

2.4 WOOLWORTHS' CURRENT LEVEL OF MARKET SHARE IS NECESSARY TO ENSURE BENEFITS ARE PASSED ON TO RURAL AND REGIONAL AREAS.

As demonstrated in the previous section, Woolworths operates in a highly competitive food retail market. Food retailers strive to provide consumers with the most attractive retail "offer". Competition has seen the largest competitors grow their market share through continued attention to consumer demands and expectations.

Australia is a large country with a relatively small and geographically diverse population. In order to maintain a reasonably consistent "offer" across its network of stores, it requires a critical mass to ensure sufficient economies of scale. These are necessary in areas such as:

- distribution;
- advertising and promotion;
- technology; and
- purchasing.

The need for economies of scale was asserted by Davids in its acquisition of Queensland Independent Wholesalers (QIW) as critical. The ACCC approved the acquisition largely on the basis of improved economies of scale and efficiencies¹⁶. The ACCC accepted that there were potential significant economies of scale and significant benefits that the capture of such economies would provide.

The nature of the Australian food retail sector, as well as Australia's relatively low population and wide geographical spread, means that the critical mass threshold is higher than in countries such as the United States and the United Kingdom, where the retailers tend to service larger, more centralised and dense populations.

¹⁶ Davids Holdings also acquired Independent Holdings Limited in South Australia and Composite Buyer Limited also for economies of scale reasons

There are varying levels of Woolworths' market share depending on the market definition used. At the lower end, using a "total available food market" definition, Woolworths market share is approximately 18%, whereas if the market is limited to an examination of branded national dry packaged goods the share is approximately 34%. Other market definitions tend to produce percentages within the above range. There is currently no agreement on how the market should be defined.

2.5 THE INDEPENDENTS HAVE LOST OVERALL MARKET SHARE DUE TO CUSTOMER DISSATISFACTION WITH THEIR "OFFER"

The independent food sector has lost a large portion of its overall market share due to customer dissatisfaction with the majority of their stores' "offer". This has been an on-going process, not one that has suddenly arisen due to the recent deregulation of trading hours, as discussed in Section 2.1.1.

This decline is also not applicable to all independents, as many such as Cornetts, Ritchies, Advantage Supermarkets and FoodWorks (see Section 2.6) have achieved strong customer support and sales growth.

There are a number of contributing factors to the decline of the independent sector. These include:

- failure to meet increased consumer expectations;
- failure to reinvest in their businesses despite previously having a monopoly or 'convenience' market;
- failure to keep up with technological developments; and
- increased competition from an expanding retail sector, at all levels.

These are discussed in more detail below.

Failure to meet increased consumer expectations

The range, quality and value of goods offered by supermarkets is now paramount from a consumer perspective. They will no longer pay a price premium for convenience. Consumers also expect one-stop shopping for their convenience goods, which includes speciality food stores such as fruit and vegetables, butchers and bakers and some non-food stores such as newsagents, pharmacies and hairdressers. They generally view supermarket

shopping as an inconvenience and require shopping to be done quickly, and at the nearest supermarket which they perceive as offering the best range, quality and price. The independents are generally not meeting these needs.

The importance of range, quality and price in a consumer's shopping decision is emphasised by, in some cases, a high degree of consumer loyalty. This loyalty is created by successful branding of supermarkets by offering clear points of difference to their competitors in areas such as price, service, store layout and range and depth of product. Indeed it is common for shoppers to drive past one or more major supermarkets to do their shopping¹⁷. The independents have failed to reinvest and realign their stores to differentiate themselves from the major food retailers or other convenience stores.

Failure to reinvest

Prior to the reduced regulation of trading hours in certain States, the independents had an artificial monopoly on the 'convenience' market (ie outside standard trading hours). The independent food sector occupied, by default, a niche market for 'convenience' shoppers. In return for this convenience, consumers were forced to accept higher prices, limited product ranges and reduced service levels. There was no alternative.

This lack of competitive pressure is one of the reasons why many of the independent retailers failed to reinvest in their businesses. Their "offer" to customers (even though substantial profits were being earned) has subsequently become irrelevant due to its failure to meet consumer demands.

In addition to these changing conditions, the expansion of trading hours and alternative competing retail "offers" has resulted in 'convenience' no longer occupying the market niche it used to. The independent sector now competes with specialist food retailers, smaller franchised chains and convenience store/service stations etc, to attract 'convenience shoppers'. The recent decline in independents' market share is largely due to a failure to reinvest in their businesses, despite increased competition.

Failure to keep up with technological developments

Poor take-up of new technologies is another reason for the independents' retail "offer" becoming irrelevant as consumer demands change. Both technological and non-technological (eg. direct marketing) developments within the industry are changing the

¹⁷ Kinhill Economics, Roger Bremweld Consulting, Planning Australia Service, 1997. Internal Report to the Maroochydoore Council, May 1997.

face of traditional retailing. To be a low cost wholesaler or retailer in the last five years and in the future, continuous investment is an important requirement. New technologies are not necessarily costly, however, they allow a retailer to understand customer demands quickly and efficiently. Without the technology it is difficult to achieve an efficient cost base and competitive prices.

Areas where investment in technology is important include EFTPOS, bar coding, e-commerce, supply chain, finance and administration, merchandising, data warehousing, executive information systems and modern ERP solutions, to name a few.

A recent study by the Queensland Government¹⁸ found that these new technologies, in addition to increasing customer demand for convenience, quality and value, will intensify competition in the industry throughout the 1990s. Failure by the independent sector to meet the changing technological needs (especially in so far as it provides time savings) of consumers will result in a further restructuring of the retail sector to accommodate the consumer driven changes.

Another example of the changing face of 'traditional' retailing and the need to adopt new technologies is the growth of home shopping. A recent AC Nielsen survey stated that 30% of 18-35 year olds might consider home shopping at some time in the future¹⁹. Furthermore, Retail World reveals that:

*"Home shopping sites on the Internet have experienced phenomenal growth all over the world in the past two years, with on-line shopping increasing 400 per cent since 1996."*²⁰

This point further exacerbates the irrelevance of the retail "offer" from the independents, as consumers choose to spend less in traditional retail outlets.

Increased competition from an expanding retail sector at all levels

Consumers are also facing increased competition for their retail dollar from a number of (non-retail) leisure activities and non-merchandising retailing such as hospitality, internet, mobile phones, Pay TV and gambling. Consumers' disposable income is being successfully competed for by activities such as hobbies, travel, cinemas, theatres and dining out²¹. Consumers are therefore demanding improved quality, value and service.

¹⁸ Queensland Government, 1998. *Queensland Retail Industry Strategy*

¹⁹ AC Nielsen, 1998. *The Way We Shop*

²⁰ Australian Supermarket Institute, 1998 *Retail World* November 1998

²¹ Queensland Government, 1998. *Queensland Retail Industry Strategy*

The failure of the independent sector (in general terms) to reinvest in their stores and update their "offer" is mirrored in overseas experience. For example, in the UK

*"... when we put in applications for new stores, our strongest support comes from the mums on the estates who are fed up with paying high prices at the small shops."*²²

Likewise in the United States, the small independent owners were left running inefficient businesses with few sources of information as to how to combat the new breed of retailers, namely Wal Mart, Kmart and Target. Their concept was simple – provide good merchandise at low prices. Parallels can be drawn with the Australian experience.

