening shopping centres to a greater variety of stores by opposing restrictive leases.

## **1. Mergers and acquisitions**

Section 50 of the *Trade Practices Act 1974* prohibits mergers and acquisitions that substantially lessen competition in a market or markets or are likely to do so.

The ACCC has assessed a number of recent mergers in the retail sector:

#### *FoodWorks' acquisition of 45 supermarkets from Wesfarmers*

- › The ACCC concluded that FoodWorks' acquisition of 45 Coles/BiLo supermarkets was unlikely to result in a substantial lessening of competition in the relevant supermarket and liquor retail markets and in the relevant wholesale and procurement markets.

#### *Woolworths' proposed acquisition of Karabar supermarket (Queanbeyan)*

- › The ACCC considered the likely future state of competition with and without the merger. The ACCC considered that, if the proposed acquisition did not proceed, an alternative acquirer was likely to purchase the Karabar supermarket and expand it to operate as a large-format, full-line supermarket.
- › The ACCC considered that Woolworths' acquisition of the Karabar supermarket was likely to constitute a substantial lessening of competition in the local retail supermarket market and therefore opposed the acquisition.

## **2. Creeping acquisitions**

**Most 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 past two years, only 10 per cent have involved Coles or Woolworths acquiring or leasing a site where an independent supermarket previously operated. However, that figure has been significantly higher in the past.

In January 2010, the Australian Government announced plans to amend the Trade Practices Act to deal with creeping acquisitions.

This is intended to give the ACCC the power to reject acquisitions that would substantially lessen competition in any local, regional or national market.

The ACCC believes that its existing powers can be used to encourage competition and enhance dynamic change in grocery retailing.

### 3. Long-term structural change reduces barriers to entry

The key impediments to increased intensity in retail competition are:

- › **access to suitable sites for alternative supermarkets**
- › **access to competitive wholesale supply in packaged groceries for the independent supermarkets.**

The ACCC believes that its existing powers can be used to encourage competition and enhance dynamic change in grocery retailing.

This has been on our radar since the grocery inquiry, when the ACCC noted that it would ‘... actively pursue such arrangements [supermarket site leases] where it considers that there is likely a breach of the substantial lessening of competition (SLC) test contained in the Act’.

This issue is not restricted to Coles and Woolworths—it affects the entire grocery sector.

### 4. Access to sites

Developers and shopping centre managers prefer to lease space to Coles and Woolworths over other supermarkets given their reputation and brand recognition. This significantly impedes the ability of competing supermarkets to access prime locations.

Coles and Woolworths also include terms in their leases that effectively prevent centre managers leasing space in centres to competing supermarkets.

During the 2008 inquiry, the ACCC became aware of more than 700 lease or similar documents relating to restrictive arrangements.

**The ACCC recently announced that both Coles and Woolworths had agreed to court enforceable undertakings to phase out all restrictive provisions in supermarket leases over the next five years.**

The vast majority of leases will be free of these restrictive provisions immediately, and the rest will follow in due course. The ACCC has extended this arrangement to other supermarket players.

### 5. Planning and zoning

Zoning and planning issues act as an artificial barrier to new supermarkets establishing in some areas and have been recognised overseas as a major hurdle for new competitors entering the grocery sector.

**Evidence provided to the 2008 grocery inquiry indicated that retailers regularly lodged planning objections to prevent competitive entry where the retailers had a commercial interest to protect.**

The ACCC recommended that governments consider the ways in which planning laws and individual planning decisions impact on competition—in particular, whether they facilitate the entry of a supermarket operator not currently trading in an area.

COAG also approved implementation plans for competition reform relating to retail tenancy in December last year.

