

WOOLWORTHS LIMITED

Submission to the Productivity Commission's
Inquiry into the Impact of Competition Policy
Reforms on Rural & Regional Australia

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EXECUTIVE SUMMARY

Woolworths provides this submission in response to the Productivity Commission's Inquiry into the Impact of Competition Policy Reforms on Rural and Regional Australia. In addition to providing the Commission with Woolworths' experience with competition policy reforms, we also detail some requests for the Commission to consider when making its recommendations to the Federal Government.

Woolworths is well placed to comment on the impact of Competition Policy reforms in rural and regional Australia, as a sizeable part of its operations are located in these areas. Increased competitiveness made possible through the implementation of National Competition Policy (NCP) is helping Woolworths deliver significant benefits to rural and regional Australia. This continues a long tradition of participation in rural and regional communities by a company established, owned and managed by Australians since 1924.

National Competition Policy (NCP) - Section 1

National Competition Policy represents a commitment by all Australian Governments to adopt a consistent approach to improving the competitiveness of the Australian economy. Woolworths has responded to the challenge under NCP and is able to demonstrate that it is delivering significant benefits to rural Australia from its adoption. It is also receiving benefits from NCP in the areas of reduced utility costs and removal of anti-competitive legislation, in particular legislation restricting shop trading hours. This is further assisting Woolworths in achieving cost efficiencies and maintaining competitive prices.

While the application of NCP clearly brings many benefits to the Australian economy, these benefits have not been well promoted. As many of the benefits of NCP are yet to be fully realised, there is a need for the various Governments to embark on an active programme to explain NCP in a more effective manner to businesses, consumers and community interest groups in areas outside capital cities. This must include a debunking of many of the misconceptions concerning NCP, in particular those concerning the deregulation of trading hours. Far from reducing competition, the deregulation of trading hours has been instrumental in providing more shopping convenience, range and quality of products, in addition to reducing prices paid by customers outside traditional shopping hours.

Customer focus – Section 2

Changing consumer expectations, preferences, economic conditions, employment priorities and the increasingly multicultural nature of Australian society has required food retailers to continually re-evaluate their retail “offer” and reposition themselves to appeal to consumers. Perhaps the most important issue for consumers is the ability to shop where and when it suits their demanding lifestyle. These changing trends are incorporated into Woolworths’ stores and retail “offer” to ensure that consumers are satisfied with their retail ‘experience’. Woolworths has been able to meet these consumer demands through its substantial and continued investment in stores, staff training, low cost warehousing and logistics, comprehensive supply chain improvement and new technologies. Australian consumers now have world standard supermarkets and discount department stores, with low basic food prices.

Woolworths’ investment in maintaining and improving service levels, quality and price have not only benefited metropolitan customers. In maintaining a policy of a consistent “offer” across all its stores, the benefits of a competitive retail food sector have been passed on to rural and regional consumers. In particular, Woolworths has a policy of overall price parity between metropolitan and rural and regional stores in most states (absorbing normal transport costs). It accepts lower returns in regional centres, and in many cases provides consumers with the only alternative to the existing independent food retailer (ensuring competitive pricing for rural consumers).

Woolworths’ current level of market share is necessary in order to maintain a national retail “offer”. Maintaining this “offer” requires critical mass to ensure sufficient economies of scale. These economies of scale are necessary in areas such as distribution, advertising and promotion, technology and purchasing. This is especially important given the geographical size of Australia, and the relatively small and diverse population.

Rather than seeking to penalise Woolworths for its success, any action in the retail sector should focus on the reasons for the independents’ decline, rather than seeking to artificially protect them. It is clear that they have lost business due to customer dissatisfaction with their “offer”. The dissatisfaction with their “offer” has been due to a number of reasons including a failure to reinvest in their businesses and technology (despite previous monopoly of “convenience” market), and a failure to meet increased consumer expectations. This process has been an on-going one rather than a sudden change due to the deregulation of trading hours, and has also coincided with increased competition from an expanded retail sector at all levels.

There are clearly many opportunities for the independent sector to perform well, as evidenced by successful independent retailers such as Cornetts, Ritchies and Leo’s Fine Food and Wine in Victoria, Cornetts in North Queensland, and Advantage Supermarkets, Gewsons, Rules and Farmer Jacks in Western Australia. FoodWorks is another example of

a new independent supermarket chain successfully competing with the majors. The common thread linking these independents together is a willingness to change and meet the needs of their customers, in addition to distinguishing themselves from the majors.

Benefits to rural and regional areas from Woolworths' growth – Section 3

The application of NCP has been one factor in the growth of Woolworths' retail sales in rural and regional areas. The growth in these areas has led to real and measurable benefits that are not, and are not likely to be, provided by the independent retailers. These benefits to rural and regional Australia are included in the table below.

Benefits to rural and regional Australia

Area of benefit	Rural/regional benefit
Consistent retail "offer"	Consumers receive a consistent "offer" in terms of price, range and facilities. There is a cross subsidy provided by metropolitan stores (Woolworths does not pass on the normal freight costs in most cases).
Direct employment opportunities - For rural and regional areas	Woolworths employs over 100,000 people in Australia (40% increase since 1994). 44,360 are employed in Woolworths Supermarkets, Big W and Rockmans stores in rural and regional areas. During the period since the deregulation of trading hours in Victoria, an additional 2,000 employees have been added to Woolworths Supermarkets alone in that State.
- For women	Woolworths employs over 58,000 women in full time, part time and casual roles.
- For young people	Woolworths assists the Government in addressing the youth unemployment problem (particularly crucial in rural and regional areas). 41,077 of Woolworths' employees are aged 15-20 years.
- For the disabled	Woolworths provides opportunities for the disabled. It currently employs 200 people with disabilities.
Indirect employment creation	Using the ABS multiplier for retail output, Woolworths is responsible for creating 155,431 jobs over the last 4 years. Approximately 62,000 of these jobs were in rural and regional areas.

Development of careers	Woolworths is committed to providing and developing careers that are structured, flexible and have breadth of opportunity.
	48% of full time staff have been with the company for 3-10 years.
	38% of full time staff have been with the company for 6-20 years.
Training opportunities	\$25 million spent on training Woolworths' employees annually. Approximately \$3 million is spent on rural and regional employees.
	Largest employer of apprentices in Australia (1082 in 1998).
Investment in the community and support	Provides a long term investment in, and commitment to, rural and regional areas.
	Invests in areas subject to environmental risk (ie flooding) – Katherine, Weipa, Charleville.
	Over \$10 million was donated throughout Australia from 1995-1998.
Local small business trade	Woolworths' presence underpins the commercial component of rural towns by acting as the major employer and 'anchor' tenant.
Discount petrol	Total savings to rural and regional petrol consumers as a result of the presence of Plus Petrol is estimated to be \$85 million per annum.
Banking services	Provision of low cost financial services through existing EFTPOS facilities, and more extensive banking services via an alliance with CBA (considered particularly important given the recent level of bank closures in rural areas).
Supply arrangements/QM systems	Increased levels of food safety via specifying minimum quality standards from suppliers.
	2-3 year contracts reduce supplier risk and facilitate re-investment strategies.
Pork industry	Woolworths is the largest purchaser of pork in Australia and is assisting the industry's survival, through its export initiatives in particular.
Capital investment in rural and regional areas	Over the past 3 years Woolworths has invested \$58 million into new stores and \$73 million into store refurbishments in rural and regional areas.
Local small business creation	\$2.5 million spent on local contractors/tradesmen for construction of each new stand alone supermarket.
	\$6 million spent on local contractors/tradesmen for construction of each new supermarket based centre.