2.6 OPPORTUNITIES FOR THE INDEPENDENT SECTOR

As the independents generally do not have the rigid structures of the major retailers, they have opportunities to succeed through adapting quickly to customers' changing needs. There are ample opportunities to offer specialised services such as providing speciality or niche ranges and personalised service.

There are a number of examples of successful independents that have met, and continue to meet the specific needs of their customers. These include Leo's Fine Food and Wine in Victoria, in addition to Ritchies which has 14 supermarkets and 15 liquor stores. Their "offer" of high quality, premium range of foods and wines in a small but well merchandised and modern format, has been very successful. Ritchies also has a loyalty program that is very successful (discount on shopping and weekly promotions). Ritchies' prices are relatively expensive, but the premium is happily borne by the customers due to the personalised service. Cornetts in North Queensland and Bribie Island fill a similar role.

In Western Australia there are many successful independents including Advantage Supermarkets, Gewsons (mostly fresh food), Rules (dry grocery), and Farmer Jacks. FoodWorks is another example where a new independent supermarket chain is successfully competing with the majors without government intervention. FoodWorks' 54 stores have reported a 7 per cent surge in sales over the past year, and are supplied by Woolworths' subsidiary company Australian Independent Wholesalers Pty Limited (AIW). Geoff Gledhill, Chairman of the Foodtown banner group in Victoria, and a director of the Master Grocers Association of Victoria was quoted as saying:

²² Bernard Hughes, Tesco 1998. Australian Financial Review, page 8 August 14

*“Independents can compete if they have a good offer, good hours, good range and, most importantly, good service”.*²³

Successful independents overseas also emphasise this point. In Europe, specialist fresh food retailers have thrived in the competitive market. Bakers, butchers and green grocers with excellent product knowledge are providing high quality products and services and compete successfully with the major supermarkets chains.

As emphasised by the role of AIW in assisting the success of FoodWorks, the independents need the services of an effective, competitive wholesaler to ensure survival. AIW is very competitive and provides the necessary support for independent retailers as evidenced by the recent sales growth of FoodWorks. Additionally, FAL provides the necessary support in Western Australia, and the independent retailers are performing well against the major retailers there.

The New Zealand experience also emphasises the importance of a strong wholesaler. Foodstuffs (Auckland) Ltd is the major supplier of groceries, dairy and frozen products to the independent grocery sector in Auckland, New Zealand. Foodstuffs is owned by its customers, namely independent grocers throughout the region. The company has managed its business in such a way that it has been entirely focused on developing its market share and its members. Despite facing intense competition from major international grocery retailers, the company has managed to maintain over 52% market share of grocery, dairy and frozen product in Auckland. This has been due to its focus on developing its members and their ability to compete with the majors, rather than the Australian situation where independent grocery wholesalers have been preoccupied with a series of take-overs and mergers.

The emergence of AIW as a competitor to Davids Limited in the wholesale sector in NSW, Victoria and Queensland has seen an improvement in the assistance given to independent retailers which may see them regain some of their lost competitiveness.

²³ Foodweek, September 22, 1998.

3. BENEFITS TO RURAL AND REGIONAL AREAS FROM WOOLWORTHS' GROWTH

The application of NCP (particularly through the partial removal of restrictions on trading hours) has been one factor in the growth of Woolworths' retail sales in rural and regional areas (in those States where the restrictions applied). Other factors include customer support for Woolworths' decisions to enter particular locations or upgrade existing sites. This growth has produced real and measurable benefits that have not, and are unlikely to be provided by independent retailers.

Benefits to rural and regional areas include:

- access to a supermarket "offer" of similar convenience, quality, value and service, to that received by consumers in metropolitan Australia;
- the provision of considerable employment opportunities. In particular, for rural and regional Australia's youth, female and disabled populations;
- the provision of structured careers with greater breadth of opportunity and flexibility;
- the provision of training opportunities leading to recognised industry accreditation that would not otherwise be available;
- the provision of significant direct and indirect community support;
- greater access to financial and banking services;
- support for rural and regional horticulture and agriculture through long term supply arrangements and quality management systems that facilitate efficiency and competitiveness; and
- the creation of many opportunities for local small businesses to benefit from a thriving retail sector.

The progress of NCP should be allowed to continue (particularly in respect to deregulated trading hours) to ensure maximum benefits are achieved in the overall public and consumers' interest.

Benefits to rural and regional Australia are discussed in more detail below.

3.1 WOOLWORTHS PROVIDES RURAL AND REGIONAL AUSTRALIA WITH THE SAME "OFFER" AS METROPOLITAN AREAS

Woolworths ensures that as far as practicable its customers in rural and regional areas experience a consistent "offer" that does not disadvantage the community in range and access to facilities. Woolworths absorbs much of the extra cost involved in transport to rural areas in order to maintain an "offer" that is comparable to those consumers in metropolitan areas. This is a significant commitment to its rural and regional customers given the geographic diversity of Woolworths' stores and the high cost of transport and, in particular, the costs of delivering fresh products to these areas on a regular basis. Most rural communities, therefore, receive a substantial benefit from Woolworths.

The provision of an "offer" in rural areas that matches that in metropolitan areas, especially in terms of price and range, is one that few service providers in Australia can claim.

3.2 WOOLWORTHS PROVIDES CONSIDERABLE EMPLOYMENT OPPORTUNITIES FOR RURAL AND REGIONAL AUSTRALIA

Woolworths is responsible for providing considerable employment throughout Australia. Furthermore, many of these employment opportunities have been, and continue to be, created in rural and regional Australia.

Woolworths Limited employs approximately 100,000 people throughout Australia. There are approximately 58,000 female and 42,000 male employees. Total employment has increased by 38% since 1993. Woolworths is also the second largest private employer in Australia, in particular of young people and females.

Table 14: Woolworths Limited total employees by gender

Classification	Gender	1993	1998	% Variation
Full time	Female	13,078	14,784	13.04
	Male	12,841	17,741	38.16
	Total	25,919	32,525	25.49
Part time	Female	6,602	15,823	139.67
	Male	1,277	5,694	345.89
	Total	7,897	21,517	173.09
Casuals	Female	24,510	27,479	12.11
	Male	13,451	17,692	31.53
	Total	37,961	45,171	18.99
Total	Female	44,190	58,086	31.45
	Male	27,569	41,127	49.18
	Total	71,759	99,213	38.26

Source: Woolworths

A large proportion of Woolworths Limited's staff is employed by Woolworths Supermarkets. Woolworths Supermarkets employs a total of 77,833 staff, as can be seen in Table 15.

Table 15: Employees at Woolworths' Supermarkets

Classification	1998
Full time	23,349
Part time	20,237
Casual	34,247
Total	77,833

Source: Woolworths

As mentioned previously, a significant number of the staff at Woolworths Supermarkets are employed in rural and regional areas. Indeed, some 34,947 of the total 77,833 staff are employed in country areas. The breakdown between rural/regional and metropolitan areas can be seen in Table 16.

Table 16: Number of Woolworths' Supermarket employees by locality

Classification		1998
Metro		
Full time		12,531
Part time		11,364
Casual		18,991
Total		42,886
Rural / Regional		
Full time		8,951
Part time		8,328
Casual		17,668
Total		34,947

Source: Woolworths

Thus, it can be seen that a significant proportion of Woolworths' total employees are employed in rural and regional areas.

Additionally, Big W stores employ 21,122 people, 40% of whom are in rural and regional stores. Big W's regional and rural distribution centre employs an additional 160 people. A second regionally located distribution centre is scheduled to be opened in 1999 with an additional 150 regionally based jobs being created. The distribution of Big W stores through rural and metropolitan areas can be seen in Table 17 below.

Table 17: Numbers of Big W stores by rural/metropolitan break-up

State	30 June 1998		
	Metropolitan	Rural/regional	Total
NSW	17	17	34
Queensland	9	13	22
Victoria	8	3	11
South Australia	7	1	8
Western Australia	7	2	9
Total	48	36	84

Source: Woolworths

Rockmans also has a large number of stores throughout Australia. As of 1998, Rockmans had 173 stores in rural and regional areas, with a further 88 in metropolitan areas. These

stores accounted for some 968 employees in rural areas, and 469 employees in metropolitan areas. These employment figures represent an increase of 20% since 1994.

Further to the actual direct employment within Woolworths stores, consideration should also be given to the additional multiplier impact on jobs. The ABS²⁴ estimates that for each million dollars worth of additional output in the retail sector, there are 16 direct jobs created, plus 5 indirect jobs and a further 8 in related consumption (total of 29 jobs). While Woolworths is unsure whether these estimates are accurate, the ABS estimates do demonstrate the impact of the multiplier effect and are useful from this perspective.

Using the ABS estimates, an indication of the level of jobs Woolworths has created over the last few years may be gained by the growth in its sales since 1994. In 1994, Woolworths had total sales of \$11,482.2 million. In 1998, these sales had increased to \$16,841.9 million. The sales growth over 4 years amounts to \$5,359.7 million, which, using the ABS multipliers amounts to 85,755 direct jobs, 26,798 indirect jobs and a further 42,878 jobs in related consumption. This represents a total of 155,431 jobs created by Woolworths over the last 4 years.

The jobs created by Woolworths' growth exceed by far the number of jobs lost as a result of reduced custom to the independents that are not able to meet consumer demands. For example, total jobs lost, as claimed by NARGA, is 9,000²⁵. This needs to be considered in the context of the additional 155,431 jobs created by Woolworths, plus employment created by other retailers such as Coles and Franklins.

3.2.1 Woolworths is assisting the Government in reducing youth unemployment

The contribution to the economy by companies such as Woolworths is accentuated by the importance of the retail sector in regards to youth employment. Youth unemployment has been identified as a problem throughout Australia, in particular in rural areas. Woolworths is assisting the Government address the youth unemployment problem through its extensive employment of youth in the retail industry.

Woolworths is also a major training provider, and develops large numbers of youth employees to a stage where they can take on responsible and accountable Store and Department positions. Woolworths has a long held policy of internal recruitment and development of management from its shop assistant employees.

²⁴ Australian Bureau of Statistics, *ABS Input – output multipliers*, full time equivalent tables: employee, ABS catalogue no 5246.

²⁵ As argued in NARGA Submission to the Senate Inquiry 1998

The retail industry accounts for some 49% of employment of 15-19 year olds in Australia. This proportion is significantly higher than experience in the United Kingdom as shown in the table below.

Table 18: Youth industry experience

Industry	UK % of total 16-20 year olds in industry	Australia % of total 15-19 year olds in industry
Retail	30	49
Hospitality	19	9
Production	14	9
Construction	4	4
Other market services	18	17
Public Service	8	5
Other industries	7	7

* based on UK industry definitions

** some of difference may be due to differences in industry definitions

Source: UK – ARA estimates based on Figure 5.8 UK Low Pay Commission Report, June 1998

Australia – ABS catalogue number 6202.0 (unpublished data)

Woolworths is a very large player in the retail industry, and as such provides a significant proportion of this youth employment. As can be seen in Table 19, Woolworths employs 41,077 staff (approximately 41% of total staff employed) aged between 15 and 20 years in full time, part time and casual positions. This employment is especially significant for the rural areas of Australia, given the high levels of unemployment among its youth.

Table 19: Woolworths' employment by age

Woolworths' role as a major employer of youth was recognised in the Australian Retailers Association Draft Submission to the AIRC Inquiry into Junior Rates²⁶. The Submission recognises the importance of employment by Woolworths, whether it be in a part time, full time or casual role. It states that Woolworths, in addition to other major employers of high school and university students and youth, provides an important function in the process of socialising youth and students into the workforce. Employment produces increased independence, interdependence, initiative, adult contact, supervision and self regulation.

Woolworths also employs significant numbers of staff in the above 50 age bracket. Some 4,410 (4.44% of total staff) staff employed are over 50. Woolworths, then, also plays a role in the employment of the elder section of the community, especially important for those displaced through restructuring (an integral part of NCP).

3.2.2 Woolworths is a major source of employment for women

Woolworths is a major source of employment for women throughout Australia. The company employs significant numbers of women in full time, part time and casual roles. In fact, Woolworths Limited employs significantly more women than men with 58,086 female staff in 1998 (as compared to 41,127 male employees). This figure is up 31.45% from 1993.

A large proportion of the female staff employed at Woolworths are employed on a part time or casual basis. As can be seen in Table 14, there are 14,784 full time, 15,823 part

²⁶ Australian Retailers Association, 1998. Draft Submission to the AIRC Inquiry into Junior Rates

time and 27,479 casual female employees at Woolworths. The number of part time female employees has increased 140% since 1993, reflecting the growth in permanent part time employment that Woolworths offers, and the suitability of that type of employment for many female employees. This type of employment offers a more secure position than that of a casual, and is integral in improving levels of service to the customer by maintaining experienced staff. It is important to note that the numbers of casual female staff have only marginally increased (12%) in the same time period.

The increased flexibility offered by Woolworths to female employees via increased part time employment, is especially important for female employees in the rural and regional areas of Australia. Women in these areas face difficulties that those in metropolitan areas do not. For example, they do not have the same level of, and access to, facilities such as child care. These flexible working arrangements with Woolworths offer them and their families the opportunity to supplement their income in a way not previously possible.

Woolworths is also advanced in its treatment of Affirmative Action (AA) and Equal Employment Opportunity (EEO), with AA and EEO extensively addressed in all areas of human resource management. This includes recruitment, career planning, training, counselling and dismissal procedures. Woolworths also has a number of training programmes specifically designed to train managers and recruiters in all aspects of Woolworths' EEO policy. In Affirmative Action surveys, Woolworths rated a level 4, which means they are no longer required to report their AA processes.