	\$13 million spent on local contractors/tradesmen for each new community sized centre.
	There were 39 of these developments in rural and regional areas from 1993-1999.
	\$400,000 of an average \$3.5 million refurbishment is spent on local contractors/tradesmen.
	\$400-500,000 worth of materials may be purchased from local suppliers for refurbishments.
	\$17.6 million spent on labour in rural and regional areas in year ending 30 June 1998 (fit-outs, refurbishments and extensions only).

NCP in rural and regional Australia – the public interest – Section 4

Governments have agreed that legislation should not restrict competition unless the benefits of the restriction to the community as a whole outweigh the costs, and the objectives of the legislation can only be achieved by restricting competition. Legislation reviews to date have resulted in the recommendation that shop trading hours be deregulated.

In Woolworths' opinion, these reviews have been transparent and have correctly weighted the benefits to the economy and community as a whole against the likely impact on some independent retailers that are not able to meet consumer needs. As demonstrated in the submission, not only do consumers recognise the benefits offered by Woolworths, its growth has produced (and continues to produce) real benefits to rural communities and the economy as a whole.

Regulatory response – Section 5

The information provided in this submission demonstrates that Woolworths' investments and growth is meeting the needs of consumers in both rural and metropolitan areas, and provides them with real and measurable benefits. Any assertion that retail specific regulatory intervention is required is ill-founded, and its introduction would prove detrimental to consumers in the short term and rural communities in the longer term. It would be contrary to the public interest and serve to promote inefficiency. It would lead to lower quality, poorer ranges of products and services, and higher prices, especially in rural areas. Hardest hit would be the lost training and employment opportunities for youth in rural areas.

Current competitive safeguards are more than adequate, with the *Trade Practices Act 1974* (the Act) vigilantly administered by the ACCC. The Act addresses anti-competitive behaviour under Part IV, and there are provisions that specifically address the areas of mergers and acquisitions (section 50) and misuse of market power (section 46). Furthermore, the Industry Commission endorsed the broad direction of the ACCC's draft merger guidelines in its 1996 Review, and warned against the prevention of efficiency enhancing mergers or acquisitions.

Woolworths also ensures it follows the spirit and letter of the Act via maintaining a Trade Practices compliance programme endorsed at the highest level. It is strictly enforced, and regularly monitored and updated to ensure the risk of breaching the Act is minimised.

The mooted market cap is also completely unworkable, and would hit rural Australia the hardest. There are a number of specific reasons as to why any proposed market cap would fail. Such a cap would deprive consumers of the benefits from pro-competitive acquisitions that would not contravene section 50. It would also restrict mergers that pass the public benefit test under the Authorisation provisions of the Act. It would fail to account for issues such as market definition, as concentration levels vary significantly based on product and geographic boundaries used. Furthermore, if Woolworths was required to divest businesses, there is likely to be difficulty in finding willing purchasers at fair prices.

Perhaps most importantly, a market share cap would force the closure of less profitable stores to facilitate the opening or expansion of more profitable ones. This would undoubtedly hit rural Australia the hardest. Less profitable rural stores would undoubtedly close, with associated losses in employment, training, investment and choice of food products and services.

Conclusions – Section 6

The implementation of Competition Policy reforms have assisted Woolworths in the delivery of substantial, measurable and vital benefits to rural and regional Australia. Through significant and continued investment in rural and regional areas, Woolworths has ensured consumers receive world class shopping facilities and product, at prices generally equivalent to those in metropolitan areas. Furthermore, Woolworths has provided rural Australia with vast employment and training opportunities, investment and community support, creation and support of local business, and provision of banking and petrol services.

Woolworths strongly suggest there be no artificial protection for those not meeting consumers' changing needs. Indeed, the most effective provision of support to rural and regional Australia would be via supporting companies such as Woolworths in their

delivery of benefits to those areas. This could take the form of youth training and development, job opportunities programmes, relief or concession on payroll tax on rural and regional activities, and transitional arrangements to account for the removal of Federal, State and Territory taxes and the introduction of a GST. Providing artificial support to inefficient and ineffective operators would undoubtedly be counterproductive for rural and regional consumers in the short and long term.

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REQUESTS

At this Inquiry, Woolworths requests the Productivity Commission recommend the following to the Federal Government.

- Federal, State and Territory Governments embark on an active programme to explain the current and forecast benefits of NCP in a more effective manner to businesses, consumers and community interests in areas outside capital cities. The National Competition Council (NCC) is the appropriate co-ordinator for this programme and needs to be supported and funded by Governments to undertake this task.
- A national register of identifiable gains (and losses) from the implementation of policies (which are the subject of NCP reforms) be established. The NCC receive the necessary legislative authority to collect information and maintain a register. Annual returns to the NCC should be provided by businesses with turnover in excess of \$100 million per year. Information from relevant companies would be treated as 'commercial in confidence' unless otherwise agreed.
- The Productivity Commission reject the simplistic and misleading concept of thresholds in market concentration ratios as a basis of determining anti-competitive effects, including substantial lessening of competition. Each market segment and market trend needs to be reviewed separately to determine whether there is public detriment through a limited number of participants. Net public benefit is the most important criterion.
- As the second largest private employer in Australia with potential to maintain employment growth levels, Woolworths should be eligible for increased support and funding in the following areas:
 - youth training and development (including apprenticeships);
 - job opportunities programmes (eg. youth, female, disabled, ethnic);
 - relief or concession on payroll tax on rural and regional activities; and
 - transitional arrangements to account for the removal of 9 Federal, State and Territory Taxes (as part of Tax Reform) and the introduction of a GST.¹

¹ Commonwealth of Australia, 1998, *Tax Reform: not a new tax, a new tax system*. AGPS

- Retail markets in Australia are primarily consumer driven and, as such, function well with minimal government intervention. Provided that requirements such as occupational health and safety and food safety are observed, Governments should not intervene in other areas such as shop trading hours or market thresholds.

1. INTRODUCTION

1.1 WOOLWORTHS LIMITED

Background

Woolworths commenced business in late 1924 with its first store opening in Sydney's Imperial Arcade. The company was established by a number of Australian entrepreneurs with 15,000 shares offered to the public.

Woolworths Limited today has over 1,200 stores across the length and breadth of Australia. These stores serve and employ Australians in metropolitan areas from Hobart in Tasmania to Townsville in Northern Queensland, and in remote rural locations such as Karratha and Derby in Western Australia. Its growth has been achieved through successfully meeting the changing needs of its customers, rather than through acquisition. Its recognisable retail brands include Woolworths Supermarkets, Safeway, Purity, Big W, Woolworths Variety, Woolworths Metro, Crazy Prices, Rockmans, Dick Smith Electronics, Australian Independent Wholesalers, Plus Petrol and Chisholm Manufacturing.

Woolworths has a strong presence in rural and regional areas

Woolworths Supermarkets (Woolworths branded and food stores) had 544 stores as at 30 June 1998, representing an increase of 61 supermarkets (or 12.6%) from 30 June 1992. Of these stores, 221 are in rural or regional locations. Furthermore, as can be seen in the table below, stores in rural or regional locations have increased from 190 in 1992 to their current level of 221. This represents an increase of 31 stores (16.3%), compared to an increase of 10.2% for metropolitan stores.