3.2.3 Woolworths is a major source of employment for people with disabilities

Woolworths employs a significant number of people with disabilities in its stores nationwide. It is committed to employing people with disabilities and offering them substantial career opportunities.

Woolworths' Safeway stores in Victoria have won two consecutive Prime Minister's Employer of the Year Awards (for companies with more than 100 employees). This is due to the Special Employment Placement Officer (SEPO) Project. In 1996, Safeway embarked upon a 2 year project to encourage the further recruitment of people with disabilities across Victoria. This included the employment of a Special Employment Placement Officer and awareness training for service managers. Since the commencement of this Project, 115 people with various disabilities have joined the existing 80 (approximately) employees.

This emphasises the commitment that Woolworths has to ensuring there is no form of discrimination in its stores and business.

3.3 WOOLWORTHS OFFERS CAREERS THAT ARE STRUCTURED, FLEXIBLE AND HAVE A GREATER BREADTH OF OPPORTUNITY

Woolworths has made a commitment to offer careers to its employees that provide structure, flexibility and breadth of opportunity.

Woolworths has focused on developing retail career opportunities for its employees via secure and stable employment, improved training and development, and a consistent and regular income. It sees this development of its staff as important for the employees in terms of personal development. It also sees the retention of experienced staff as vital in maintaining its "offer" to customers. The development and training of staff, in addition to a consistent and regular income, has been vital in retaining staff. Furthermore, Woolworths has a policy of internal recruitment and development of management. This also provides the incentive for staff to pursue a career with Woolworths within the variety of areas of the business, with opportunities in store management, buying, distribution and information technology.

A reflection of the success of Woolworths in offering a better career to its employees is the increasing proportion of full time and part time employment as compared to casual staffing.

In Victoria, the percentage of total hours worked by casuals has moved from 50% in 1993 to a current figure of 18%. In NSW, the change has been from 50% to 30% over the same time period.

The increased proportion of full time and part time staffing also leads to improved productivity through improved service and reduced turnover of staff (permanent staff turnover is around 17% as compared to 50-60% for casuals). This further assists in Woolworths controlling its costs and maintaining lower prices for its customers.

Another indication of the success of Woolworths in creating rewarding careers for its staff, is the length of time its employees have been with the company.

Nearly 48% of full time staff at Woolworths have been with the company for 3 to 10 years. and 38% have been with the company for 6 to 20 years. Of part time employees, nearly 37% have been with the company for 3 to 10 years. These figures exemplify the commitment Woolworths has made to its staff in terms of careers and development, and to its customers in terms of the level of service they receive.

Table 20: Woolworths Limited's total employees by years of service

The importance of Woolworths as a provider of careers for its staff is exemplified by the fact that retail is Australia's largest employing industry with one in every eight of the nation's workforce, one in every five female employees, and one in every two employees aged between 15 and 20 years²⁷. Furthermore, the retail industry is set to provide one in every five new jobs in the period up to 2005²⁸.

²⁷ Australian Retailers Association, 1998. Draft Submission to the AIRC Inquiry into Junior Rates

²⁸ Department of Education, Employment, Training and Youth Affairs, 1995. *Australia's workforce – jobs in the future*

3.4 WOOLWORTHS PROVIDES TRAINING OPPORTUNITIES THAT WOULD NOT OTHERWISE BE AVAILABLE TO RURAL AND REGIONAL COMMUNITIES

As discussed earlier, Woolworths' stores in rural and regional areas provide a secure working place with the prospect of career development. As part of this career development, Woolworths provides significant levels of training and skills transfer into the local community. This transfer is the result of the introduction of experienced management and staff, and the level of training undertaken by Woolworths' employees.

The investment by Woolworths into training (\$25 million annually) is far in excess of the 1.5% required by the Federal Government. A significant portion of this training expenditure (40%) is incurred on rural and regional employees. In addition, Big W will be offering 400 traineeships in its rural and regional stores as part of its on-going training program.

There are also some instances of indirect training, such as that due to the introduction of Woolworths' high levels of hygiene and safety in its products. These often become benchmarks to improve all food hygiene standards in the town.

Woolworths is the largest trainer of apprentices in Australia, with a total of 1082 apprentices employed in 1998 in various skill sets such as bakery and meat. Woolworths supermarkets in New South Wales employs 79 Career Start Trainees, 234 Butcher Apprentices and 186 Bakehouse Apprentices (a total of 499 employees).

Woolworths has a detailed training and development program for its staff. There is training at TAFE accredited certificate, diploma and advanced diploma levels across Australia as shown in Table 21. The total number of all trainees undertaking certificate II, III, IV, diploma and advanced diploma currently is 3,229.

Table 21: Training for Woolworths' trainees

3.5 WOOLWORTHS PROVIDES A SIGNIFICANT LEVEL OF COMMUNITY SUPPORT

Woolworths provides various benefits to rural and regional Australia. Importantly, Woolworths provides a significant level of direct and indirect community support.

Due to the level and nature of investment in its stores, Woolworths has a long term view of its position in rural communities. This is especially important in many towns that are subject to 'boom and bust' conditions. Woolworths is committed to the community in both good and bad times (eg. the recent Katherine floods).

Listed below are a number of examples in which Woolworths has been instrumental in holding together the social fabric of towns that experienced shocks of one form or another.

- Weipa

- Woolworths has underpinned the commercial component of the town since 1982;
- the main employer, Comalco has been shedding staff;
- Woolworths are the only people that have the skills in logistics to enter this market and offer product that is fresh and at a reasonable price; and
- the store also provides employment and job training for members of households not employed by the mines.

➤ Mossman

- purchase of a business due to the owners (Co-op of primary producers) realising they could not provide required service especially given level of development pressure from nearby Port Douglas (and non-core business);
- Chamber of Commerce encouraged entry of Woolworths;
- prices were reduced;
- employees were increased;
- Company committed nearly one million dollars relaunching the store; and
- introduced greater product range and higher levels of service and hygiene.

➤ Charleville, Charters Towers, Cloncurry, Blackwater, Roma, Biloela

- many of these towns exist on a volatile basis due to their agriculture and mining foundations;
- many businesses pull out in difficult times as they have no defence mechanisms to sustain themselves in times of low confidence;
- Woolworths enters towns and must ride these cycles for periods up to 40 years maintaining a consistent standard in terms of range, servicing and pricing; and
- Woolworths' presence provides a base level of business in the town over hard times and allows the town to keep a level of wages and services which provides some stability for families and small businesses.

➤ **Bribie Island**

- development of Woolworths store brought planned commercial centre to the island with a full line supermarket providing all core facilities in one location;
- nearest full line store was 30 km away at Caboolture which was a significant trip for the elderly population; and
- also employment opportunities for younger members.

➤ **Jimboomba**

- growing community with facilities that were not matching growth;
- sales actually going to a different shire 25km away (with associated loss of sense of community and place);
- establishment of store near school has provided a tight socially cohesive group; and
- access to basic facilities without the need to travel.