Table 1: Number of Woolworths Supermarkets (Woolworths branded and food stores) in metropolitan versus rural/regional

State	30 June 1992			30 June 1998		
	Metro	Rural/ Regional	Total	Metro	Rural/ Regional	Total
NSW	73	62	135	81	85	166
QLD/Nth NSW	69	39	108	74	43	117
VIC	90	40	130	93	41	134
SA/NT	20	19	39	26	22	48
WA	25	19	44	31	19	50
TAS	16	11	27	18	11	29
Total	293	190	483	323	221	544

Note: The 1998 number of supermarkets represents a net position of openings and closures over the six year period.

Source: Woolworths

Woolworths Limited is the second largest private sector employer in Australia with over 100,000 employees in all its operations. This represents a 38% increase in employees since 1993. Woolworths Supermarkets account for almost 78,000 of the total number of Woolworths' employees. This growth in employees is due to new store openings, which provide direct employment opportunities for up to 200 employees per supermarket, as well as extended trading hours in States where legislative restrictions have been lifted.

When Woolworths Limited was floated in July 1993, the decision was taken to allow shares to all of the small shareholders in Australia who had applied, despite strong demand from overseas investors and institutions. The decision resulted in over 330,000 new shareholders consisting of mainly small investors across the full range of socio-economic groups. A significant percentage of the company is owned by mum and dad-type investors. This is indicated by nearly 39% of shareholders having less than 1,000 shares, while 54% have a holding of between 1001 and 5000 shares. Furthermore, 30,000 Woolworths employees own shares in the company under the company share ownership scheme. In total, there are now over 260,000 shareholders in the company (following consolidation of those shareholders holding multiple share parcels). As a result of this investment, Woolworths assists many average to Australians improve their wealth. "Woolies" is an Australian icon.

Table 2: Distribution of equity securities in 1998 showing a high percentage ownership by small investors

Range of Shares	Number of holders	% of total holders
1-1000	101,109	38.9
1001-5000	140,061	53.8
5001-10 000	12,367	4.8
10 001-100 000	6,184	2.4
100 001 and above	322	0.1
Total	260,043	100.0

Source: Woolworths

Woolworths' vision, mission statement and values

Woolworths Supermarkets (the largest food retailer in Australia and instrumental in moving food retailing into the next century), as the leader in fresh food quality, range and price is well known for its commitment to convenience, quality, value and service. This commitment is reinforced through its vision and mission statements, and in the values it promotes, where the customer is firmly the focus. Its commitment to these values, and mission statements is also the backbone of its current position and success in the Australian market. Its vision, mission statement and values are reproduced as follows:

Vision

“To be recognised as a dynamic leader in Fresh Food and Grocery Retailing with an enviable reputation for customer care and service, employee support and development and community environmental leadership.”

Mission statement

“To be recognised as the Fresh Food and Grocery retailers of first choice by the community because of our relentless focus upon:

- *superior care and service to our customers;*
- *support and development of our people;*
- *providing superior value;*

- *providing a dominant grocery offer; and*
- *providing a safe and friendly environment within which to work and shop.”*

Values

The key values that Woolworths promotes are customer care/satisfaction, respect for people, leadership, management by fact, safety leader, innovation, continuous improvement, responsible corporate citizen, fair, open, honest in business dealings, and teamwork.

Woolworths' relentless dedication to meeting the above vision, mission statement and values has been the primary cause for it delivering excellent customer service, growth for its shareholders, and achievement of the number one market share position.

1.2 BENEFITS OF NATIONAL COMPETITION POLICY (NCP)

In April 1995, the Commonwealth, State and Territory Governments agreed to the implementation of a National Competition Policy (NCP). In practical terms this represented a commitment by all Australian Governments to adopt a consistent approach to improving the competitiveness of the Australian economy.

As part of the process, the Governments signed the Competition Principles Agreement (CPA). Under the CPA, the Governments committed themselves to undertaking a number of competition reform processes. These included:

- prices oversight of Government Business Enterprises;
- Competitive Neutrality between Government and private businesses;
- structural reform of public monopolies;
- legislation review; and
- access to services provided by Significant Infrastructure Facilities.

1.2.1 Expected benefits of NCP

NCP attests that if Australia is to prosper as a nation, and maintain and improve living standards and opportunities, it has no choice but to improve the productivity and international competitiveness of its firms and institutions. Australian organisations, irrespective of their size, location or ownership, must become more efficient, more innovative and more flexible. NCP is the mechanism to achieve this through the creation of a level regulatory 'playing field' for competing businesses. Without artificial barriers, competitive forces will result in the delivering of improved prices, service and quality to consumers.

Competition provides the spur for businesses to improve their performance, develop new products and respond to changing circumstances. Competition offers the promise of lower prices, improved choice for consumers, greater efficiency, higher economic growth, and increased employment opportunities for the economy as a whole.

Woolworths has responded to the challenge under NCP and can demonstrate that it is delivering the expected benefits to Australia. These benefits apply equally to metropolitan and rural and regional areas.

In addition to delivering benefits, Woolworths has received benefits from NCP which assist in achieving cost efficiencies and maintaining competitive prices. These are primarily in the area of reduced utility costs. For example, due to the deregulation of the electricity market in NSW, Victoria and the Australian Capital Territory (ACT), Woolworths can report that a saving of \$10 million has been achieved to date. Competition in the market place has enabled the company to purchase energy from sources not previously possible, with further savings anticipated should Queensland and South Australia become subject to competition.

In the area of telecommunications, Woolworths has also experienced significant benefits. Increased competition and technological advances have resulted in reductions in IDD call charges of 50%, STD charges of 35% and local calls of 15%². This represents savings to Woolworths of \$6.2 million over the past five years.

The NCP area that impacts most on Woolworths' ability to deliver benefits to the economy is in the review of anti-competitive legislation, in particular, legislation restricting shop trading hours. Shop trading hours have been examined, or are proposed to be examined, by most States and Territories.

The underlying principle in the review of anti-competitive legislation is that legislation should not restrict competition unless the benefits of the restriction to the community as a whole outweigh the costs, and the objectives of the legislation can only be achieved by restricting competition³.

In response to consumer demand, both Victoria and the ACT have now deregulated trading hours and, in response to consumer demand, many large retailers trade 24 hours a day, and in some cases 7 days a week. In NSW the reviews have not yet commenced, although the regulations are less restrictive than in many other States. While reviews have recently been completed in Queensland and South Australia, and the review is currently underway in Western Australia, they are not likely to result in deregulation for some time.

The benefits of deregulated trading hours to consumers are often contrasted to the claimed impact on small businesses. The National Competition Council provides the following comments on this issue in its recently released Annual Report:

"Studies have found a range of benefits from deregulation of trading hours, including increased consumer convenience and additional retail activity. Preliminary evidence from Victoria suggests that some of the disadvantages which opponents commonly attribute to deregulation of trading hours are not evident.