Woolworths also makes investments in areas that are subject to environmental risk, in particular areas subject to flooding. Woolworths provides the logistics and know-how to support the store and community with these difficulties. The company is well known for its efforts to comfort, meet community needs and minimise trauma in areas such as Townsville, Charleville and Katherine. Decisions by Woolworths to open stores on Christmas Day or Boxing Day in areas where businesses have been closed due to cyclone activity, are further examples of its commitment to the community.

3.5.1 Community financial support

Woolworths donates significant sums of money to the various children's and regional hospitals every year, which are Woolworths' main focus for charitable donations. These donations cover both rural and metropolitan inhabitants, especially children, as all have access to these hospitals. Woolworths also donates to the Smith Family Appeal, the Guide Dogs for the Blind, and assists many other smaller charities.

Tables 22 to 31 outline the extent of Woolworths' assistance to local communities through the provision of extensive donations, for the years 1995-1998 inclusive.

Table 22: New South Wales Supermarkets' donations 1995-1998 (inclusive)

Type of donation	\$ Amount
Major Childrens' Hospitals and Regional Hospitals	3,435,000
Charities	450,000
Total	3,885,000

Source: Woolworths

Table 23: Big W's donations 1995-1998

Type of donation	\$ Amount
Sydney Childrens' Hospital	902,000
Community and other support extended	286,000
Total	1,188,000

Source: Woolworths

Table 24: Dick Smith Electronics' donations 1995-1998

Type of donation	\$ Amount
General	100,000
Total	100,000

Source: Woolworths

Table 25: Queensland Supermarkets' donations 1995-1998

Type of donation	\$ Amount
Royal Childrens' Hospital and Regional Hospitals	1,450,000
Charities, schools and community support	646,000
Total	2,096,000

Source: Woolworths

Table 26: South Australia Supermarkets' donations 1995-1998

Type of donation	\$ Amount
Royal Adelaide Hospital, Regional Hospitals and other hospitals	300,000
Charities, schools and community support	171,600
Total	471,600

Source: Woolworths

Table 27: Western Australia Supermarkets' donations 1995-1998

Type of donation	\$ Amount
Princess Margaret Hospital and other hospitals	222,000
Charities, schools and community support	114,311
Total	336,311

Source: Woolworths

Table 28: Victoria Supermarkets' donations 1995-1998

Type of donation	\$ Amount
Hospitals	1,147,000
Charities, schools and community support	720,000
Total	1,867,000

Source: Woolworths

Table 29: Tasmania Supermarkets' donations 1995-1998

Type of donation	\$ Amount
Hospitals	12,046
Other	110,693
Total	122,739

Source: Woolworths

Table 30: Corporate office

Type of donation	\$ Amount
Corporate support extended	853,758
Total	853,758

Source: Woolworths

Table 31: Total donations in Australia 1995-1998

Type of donation	\$ Amount
Total hospitals	7,468,046
Total other support	2,598,604
Grand total	10,066,650

Source: Woolworths

As can be seen from the above tables, Woolworths has a significant level of commitment to local communities, whether rural or metropolitan.

Woolworths also provides monies and executive involvement to various industry bodies and their activities that result in benefits for rural and regional Australia. These include the pledging of \$600,000 to the University of Sydney Fruit Fly Research Program, and involvement by Woolworths executives in SEAQUAL (Seafood Industry body development work), the CSIRO Horticulture Sector Advisory Committee, and the Supermarket to Asia Working Group on Food Quality and Safety. Woolworths was also a founding member of the Buy Recycled Business Alliance, and is rolling out a waste recycling audit.

3.5.2 Attracting trade for local small businesses

Woolworths often underpins the commercial component of the town insofar as it acts as a major employer and an anchor for existing and new businesses. The presence of a Woolworths store enables businesses to plan on a long term basis, given the long term nature of Woolworths' investment in communities.

The presence of a Woolworths store also provides a minimum level of services that attract other tenants to the town and shopping centre. This is especially so given the range of goods offered and technological developments such as the impending banking facility as discussed further in Section 3.6. These are attractions and services that cannot be provided for by the independents.

3.5.3 Woolworths assists local communities through the provision of discount petrol through its Plus Petrol outlets in conjunction with shopping at Woolworths

In keeping with its emphasis on convenience and value for its customers, Woolworths has been developing its Plus Petrol outlets which accompany Woolworths' stores. This allows customers to receive discounts on their petrol following their shopping at Woolworths. The concept further meets customers' needs in so far as it provides increased value for their shopping experience. Also, the location of the Plus Petrol stores adjacent to Woolworths' supermarkets provides customers with the additional facility of a 'one-stop shop' for both their shopping and petrol needs.

The Plus Petrol stores have been extensively developed in the rural and regional areas. In fact, there are currently more Plus Petrol outlets in rural and regional areas, with 53 out of a total 84 stores situated in rural and regional locations. Woolworths expects to open further outlets over the coming years, with a total of 200 outlets expected by the end of 2000. Rural and regional outlets are still expected to be more prevalent than metropolitan outlets by the year 2000.

Customers benefit from lower petrol prices wherever Plus Petrol is introduced. An indication of the quantum of benefits being delivered to rural and regional areas can be gleaned from a study undertaken by the economics unit at Charles Sturt University on Woolworths' first Plus Petrol outlet in Dubbo NSW. The 1997 study found that since opening in October 1996, Dubbo residents collectively saved \$1.6 million in petrol costs. This was calculated as a saving of \$90 per year for each car.

Canberra is another good example of benefits flowing to consumers as a result of increased petrol competition from Woolworths. In a press release this year from Garry Humphries MLA in the Australian Capital Territory, he stated:

“The Carnell Government has pursued a successful policy of opening up the Canberra petrol market to competition from independents, such as Woolworths Plus and Gull.

This policy has resulted in substantial price decreases for Canberra consumers, but it has also meant that there is greater price fluctuation in different petrol stations around town.”

There is evidence of lower petrol prices occurring in all areas in which Plus Petrol has commenced business.

To provide an estimate of total petrol cost savings to rural and regional consumers due to the introduction of Woolworths Petrol Plus outlets, the number of country outlets (53) could be multiplied by the \$1.6 million benefits found in the Dubbo study (acknowledging the results of the Dubbo study may not be reflective of other sites). Total benefits in petrol savings could be in the order of \$85 million per annum.