² Telstra

³ As noted in National Competition Council, 1998. *Annual Report AGPS*

For example, despite claims of increases in retail business failures, there has been no decline in net retail employment in Victoria since shopping hours were liberalised.”⁴

Some opponents to the application of NCP in rural and regional areas argue that the benefits of increased competition are unfairly skewed to metropolitan Australia. Woolworths believes that in the area of deregulated shop trading hours in particular, this is untrue. The increased consumer convenience and retail trading activity is experienced equally in rural and regional areas.

1.3 PROMOTION OF NCP BENEFITS AND CORRECTING THE MISCONCEPTIONS

1.3.1 Promoting the benefits of NCP

The benefits of NCP have not been effectively promoted. While instances of those adversely affected by NCP have been well documented and covered in the media, there has been little exposure or attention given to the benefits. Associated with this failure is the recent political pressure to resist Competition Policy, particularly in rural and regional areas. These points are addressed by the NCC in its 1998 Annual Report:

“These pressures reflect some genuine concerns among parts of the community. They stem, in part, from the inherent costs and social dislocation involved in economic change. But they also stem from the failure of governments to adequately address related issues such as equity and adjustment assistance, and limited community understanding and acceptance of the nature, need and place of competition policy itself.”

“... Further, the costs of change are often concentrated in a particular area and borne immediately, whereas the benefits are more diffuse and longer term. And the arguments in favour of competition policy are not always reducible to a media grab.”⁵

The application of NCP clearly does provide many benefits for the Australian economy. In addition to reduced utility charges, the efficiencies it generates makes the economy increasingly competitive on the world stage, which will bring on-going benefits to all Australians. Many of the benefits are, however, yet to be fully realised, and hence the continuation of NCP should not be stifled.

⁴ National Competition Council, 1998. *Annual Report* AGPS

⁵ National Competition Council, 1998. *Annual Report* AGPS

In the short term it needs to be understood that the adjustment process will lead to both losers and winners. In this regard, the Productivity Commission makes the following important point in its Inquiry Issues Paper:

“While the goal of NCP is to improve overall living standards, the measures alone will not ensure that every individual and business is better off. For example, some businesses may decline (or even close), whereas others that can better meet the needs of consumers will expand. Likewise, jobs in some industries and locations will be lost and others created.”⁶

Woolworths' success has been due to its focus on meeting the needs of consumers. Businesses that fail to meet customer needs will decline or even fail, and job losses may occur. Woolworths' success creates new opportunities for employment and businesses in both retail and other industries. This is particularly relevant for rural and regional areas, as shown in Section 3.

In relation to the deregulation of trading hours, it is clear that there are net benefits to the economy as a whole and to individual communities. The benefits are both short and long term in nature, as discussed in later sections. However, it is inevitable that there will be some losses to businesses or individuals. To rectify these short term problems the NCC notes:

“A key need is for government to address mechanisms for dealing with the social effects of change, not just those associated with policy changes, but also those stemming from changes in the economy generally. There is a range of measures governments can use, from seeking to delay change to equipping people to cope with change, and compensating people adversely affected by change. That said, Governments need to ensure that their policies do not negate incentives for necessary change.”⁷

Promoting the benefits of NCP and mechanisms for dealing with the social effect of change are clearly important issues for the acceptance of NCP in rural and regional Australia. In order to promote the benefits of NCP, Woolworths suggests the various Governments embark on an active programme to explain NCP in a more effective manner to businesses, consumers and community interest groups in areas outside capital cities. Woolworths further suggests that a voluntary national register of identifiable gains and losses from NCP be established. For example, annual returns could be sent to businesses

⁶ Productivity Commission, 1998. Issues Paper for Inquiry into the Impact of Competition Policy Reforms on Rural and Regional Australia

⁷ National Competition Council, 1998. *Annual Report* AGPS

with a turnover in excess of \$100 million per year. Information from individual companies would be treated as 'commercial in confidence' unless otherwise agreed.

1.3.2 Misconceptions of NCP in relation to the deregulation of trading hours

There are some who incorrectly argue that deregulation of trading hours has resulted in the lessening of competition. The introduction of deregulated trading hours in a number of States has been instrumental in introducing competition into sectors that were previously non-competitive. This has been particularly so in the retail sector, where restrictions on those retail outlets with less than a specified number of employees or trading areas did not apply. These arrangements operated to the benefit of such outlets rather than consumers as a whole.

Since the introduction of deregulation in Victoria, the major supermarket chains have introduced trading hours based on the needs of customers, and have been instrumental in providing more convenience, range and quality of products, plus reducing the prices paid by customers outside the traditional shopping hours. Reduced prices are a key indication of the increased level of competition. Competitive pressure is a key driver for improved efficiency levels, which is one of the reasons lower prices can be achieved. Customers now receive the higher service levels they demand, but without an associated price premium. Competition and its impact is further discussed in Section 2.3.

Australian consumers continue to receive very low basic food prices by world standards, largely due to the high levels of competition in the supermarket industry. These low prices have been a major factor in the low level of the CPI and inflation. This has been achieved against a backdrop of a small, geographically dispersed population with a low population growth rate. The low level of food prices is also discussed in more detail in Section 2.3.

There is a view that the major retail chains do not invest in rural and regional communities. In the case of Woolworths this view is misplaced, as Woolworths invests significantly in these areas, both directly and indirectly. The establishment of new stores in rural areas involves a significant investment, both in dollar terms and in employment of local staff. There are also associated flow-on effects to local construction and contractors (such as cleaning, waste removal etc). The constant up-dating and renovating of stores provides an additional re-investment boost to the local community, both in rural and metropolitan areas. Woolworths also provides a long term commitment to rural areas as it invests on a long term basis and rides out the boom and bust cycles of many rural areas. These investments are discussed in more detail in Section 2.2.

Rather than draining community skills (as has been claimed⁸), the introduction of Woolworths into rural and regional areas brings significant skills and expertise transfer to those employed by the company. In addition to providing staff with a broad spectrum of training opportunities that would not be available without Woolworths presence, it provides the crucial function of socialising youth and students into the workforce, something of great importance in rural areas. This is discussed further in Section 3.4.

The assertion that large retailers lead to the demise of small business and loss of jobs is one without basis. As discussed further in Section 3.3, the establishment of a Woolworths store creates a large demand for jobs both directly and indirectly.

Furthermore, the establishment of a Woolworths store creates an 'anchor' for other tenants both in the town as a whole, and in the local shopping centre. This attracts large numbers of customers which leads to increased business to all retailers, in addition to enabling these smaller businesses to plan ahead, given Woolworths' long term commitment to the town.

There is also an incorrect view that regulatory action to stifle the growth of major supermarket retailers like Woolworths will produce benefits for rural and regional Australia. Such regulatory action will result in consumers being denied the benefits of quality, range, service and price in basic food and other items, which are benefits that other major businesses such as banks are often accused of denying rural and regional Australia. This is discussed further in Section 3.1 and Section 5.

The following section explains in more detail how Woolworths is able to meet the needs of its customers. It also explains how rural and regional areas are benefiting from increased competition, and the reasons many independent retailers are continuing to lose consumer support in these areas.

⁸ As argued in NARGA Submission to the Senate Inquiry 1998

2. CUSTOMER FOCUS

Food retailing has changed significantly over the last 35 years. Changing consumer expectations, preferences, economic conditions, employment priorities and the increasingly multicultural nature of Australian society has required grocery retailers to re-evaluate their retail "offer" and reposition themselves to appeal to consumers. A retail "offer" includes:

- store presentation, access and parking;
- product range and choice;
- product quality and safety;
- service levels; and
- product prices.

Woolworths continues to invest in new technology to monitor changing local, regional and international trends in consumer preferences, needs and habits. These changing trends are incorporated into Woolworths' stores and retail "offer" to ensure that consumers are satisfied with their retail 'experience'.

This section discusses the changes in consumer demand (Section 2.1) and the endeavours of Woolworths to ensure customers' needs are met (Section 2.2). The high level of responsiveness shown by Woolworths to meet customers' needs is an indication that the market is highly competitive. Evidence of intense market competition is provided in Section 2.3.

Section 2.4 addresses the poor performance of independent retailers (in general) to meet the needs of consumers, and attributes this to their failure to reinvest and up-date their retail "offer". Section 2.5 discusses opportunities for the independents to be successful.

2.1 CUSTOMERS EXPECT A COMMITMENT TO CONVENIENCE, QUALITY, VALUE AND SERVICE IN THEIR SUPERMARKET SHOPPING EXPERIENCE

Consumers' attitudes are continually changing and, in recent years, the rate of change has accelerated. Consumers are working longer and more varied hours, are better educated in terms of safety and hygiene, and face increasing competition for their spending dollar.

Subsequently, consumers now expect better value, service, convenience and a wider range of goods.

Food shopping for many is an inconvenience which should be accomplished with the least stress and time required. Shopping should meet the consumers' needs including time constraints, rather than these constraints being imposed upon them.

2.1.1 Consumer demand is continually changing

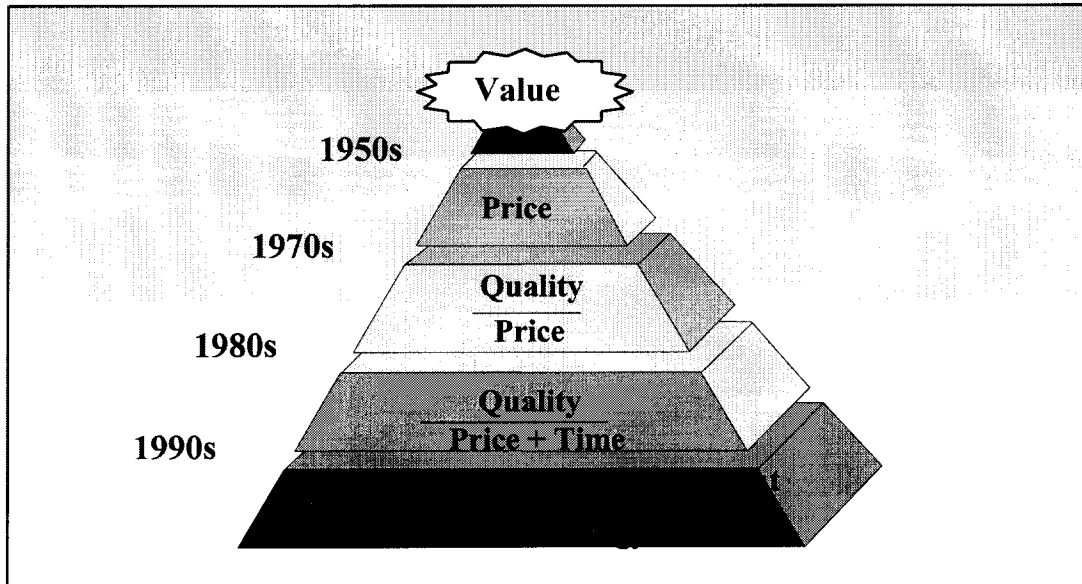
The preferences and expectations of Australian consumers are a good example of how needs have changed in recent years. Where once retailers would only stock dry goods, Woolworths now needs to carry a wide range of meats, poultry, frozen foods, fresh fruits and vegetables. The dry goods on shelves of grocery retailers have also changed. For example, health and beauty and general merchandise carry a much expanded range than a few years ago. Over the last 10 years Woolworths Supermarkets product range/SKU's has increased from 8,000 to 16,000. These changing trends have required retailers to adopt new and innovative "offers" in order to meet the needs of their customers.

As can be seen from Figure 1, during the 1950s price was the primary driver for consumers in their grocery shopping. When prices were decreased, the consumer would buy substantial quantities of the product and store them at home. This trend continued into the early 1970s. The 1970s then saw consumers moving towards decisions based on quality in addition to price. The consumer was now looking for products that provided them with a quality product, but also at a competitive price.

During the 1980s, consumers became increasingly time poor and subsequently began looking for increased convenience in their shopping. They now wanted a good quality, competitively priced product, and also wanted to be able to purchase this product at a time that was convenient to them, and in a manner that was cost efficient. This period saw the establishment of one-stop shopping in large shopping malls and the demise of retailers unable to provide the consumer with sufficient range to enable a one-stop shopping experience.

In the 1990s, consumers began demanding more and more from retailers. They demanded not only price, time and quality in their purchasing, but also a more enjoyable and stress-free experience with a minimal amount of time and energy expended. The 1990s consumer is looking to spend a larger proportion of his/her recreation time on health and lifestyle pursuits, and less on grocery shopping. Successful grocery retailers have had to continue to develop their formats to meet these rapidly changing consumer demands and trends.

Figure 1: Change in consumer value equation



Source: 1996 Kurt Salmon Associates

Consumers are also moving away from the more traditional working hours to a variety of working hours. Hence, consumer demand in relation to shop trading hours is also changing. Woolworths has responded to this demand by providing more flexible trading hours (particularly in the States where anti-competitive restrictions have been removed). NCP, via the review and subsequent removal of anti-competitive restrictions in relation to trading hours, assists in the delivery of this flexibility.

Deregulation of trading hours

Perhaps the most important issue for consumers is the ability to shop where and when it suits their demanding lifestyle. Woolworths believes that providing flexible trading hours to all retailers is crucial in meeting consumer expectations. The deregulation of trading hours in the retail sector has not been a recent phenomenon. Trading hours have been progressively liberalised over many decades in Victoria and most other Australian States. Table 3 shows the increase in average weekly trading hours for most retail industries between 1985-86 and 1991-92. Unfortunately for consumers, the deregulated trading hours have not been available to all (and most notable not to large) retailers. This 'uneven playing field' has resulted in consumer preferences being restricted to smaller retailers, many of whom do not offer the advantages provided by the larger retailers.

In some States, supermarkets are simply undergoing a process that has been occurring throughout other Australian retail industries for a number of years. To restrict supermarkets from following this trend would place them at a comparative disadvantage.

Table 3: Average Weekly Trading Hours for Selected Retail Industries

Industry	1985-86	1991-92
Department stores	56	58
Furniture retailing	48	49
Domestic hardware and homeware retailing	48	52
Fruit and vegetable retailing	58	64
Liquor retailing	66	69
Bread and cake retailing	53	60
Pharmaceutical, cosmetic and toiletry retailing	53	56
Garden supplies retailing	50 *	53
Flower retailing	50 *	52
Automotive fuel retailing	81	96
Smash repairing	47	47

* Garden supplies and flower retailing were classified to the same industry in 1985-86

Source: ABS, Censuses of Retail Establishments.

Although the ABS data extends only to 1991-2, the trend of increased trading hours shown above is understood to have continued.