Table 32: Number of Woolworths stores with Plus Petrol sites by rural/regional and metropolitan location

State	Up to and including 1998		Projected 1999		Projected 2000		Total		Grand Total
	Metro	Rural/Regional	Metro	Rural/Regional	Metro	Rural/Regional	Metro	Rural/Regional	
NSW/ACT	8	29	4	17	8	4	20	50	70
QLD	3	5	7	7	5	6	15	18	33
VIC	15	11	11	7	6	6	32	24	56
SA	2	5	3	3	4	2	9	10	19
WA	2	1	6	0	0	3	8	4	12
TAS	1	2	1	3	2	1	4	6	10
Total	31	53	32	37	25	22	88	112	200

Note: ACT/Canberra included in Regional figures

Source: Woolworths

3.6 WOOLWORTHS PROVIDES GREATER ACCESS TO BANKING SERVICES FOR RURAL AND REGIONAL AUSTRALIA

In an environment where the withdrawal of banking services from rural areas by banks is becoming a regular event, Woolworths has positioned itself to serve the local community by forming an alliance with the Commonwealth Bank of Australia (CBA) to provide a wider range of low cost banking services in its stores. Woolworths already provides significant banking services in its stores via its EFTPOS service.

It is the first such arrangement of its kind in Australia, and follows successful implementations overseas.

Basic transactions will be available at a separate kiosk. The financial services will be co-branded as "Woolworths" with CBA as the designated service provider. It will provide a safe, convenient and secure banking service. The supermarket trading hours will also be extended beyond normal banking hours.

A wider range of banking services will become available as part of a staged roll-out.

For towns without banking services it will meet a strong consumer demand. For those with CBA branches, there is no intention for existing branches to close (as far as is understood at this time).

There is a significant investment component associated with the development of these new banking facilities in Woolworths' rural and regional stores.

In addition to this new initiative, Woolworths already provides benefits to its customers in the form of a 'cash-out' facility from its EFTPOS service. This is particularly beneficial to rural and regional customers where access to banking services is increasingly becoming an area of concern. The significance of this benefit can be seen in the amount of cash withdrawn per visit to the supermarket. The Australian average 'cash-out' per Woolworths' visit is \$60.35. An analysis of rural and regional and metropolitan stores would show an average amount higher in country areas due to the access problems experienced there.

Table 33: Average 'cash-out' in Woolworths' supermarkets by State

State	Amount (\$)
NSW	57.58
Queensland	60.74
Western Australia	68.67
South Australia	62.51
Tasmania	75.54
Victoria	59.56
Australia	60.35

Source: Woolworths July – December 1998

3.7 RURAL AND REGIONAL HORTICULTURE AND AGRICULTURE BUSINESSES BENEFIT FROM WOOLWORTHS' SUPPLY ARRANGEMENTS AND QUALITY MANAGEMENT SYSTEMS

3.7.1 *Benefits of contracts*

The contracts with growers and produce suppliers are driven by changing customer focus on the expectation of the food they eat. Consumers are increasingly aware of food hygiene and demand a high level of food safety. Woolworths, as part of its "offer" to its customers, firmly believes that the onus to supply safe, quality food to its customers is a partnership between its vendors, its supermarkets and government. Woolworths has subsequently moved towards systems and procedures that control potential hazards within its supply chain.

Furthermore, when contracts are negotiated with suppliers, Woolworths seeks assurances that they will apply required quality standards. Suppliers are provided with projected volumes over a buy period of two to three years. This allows the supplier to re-invest in their business (machinery, equipment, stock etc) to assist in their growth and profitability.

3.7.2 *Implementation of WVQMS and HACCP*

Woolworths has taken the proactive step of asking suppliers for objective evidence that foods are processed under a food safety regime that satisfies the regulatory standards, identifies all critical control points and has appropriate systems in place to address them. To achieve this, Woolworths developed the Woolworths Vendor Quality Management Standard (WVQMS) which incorporates the internationally accepted system of Hazard Analysis of Critical Control Point (HACCP), and includes 9 additional support elements that are consistent with other food quality and safety programs.

The step taken by Woolworths is an indication of the constant striving to improve its “offer” to customers. While the guidelines are stringent, they give the supplier an opportunity to improve the quality of their product and service, and ensure that their business maintains an ongoing high volume business with a leading retailer. It also provides the vendor with confidence in their own operations and excludes vendors with below acceptable standards.

Chisholm Manufacturing (a division of Woolworths) supplies both processed and packaged goods and has implemented the WVQMS and applied the HACCP standards in its manufacturing plant. Chisholm believes that its success with other customers (non-Woolworths related) has been assisted by the high standards of produce handling, preparation, product quality and hygiene that have been developed.

Woolworths' history of maintaining relationships with suppliers is very good, ensuring that suppliers that meet their standards can reasonably expect on on-going relationship with the Company. A good example is meat suppliers to Woolworths in Victoria, as detailed in Table 34. Nearly 45% of the suppliers listed have had a relationship with Woolworths for 15 years or longer. 70% of these firms have had relationships with Woolworths for over 10 years.

Furthermore, nearly 60% of these suppliers have less than 150 employees (some as few as 10-15), which shows that Woolworths does not only support large companies.

Table 34: Meat Suppliers to Woolworths' supermarkets in Victoria

Name	Type	Years of supply	Number of employees
Frews	FO	30	550
MC Herd	FO	30	350
Hardwicks	FO	14	120
Essex Oaks	FO	12	100
Oakdale Meats	FO	8	45-50
WH Drever	FO	15	20
Hills of Darling	FO	6 months	50
J&L Meats	FO	6 months	15
Perfect Pork	FO	13	100
Don Smallgoods	FO	30	500
Rennards Pies	FO	18	10
Pasta Master	FO	8	60
Joes Poultry	FO	5	150
The Cheavap Co	FO	15	15
Aldinga Turkey	FO	12	32
Inghams	FO	17	3500 (VIC)
Lalonica	FO	18	80
Hazeldene	FO	12	320
Barter	FO	6	1500
Castlemaine	FO	30	950
MQF	Corp	28	1300 Nat (40 VIC)
Bertocchi	FO	8	120
Top Hat	Corp	3	120
Colonial Farm	Corp	11	150
Chickadee	FO	12	650
Steggles	Corp	20	550
Bunge	FO	20	500

FO – Family owned

Corp – Corporation

Source: Woolworths

3.7.3 Increased volumes for contracted growers

Woolworths accepts that there is a certain degree of attrition of local suppliers due to the implementation of the contracting system, and their inability to meet required minimum standards. However, the longer term nature of the contracts implemented enables the contracted growers to put into place long term plans and reinvest in their businesses. This

re-investment generally results in an increase in output greater than that lost due to the attrition of certain suppliers. There is, therefore, a net benefit to the local community in terms of produce supplied, in addition to an efficiency gain due to the exit of sub-standard growers.

3.7.4 Woolworths is the largest purchaser of Australian grown pork

Woolworths' supermarkets are the largest purchaser of pork in the Australian industry. They buy over 99 per cent of their pork requirements from Australian producers, which are overwhelmingly based in rural and regional areas. Furthermore, Woolworths has been the leader in developing export markets for Australian pork, noted by the Productivity Commission²⁹ as an integral part of the survival of the industry.

3.8 WOOLWORTHS CREATES MANY OPPORTUNITIES FOR THE LOCAL COMMUNITY'S SMALL BUSINESSES

Woolworths sources the majority of its contractors from local sources in rural and regional areas. These include areas such as repairs and maintenance, locksmiths, gardeners, cleaners, advertising, laundry, waste removal and security. Any nominal job losses from small business is more than offset by this increased demand for local services. There is also the requirement for local building contractors in constructing new stores, and the regular updating and renovation of existing stores.