Benefits to consumers of deregulated trading hours

The benefits arising from deregulated trading hours are extensive, both from a convenience and price perspective for customers, as well as from an employment perspective.

A model developed by the Melbourne Business School at the University of Melbourne⁹, suggested that an increase in trading hours in Victoria would reduce retail prices for consumers. In addition, it was found that there would be significant gains to consumers in terms of convenience. The 'net benefit' of increased convenience was valued at \$330

⁹ 1997. 'Open All Hours: The Economic Consequences of Deregulated Shopping Hours' – paper presented to the Productivity Commission Industry Economics Conference 1997 'Making Competitive Markets' Melbourne Business School, University of Melbourne,

million (or \$65 per capita) per annum. Using these figures as representative of benefits across Australia for states that have deregulated, the savings already accrued to Australia as a whole could be two to three times this figure. Furthermore, potential future benefits resulting from further deregulation could also be significant as Queensland, Western Australia, Tasmania and South Australia still face significant restrictions.

It was estimated that additional demand for retail goods of 0.16% would be generated and the rise in retail employment would be about 2.0%, of which 1.3% was attributable to the need to employ staff to stay open longer, and the remainder reflected the increased demand for retail goods. The increase in average weekly trading hours (7.5%) would translate into more than 25,000 additional jobs nation-wide, or around 6000 jobs in Victoria. In the long run, the model estimated the price of retail goods would fall by 0.6%.

The predictions of the model are reinforced by Victoria's employment experience since deregulation. Australian Bureau of Statistics' figures¹⁰ show that total retail employment in Victoria increased by 11,200 during the year following deregulation (February 1996 – February 1997). This represented an increase of 3.7%, with total retail employment increasing from 303,300 to 314,500. Retail employment in Victoria continued to grow over the following 12 months, to a total of 320,200 by February 1998.

The significance of this increase is emphasised by comparable State and national figures for the same 12 month period. Total employment across all industries in Victoria grew by less than a third of the retail figure for the same period, with a modest increase of 1.25%. Total employment across all industries nationally also achieved only a modest increase as compared to retail growth in Victoria, growing just 1.0%.

Furthermore, the rise in retail employment in Victoria following deregulation bucked the retail employment trend nationally. The increase of 3.7% in Victoria was achieved against a backdrop of national retail employment falling by 1.4% over the same term.

Woolworths' own experience also supports the predictions of the Model in terms of increased demand and employment. The following table summarises the impact on Woolworths' Victorian supermarkets following the removal of anti-competitive restrictions on shop trading hours.

¹⁰ ABS Catalogue Number 6202.2 Labour Force Victoria
ABS Catalogue Number 6203.0 Labour Force Australia

Table 4: The impact of deregulated trading hours on Woolworths Supermarkets in Victoria

In addition to the increase in sales and customers generated by the removal of anti-competitive restrictions, the fall in "average transaction value" shows that customers are shopping more frequently and choosing to shop at Woolworths for their 'convenience' needs. Sunday trading, for example, now accounts for 10% of total weekly trading.

Employment costs have also risen. This results from the increased patronage during times incurring premium wage rates, and the employment of additional staff needed to maintain Woolworths' service levels. The following table shows the number of additional staff employed in Victoria during the period since deregulation.

Table 5: Increase in Woolworths Supermarkets' (Victoria) employees during period following deregulation

Date	Store Personnel			
	Full time	Part time	Casual	Total
November 1996	6,141	6,925	6,294	19,360
January 1997	6,276	7,232	6,165	19,673
March 1997	6,411	7,433	6,355	20,199
January 1998	6,443	8,268	6,646	21,357

Source: Woolworths

The removal of anti-competitive restrictions on trading hours in Victoria has clearly led to a significant increase in retail employment.

Substantial benefits to the economy were also found in a study submitted to the Western Australian Department of Fair Trading by the Shopping Centre Council of Australia and the Property Council of Australia WA¹¹. The study estimated Sunday trading would provide an \$800 million boost to the economy. Employment was expected to increase by approximately 2,000 jobs with an additional 500 new positions for young people. This is consistent with the Victorian retail experience.

Additionally, research conducted by AC Nielsen in 1998 confirms that:

"...Sunday shopping has shown staggering growth over the last few years. In 1990, an average household only spent 2 per cent of its grocery dollars on Sunday. The ratio rose to 8 per cent in 1994 and to a high of 12 per cent this year."¹²

Where legislation permits, consumers are voting with their feet. They are taking advantage of the additional trading hours available since de-regulation with the attendant benefits for employment and economic growth, in addition to the stimulus to retail sector investment.

These findings are reinforced by the following study. The Department of Business and Regional Development (BARD) commissioned The Hunter Valley Research Foundation (HVRF) to conduct a study to assess the impact of extended retail trading hours on small businesses and the general community in the Newcastle and Lake Macquarie Local Government Areas (LGAs) of NSW.

The study included a survey of households in these LGAs. It delivered the following findings:

- extended trading hours have had the greatest effect on the shopping patterns of those who were employed, with two thirds of respondents who thought that changed trading hours had either moderately or completely changed the time of day they shopped;
- of those who purchased groceries on Saturday and/or Sunday, approximately 60% worked;
- respondents who were employed took more advantage of extended trading hours during the week (70% of those who shopped between 6 and 9pm worked);

¹¹ Shopping Centre Council of Australia and the Property Council of Australia WA, 1998. WA submission to the WA Department of Fair Trading

¹² AC Nielsen, 1998. *The Way We Shop*

- a larger proportion of younger respondents (aged less than 44) claimed introduction of extended trading hours had resulted in moderate/complete change in the days and times they usually shopped for groceries;
- most respondents bought groceries at supermarkets because they were close to their homes, or they provided one-stop shopping;
- price competitiveness and the variety of goods offered for sale were also cited as important reasons for supermarket shopping;
- the majority chose not to purchase groceries from small businesses because they were too expensive;
- most shoppers would not sacrifice the price competitiveness and convenience of one-stop shopping afforded by large stores, even if extended trading hours were abandoned; and
- convenience, and being able to choose the time to shop were the reasons most often cited for liking extended trading hours.

The two consumer surveys indicate that Woolworths' commitment to extend trading hours is meeting the needs of consumers. Issues such as longer trading hours, price competitiveness, and product range and choice were found to be the most important factors for customers.

Trends in consumer patterns were also reinforced by a recent publication by AC Nielson and the Australian Supermarket Institute (ASI)¹³. The publication notes a number of key recent trends in consumer behaviour including:

- Sunday trading is growing in terms of the preferred day for shopping and as a share of weekly store expenditure. For full time workers, Sunday provides all the benefits of Saturday shopping without the crowds (over 10% of the week's trading is now done on a Sunday, where the State laws permit);
- customer convenience is still the key determinant of the preferred shopping day; and
- one-stop shopping has increased overall and now suits just over half of the population.

¹³ AC Nielsen, 1998. *The Way We Shop*

Another important trend in Australia is its increasing ethnically diverse nature. The changing demographics of the population have resulted in significant changes in the types of foods we are eating, including consumer demand for non-traditional foods. Woolworths has responded to this demand by 'micro-marketing' its range to expand its "offer" to cater for the varied tastes of ethnic communities. Woolworths also recruits employees with ethnic backgrounds to assist in its delivery of a high quality service to these groups and tastes. In 1998, Woolworths spent over \$500 million on an expanded range of international foods¹⁴.

In order to be successful, today's food retailers must meet the demands of customers. Woolworths provides the key facets demanded by consumers in its retail "offer". Woolworths provides:

- a comprehensive range and choice;
- convenient and accessible locations with flexible trading hours;
- good quality fresh foods;
- safe food (prepared and handled hygienically);
- home meal solutions;
- the utility of a 'one-stop shop'; and
- low prices across the range of products.

2.2 WOOLWORTHS HAS BEEN ABLE TO MEET CONSUMER DEMANDS THROUGH ITS INVESTMENT IN CONTINUOUS IMPROVEMENT

Consumers today are more sophisticated and savvy and expect more from food retailers than in the past. Price, convenience and range are now the key determinants of consumer preference. However, most consumers are not prepared to pay a premium for additional convenience and range as they strive to maximise value.

As food retailers tend to sell similar or identical goods, consumers have the option of switching easily between retailers to obtain the best "offer", and regularly do. Intense competition has forced retailers to remain flexible and responsive to changing consumer

¹⁴ AC Nielsen, 1998. *What's Hot and What's Not in Grocery*

expectations through providing a competitive "offer". Woolworths has met these changing consumer expectations through:

- offering value for money. Consumers in Australia have access to some of the lowest priced food in the world. Competition has forced retailers such as Woolworths to aggressively attack costs and efficiency levels to enable the provision of low prices; and
- providing consumers with an "offer" which embraces their preference for an increasing range of fresh produce, by introducing and then expanding the dairy, fruit and vegetable, poultry and meat departments. Woolworths' introduction of delicatessen, bakery and seafood departments were also in response to the changing tastes of consumers, and the desire for improved shopping convenience.

Woolworths has been able to position itself to successfully meet consumer demands because of its substantial and continued investment in:

- stores (both new and refurbishments);
- staff training;
- low cost warehousing and logistics;
- comprehensive supply chain improvement; and
- new technologies.

Continued investment in Woolworths stores

Woolworths' continued investment in new stores and the refurbishment of existing stores forms part of its strategy to provide the highest quality food retailing experience for its customers. Woolworths re-invests a significant proportion of its cash flow into its businesses.

During 1997/98, 18 new Supermarkets were opened, as well as 4 Big W stores. There were also 52 stores refurbished during the year. In addition, Woolworths opened 49 Plus Petrol outlets, commissioned a new distribution facility and announced a banking initiative through a strategic alliance with the Commonwealth Bank of Australia.

Service levels to customers are constantly improving due to the substantial re-investment in stores and equipment. Woolworths' gross capital expenditure in 1997/98 was \$686

million. While this figure is slightly down on the preceding year, each of previous three years saw a significant increase in the level of expenditure on new and existing Woolworths stores.

Table 6: Woolworths' gross capital expenditure

Year	Gross capital expenditure (S million)
1994	234
1995	315
1996	447
1997	715
1998	686

Source: Woolworths

Woolworths' capital investment (in addition to repairs and maintenance) in new stores has been substantial over the last five years. A major portion of this has been in rural and regional areas, as can be seen in the table below. In the last 3 years Woolworths has invested \$79 million into rural areas through the development of new stores.

**Table 7: Capital investment (in addition to repairs and maintenance) in new stores
(showing rural and regional versus metropolitan areas)**

Woolworths also invested \$201 million on the refurbishment of stores in rural areas over the past 3 years, as it strives to meet the changing needs of consumers in these areas.

Table 8: Capital investment in refurbishing (in addition to repairs and maintenance) existing stores (showing rural and regional versus metropolitan areas)

Woolworths has significant investment planned in the coming year including 31 new Supermarkets, and an expected 52 Supermarket refurbishments. The budgeted expenditure for the coming year is as follows:

Table 9: Budgeted expenditure for year ending 1999

Continuous investment in staff training

Service is a major factor in customer satisfaction. Woolworths' investments in training and development of its employees to ensure a continually improving "offer" to its customers is discussed in greater detail in section 3.4.

Continuous investment in comprehensive supply chain improvement

Woolworths has been instrumental in both initiating and supporting food retail industry supply chain and category management studies. These studies assist in the development of dialogue between supplier and retailer. Increased efficiency in the supply chain produces benefits to consumers in the form of reduced shelf prices.

As Chairman of the Australian Supermarket Institute (ASI), Reg Clairs (recently retired Group Managing Director of Woolworths) was instrumental in the formation of the Grocery Industry Supply Chain Committee (GISCC). GISCC is a joint venture between the ASI and the Grocery Manufacturers of Australia. Its purpose is to identify, examine and to make recommendations to remove unnecessary costs from the Australian grocery supply chain.

The GISCC identified four major areas of focus to remove cost:

- establishing common electronic trading standards;
- simplifying and mechanising common work processes;
- optimising industry asset utilisation; and
- developing a collaborative environment.

This focus upon the supply chain has been instrumental in reducing costs and keeping food prices down, via increased efficiency and co-operation between suppliers and retailers.

Individual vendor/retailer satisfaction studies were completed as a part of the GISCC study. These studies sought information on the level of satisfaction vendors had with retailers, using 28 key attributes. The results showed that the major retailers, Coles and Woolworths, satisfied their vendors far more than wholesalers (generally the chief suppliers of product to the independents). Furthermore, Woolworths rated the "most highly" of the retail stores in relation to satisfaction.

Continuous investment in customer feedback

Woolworths conducts extensive customer research (local, regional and international) and undertakes regular feedback studies to assist in understanding the changing needs of customers. In particular, feedback studies include 'Customer Contact Group Meetings', whereby invitations are sent to customers for face to face sessions. The sessions involve a one and a half hour time commitment by the customers, and cover a full range of issues.

The feedback received is used to improve customer service and facilities to individual stores and on a more generalised basis.

Continuous investment in new technologies

To provide consumers with the price/service mix they demand, and to be able to adapt quickly to their continually changing needs, it is essential to invest in new technologies. Particular retail areas where this is necessary include EFTPOS, Bar coding, e-commerce, supply chain, finance and administration, merchandising, warehousing, executive information systems and modern ERP solutions.

2.3 THERE ARE CONSIDERABLE CONSUMER BENEFITS (INCLUDING RURAL AND REGIONAL CONSUMERS) FROM THE INTENSELY COMPETITIVE MARKET

The competitiveness of Woolworths can be seen in its responsiveness to changing consumer demands. Consumers are receiving the product range and quality they demand at the lowest possible prices, together with high levels of service.

In addition to Woolworths' responsiveness to changing consumer demands, intense competition and rivalry (particularly between the major retailers of Woolworths, Coles and Franklins) is reflected in Woolworths' continuous investment in improving efficiency, its level of returns (which are not excessive) and the low prices offered to consumers. All these indicators of a competitive market, together with low barriers to entry suggest that current concentration levels are delivering real benefits to consumers (including rural and regional consumers). These are discussed in more detail as follows.

Competitive Pricing

Food retailers operate in a demanding market with rapidly increasing consumer expectation of price and service levels, together with low population and demand growth. There has been new market entry by specialist food retailers that have been able to successfully develop niche markets. Woolworths constantly faces competition, not only from its traditional supermarket rivals but from convenience stores, service stations and "fresh food" specialists such as bakeries, seafood and health food stores, delicatessens and fruit and vegetable retailers, as well as other specialist franchise chains.