The development of a new store in rural and regional areas results in significant investment in local building contractors. The amount spent varies according to the size and type of each new store, as estimated below.

²⁹ Productivity Commission 1998, *Pig and Pigmeat Industries: Safeguard Action Against Imports*, Inquiry Report, AusInfo, Canberra.

Table 35: Estimate of amount spent on local contractors/tradesmen for a new stand alone supermarket

Table 36: Estimate of amount spent on local contractors/tradesmen for a new supermarket based centre

Table 37: Estimate of amount spent on local contractors/tradesmen for a new community sized (supermarket, Big W) centre

The number of these developments in rural and regional areas over the last six years (and projected for year ending 30 June 1999) is detailed below. From 1993 until 30 June 1999, some 39 developments will have been undertaken in rural and regional areas. This quite clearly represents the level to which Woolworths invests in rural and regional areas, and

the extent to which it ensures that its rural customers receive the same level of service and “offer” as their counterparts in metropolitan centres.

Table 38: Developments of new rural and regional based stores 1993-1999

Type of development	1993	1994	1995	1996	1997	1998	1999 – projected	Total
Free-standing supermarket	1	1	2	1	3	3	1	12
Neighbourhood centre – supermarket based	2	2	1	1	7	1	3	17
Community sized centre (incl Big W)	0	2	1	1	4	0	2	10
Total	3	5	4	3	14	4	6	39

Source: Woolworths

Significant capital investment is also made by Woolworths in rural and regional areas on the refurbishment of existing stores. On an average \$3.5 million refurbishment, approximately \$400,000 is spent on local contractors and tradesmen (labour only)³⁰. In addition, about \$400,000 - \$500,000 worth of materials may be purchased from local suppliers. An estimated \$17,600,000 in expenditure was incurred in the year ending 30 June 1998 (on labour only) for the development of the above types of stores (for new fitouts, refurbishments and extensions and not including construction of new stores).

In Queensland for example, annual expenditure includes some \$320 million in salaries/wages spent on local contractors, \$4.8 million in laundry and waste removals, \$24 million in repairs and maintenance, and \$12 million in local advertising services.

³⁰ Depends on extent to which main contractor uses local sub-contractor labour and local supplies

4. NCP IN RURAL AND REGIONAL AUSTRALIA – THE PUBLIC INTEREST

Opponents of NCP applying to rural and regional areas (in particular the deregulation of shop trading hours) argue that its application is not in the public interest of those communities. In regard to public interest the NCC notes:

“... a central component of the competition policy reform process is a systematic and transparent consideration of community benefits and costs through bona fide review.”³¹

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. These reviews have been transparent and have found that deregulation is in the public interest.

There is no definitive definition of “public interest”. However, subclause 1(3) of the CPA provides a mechanism for assessing whether the merits of reform are justified. It provides for examination of the relationship between the overall interest of the community, competition and desirable economic and social outcomes, and that governments take account of a number of factors including:

- economic and regional development, including employment and investment growth;
- the interests of the community generally or of a class of consumers;
- the competitiveness of Australian businesses; and
- the efficient allocation of resources.

Further guidance on public interest can be found from Authorisation decisions of the Australian Competition and Consumer Commission (ACCC) and the Australian Competition Tribunal (ACT). Public benefits have been found to include (but not limited to):

³¹ National Competition Council, 1998. *Considering the public interest under the NCP*

- the promotion of competition in an industry;
- fostering business efficiency, especially where this results in improved international competitiveness;
- industry rationalisation, resulting in more efficient allocation of resources and in lower or contained unit production costs;
- expansion of employment or prevention of unemployment in efficient industries and employment growth in particular regions;
- improvements in the quality and safety of goods and services and the expansion of consumer choice;
- promotion of industry cost savings resulting in contained or lower prices at all levels of the supply chain;
- growth in export markets; and
- steps to protect the environment.

In the ACCC's assessment of public benefits, it examines the effect on competition in the market overall, rather than the effect on individual competitors.

In assessing public interest within the context of removing anti-competitive restrictions, Governments consider the weightings to be applied to factors (such as those mentioned above), and the extent to which the interests of the whole community should be traded-off against the interests of particular groups. Weighing benefits and costs are difficult judgements which need to be assessed on a case-by-case basis. In Woolworths' opinion, the reviews to date have correctly weighted the benefits to the economy and community as a whole (through factors such as those mentioned above).

As demonstrated in Section 2, not only do consumers recognise the benefits offered by Woolworths, its growth has produced, and continues to produce, real benefits to communities and the economy as a whole, along the lines of those recognised by the ACCC, the ACT and in the CPA. Hence, decisions to remove the anti-competitive restrictions are well founded. Current and future reviews should continue to proceed through this transparent and rigorous process.

5. REGULATORY RESPONSE

The information presented in this submission demonstrates that Woolworths' investments and growth (in both metropolitan and rural/regional areas) are meeting the needs of consumers, and providing them and local communities with real and measurable benefits. Any assertion that retail specific regulatory intervention is required (outside that provided by the current regulatory regime) is ill-founded, and its introduction will prove detrimental in the short term to consumers and in the longer term to rural and regional communities. Those most affected will be rural and regional areas, where the impact of lost youth employment and training opportunities will be felt most.

Regulatory intervention to stop the growth of Woolworths will deprive customers (particularly those in rural/regional areas) from receiving access to the best possible retail "offer". Intervention along this line by Government would, in effect, be anti-competitive and contrary to the public interest, remove competitive pressures and force customers to receive a poorer "offer". Customers will pay higher prices and receive less choice of products and services. Intervention is clearly not in the public interest.

5.1 REGULATORY RESTRICTIONS

Suggestions that retail specific regulation is needed to protect competition implies that current competitive safeguards are inadequate. The legislation that presently regulates competitive behaviour is the *Trade Practices Act 1974* (the Act). It is 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).

Woolworths maintains a Trade Practices compliance programme which is endorsed at the highest level. It is strictly enforced and regularly monitored and updated to ensure the risk of breaching the Act is minimised.

Suggestions that retail specific regulation is needed to supplement Part IV of the Act are made without justification. In particular, there are claims from an industry interest group that specific regulation is needed to cap the market share of the major supermarket retailers³². It is also suggested that pricing restrictions are needed to limit the ability of the major supermarkets to "predatory price"³³.

³² National Association of Retail Grocers Australia, 1998. Submission to the Productivity Commission's Inquiry into the impact of Competition Policy Reforms on Rural and Regional Australia

³³ Australian Supermarket Institute, 1998 *Retail World* December 1998

There is no justifiable basis for introducing specific retail restrictions. The current regime is adequate for the following reasons.

5.1.2 Growth through acquisition

The increase in market share through merger or acquisition is subject to scrutiny by the ACCC. Section 50 of the Act prohibits mergers or acquisitions where they have or are likely to have, the effect of substantially lessening competition in a market.