In addition to this new competition, there is intense rivalry between the three major food retailers that is the driving force of increased service levels and low prices for both metropolitan and rural and regional areas.

In July 1998, the Australian Consumers Association (ACA) published the results of an independent survey of supermarket prices¹⁵. The survey was conducted nationally and included supermarkets in capital cities, rural communities and regional towns. The survey found the large chain food retailers, such as Woolworths, consistently provided consumers with the cheapest prices for the sample basket of goods. Of the 24 cities and towns in the sample, 4 of the 6 cheapest localities for groceries were regional areas.

Internationally, Australian grocery prices are considered to be among the cheapest. A study conducted by the *Sunday Mail* (in which there was a comparison of prices for a basket of goods for 24 developed nations) concluded that Australia was the fourth cheapest. It found that northern Europeans pay up to 33% more for their food than Australians and New Zealanders.

While there are significant variables that may explain the differences in costs between countries and regions, the relatively low cost of food in Australia indicates that consumers have benefited from strong competition between food retailers. Australian consumers, including those in rural and regional areas, enjoy low prices by the standards of the developed world. The price advantage is greater still, if the consumer chooses to shop at a major chain such as Woolworths, whose prices are consistently lower than many other food outlets.

To demonstrate the lower prices offered by Woolworths Supermarkets compared to independent stores, Woolworths conducted a price survey in the following Queensland stores:

¹⁵ Australian Consumers Association, 1998. *Choice* October 1998

- Beerwah/Kawana Waters Woolworths;
- Oakey/Wilsonton Woolworths;
- Murgon/Kingaroy Woolworths;
- Home Hill/Ayr Woolworths; and
- Port Douglas/Mossman Woolworths.;

Six hundred lines were checked as at 19 November 1998 with the following results:

Table 10: Price differentials in Queensland

Location	% difference	\$ Independents	\$ Woolworths
Port Douglas	19.53	691.27	578.30
Beerwah	4.05	370.23	355.81
Home Hill	7.05	783.39	731.78
Oakey	10.89	204.29	184.22
Murgon	7.57	967.61	899.50

Source: Informsources

Efficiency

In some highly concentrated markets it may be possible for incumbents with market power to operate at low efficiency levels and maintain profitability. Woolworths' operational benchmarks provide support that it operates in a competitive market.

The following tables show the results of Woolworths' continuous investment in improving efficiency, with its levels more than competitive with major retailers in the United States.

Table 11 shows that Woolworths has constantly improved its productivity as measured by its sales per square metre over the last five years (over 20%). Furthermore, the rate of stock turn over the same period has been improving.

Table 11: Woolworths operational productivity benchmarks 1994-98

Table 12 indicates that Woolworths performance is better than the US average for key benchmarks such as space productivity, transactions per store and stock turns.

Table 12: Woolworths operational benchmarks – US comparison

Characteristics	Measure	Woolworths	US average*
Space productivity	Space productivity – average sales per selling square metre	\$7,702	\$2,167
Supermarket transactions	Estimated weekly transactions by store	12,413**	10,800
Inventory	Stock turns	10.73	10.83#

Note: All figures \$A

* Management Horizons – Supermarkets Review 11/97

** 12m transactions per week – estimated 60% are supermarket transactions – divided by the number of stores – 1998 figures

1997 inventory turn figure – Safeway US

Profitability

Consistently high profits earned by market participants could suggest a lack of competitive pressure. However, Woolworths profitability is not considered excessive and is low relative to other major food retailers internationally. This is shown below.

Table 13: Earnings Before Interest and Tax as a percentage of Sales - Australian retailers Vs US and UK retailers

Retailer	1994	1995	1996	1997	1998
Woolworths	3.25	3.31	3.27	3.45	3.56
Coles Myer	3.01	3.18	3.14	3.30	3.40
Sainsburys UK	-	-	6.40	5.30	5.40E
Safeway US#	-	-	5.19	5.66	6.47E
Safeway UK	-	6.88	7.00	5.87	-
Tesco	-	5.98	5.57	4.96	-

E – estimates # - US accounting year

Source: Company Annual Reports & Goldman Sachs Retailing Research.

Note: it is difficult to get accurate US comparisons as retailers tend to carry drugs as well as groceries

Woolworths' individual return does not support suggestions of a monopoly or near monopoly market. The shifts in consumer loyalty over past periods clearly demonstrate the unreliability of current market share data as a guide to future market growth.

Additionally, when compared to returns earned in the United States and United Kingdom, and given the efficiency levels shown in tables 11 and 12, the returns of Australia's two largest food retailers (Woolworths and Coles) suggest that the competitive pressures in the Australian market are greater than those in the United States and United Kingdom.

Barriers to entry

Woolworths believes the barriers to entry for potential new competitors and expansion of existing food retailers are low. There are few structural barriers to entry. The levels of technology required are no higher than those needed by any other small business. Complex equipment such as EFTPOS terminals and bar code scanners are readily and cheaply available.

Manufacturers and distributors of common food items are more than willing to supply their products to new retailers. The only real potential barrier to entry may be cost. However, the success of Ritchies and Cornetts and many other independent and specialist food retailers would indicate that if it is a barrier, it is not insurmountable. In fact, not only has entry been successful, many of the new independent retail chains are continuing to grow.

Competition from Woolworths provides real benefits to rural and regional consumers

Woolworths' investment in maintaining and improving service levels, quality and price have not only benefited metropolitan consumers. Its policy of maintaining a consistent "offer" across all its stores (where reasonable) has seen the benefits of the competitive retail food sector passed on to rural and regional consumers. Woolworths:

- has a policy of overall price parity between metropolitan and most rural/regional stores in most States, absorbing normal transport costs;
- accepts lower returns in regional centres in the interest of serving regional consumers; and
- in many cases, provides consumers with the only alternative to the existing independent food retailer. This ensures there is competitive pricing for rural regional customers.

Woolworths' commitment to rural and regional areas has increased competition and benefited consumers generally in these areas. In particular, Woolworths' policy (for most rural and regional areas) in NSW, Victoria and parts of Queensland not to pass on normal freight costs of supplying goods, has resulted in price benefits to customers in these areas. Indeed, the shelf prices of a basket of goods in their local Woolworths store is on average no higher than that paid by residents in metropolitan areas. In certain cases shelf prices may be lower.

This policy often means that Woolworths' rural and regional stores tend to be less profitable than their metropolitan counterparts. In many organisations, the substantial outlay on development and investment into these locations would not be justifiable or sustainable. However, Woolworths believes that regional and rural residents should not be disadvantaged by their location through receiving an inferior price, quality and service mix for their food requirements. Indeed, in a number of regional centres, Woolworths' shelf prices are the same as metropolitan areas. Woolworths continues to accept these reduced returns in the interest of providing a consistent national retail "offer" which meets the highest standards of quality, service and price.

In many cases, the existence of a Woolworths Supermarket is the only real competition for independent retailers in many smaller regions. In the past, where Woolworths had decided to exit from a rural or regional centre the prices charged by the local and independent competitor have often risen quickly, as was the case when Woolworths exited from Pannawonica, Cloncurry and Boyne Island in Queensland. The continued presence of Woolworths in rural areas is needed to ensure that consumers are not forced to accept lower quality and ranges of products and services, and higher prices.