Assessments of competition start with the definition of the market. Market definition is an economic and legal concept, however, determining the boundaries of a market is purely a factual issue. The factors which are likely to impact on the outcome include sensitivity to price change, the products' peculiar characteristics, distinct customers³⁴ and increasingly, industry perception of the market parameters.

The ACCC's merger guidelines³⁵ state that following completion of the first stage (defining the relevant market), concentration levels are determined and applied against thresholds. The ACCC will use these as a guide for deciding to continue through a process of rigorous analysis in order to determine whether there is likely to be a substantial lessening of competition.

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:

"The IC's assessment reflects its view that the emergence of a less regulated Australian economy, increasingly open to international competitiveness, has enhanced the dynamism of market forces and significantly reduced the scope for firms to price above competitive levels for sustained periods. The IC also considers that, while any market power and its attendant costs will generally be eroded over time through new sources of competition (often associated with technological change) the economic benefits foregone when efficiency-enhancing mergers or acquisitions are prevented or deterred can be durable."³⁶

³⁴ Arnotts Limited v TPC (1990) ATPR 41-0161; Eastern Express Pty Limited v General Newspapers Pty Limited (1991) ATPR 41-128

³⁵ Australian Competition and Consumer Commission, 1996. *Revised Merger Guidelines*

³⁶ Industry Commission, 1996. *Merger Regulation, A review of the draft merger guidelines administered by the Australian Competition and Consumer Commission – Information Paper, June 1996*

Inadequacies with suggestions that market share should be capped

Suggestions that retailers such as Woolworths be subject to a market share cap, rather than the rigours of current ACCC assessment (under section 50) are inadequate. These suggestions would cause the following insurmountable problems:

- a market share cap would deprive consumers of the benefits from pro-competitive acquisitions that would not contravene section 50.

There is a misconception that Woolworths is an aggressive acquirer of independent supermarkets for the purpose of eliminating its competition. Site location is a key issue in Woolworths purchase decisions, and in the majority of cases Woolworths is approached by the independent retailer.

Succession problems for the independent tend to be a common reason for the approach. This seems to be due to a generational change where the children of independent retailers are tending to not want to take over the family business. Rather than having to reinvest in the business to make it more competitive, they are seeking less capital intensive options such as 7Eleven franchises and petrol forecourts etc. As a result of the succession problems the older retailers are selling out and taking the cash option.

If Woolworths does acquire a store, in all cases they have employed 100% of the staff of the independent. These employees then work under better conditions, have access to training, superannuation, better infrastructure and facilities, equal employment opportunities and better security of employment.

The following table demonstrates that the perception of a large number of acquisitions is false.

Table 39: Number of acquisitions of existing grocery retail stores

State	1994		1995		1996		1997		1998		Total		Grand Total
	Metro	Rural/Regional	Metro	Rural/Regional	Metro	Rural/Regional	Metro	Rural/Regional	Metro	Rural/Regional	Metro	Rural/Regional	
NSW	0	2	1	0	0	0	0	11*	1	0	2	13	15
QLD	0	0	0	0	0	0	0	0	0	1	0	1	1
VIC	0	0	0	0	0	0	2	1	9	0	11	1	12
SA/ NT	0	0	0	0	0	0	1	1	0	0	1	1	2
WA	0	0	0	0	0	0	0	0	0	0	0	0	0
TAS	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	0	2	1	0	0	0	3	13	10	1	14	16	30

Source: Woolworths

* acquisition of Cannons chain of supermarkets in Canberra

The total number of acquisitions over the past five years cannot be considered significant. As a percentage of the number of existing independent supermarket and grocery stores, it is less than half of one percent³⁷.

- a market share cap would restrict mergers that pass the net public benefit test under the Authorisation provisions of the Act.
- a market share cap would fail to appropriately account for issues such as market definition. For example, concentration levels will vary significantly depending on the product and geographic boundaries used.
- a market share cap is likely to adversely affect rural and regional Australia the hardest. Attempts to cap market share will result in the forced closure of less profitable stores to facilitate the opening or expansion of more profitable ones. The less profitable stores tend to be in rural and regional Australia. The withdrawal

³⁷ Acquisitions as percentage of total number of supermarket and grocery stores (7,835 - ABS September 1998) less major chains' stores.

from these areas will remove significant employment and training opportunities (particularly for youth in these areas). Additionally, the community will be limited in its choice of basic food products and services.

- if Woolworths is required to divest businesses, there is likely to be difficulty in finding willing purchasers of the businesses at fair prices.
- whether market share caps would be imposed on the individual market share of companies or by some reference to a combined concentration level is unclear. In either case it would be unworkable and unjustifiable.

5.1.3 Growth not due to acquisitions

The notion of a market share cap is even less palatable when considering market share growth is also achieved through means other than acquisition. In Section 2.2 we note that the independent retail sector has lost market share over many years due to changing customer needs and their failure to invest in meeting these needs. Does a market share cap suggest that once a particular level is reached divestiture must take place, or that sales are reduced through adjusting downward the shopping “offer”?

5.2 The adequacy of section 46

Section 46 of the Act prohibits a corporation that has a substantial degree of power in a market, from taking advantage of that power for anti-competitive purposes³⁸.

It has been suggested³⁹ that, in respect of Woolworths and the other major retail chains, there is a need to boost the powers of section 46 to restrict predatory pricing behaviour. It is suggested that certain pricing obligations be imposed to enable independent retailers to compete more fairly.

Woolworths makes the following points in this regard:

- the ACCC has considerable powers under the Act in relation to anti-competitive behaviour;

³⁸ (ref: Those purposes are: (a) eliminating or substantially damaging a competitor of the corporation (b) preventing the entry of a person into that or any other market; (c) deterring or preventing a person from engaging in competitive conduct in that or any other market)

³⁹ NARGA Australia Pty Ltd in its Submission to Senate Select Committee on Socio-Economic Consequences of the NCP

- although there are examples of industry specific competitive safeguards being introduced (eg Part XIB and XIC of the Act in respect of telecommunications) they tend to only be introduced in deregulating industries where there is an incumbent monopoly provider and while serious competitive concerns are associated with the transitional period. This is not the case with the retail sector;
- based on very limited use of industry specific safeguards (including the apparent non-acceptance of the NCC's recent recommendation of amendments to section 46 in respect of Australia Post), and the lack of any parallel with the retail sector there are no grounds for retail specific amendments. A feature of section 46 is that it is not sector specific and is capable of universal application; and
- the claim that the competitive safeguard is necessary in the interests of allowing the independent retailers to compete more fairly is a contradiction in terms. Improving their competitive position through imposing market constraints stifles the competitive process.

Rather than impose restrictions on competition, Woolworths believes that the public interest will be best served (particularly in relation to rural and regional areas) through a regulatory response that provides increased support and funding in certain areas. These include youth unemployment, job opportunity programmes, relief or concession on payroll tax for regional activities, and transitional arrangements (as part of tax reform) for rural and regional areas.

6. CONCLUSIONS

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.