



26th August 2011

AACS SUBMISSION: PRODUCTIVITY COMMISSION INQUIRY INTO THE AUSTRALIAN RETAIL INDUSTRY

ATTENTION MAGGIE EIBISCH:
Inquiry into Australian Retail Industry
Productivity Commission
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To whom it may concern,

The Australasian Association of Convenience Stores (AACCS), the peak body for the convenience industry in Australia, makes the following submission to the Productivity Commission's *Economic Structure and Performance of the Australian Retail Industry Draft Report* on behalf of its many members nationally.

The purpose of our submission is for the Commission to recognise the threats facing the convenience store industry in Australia and to commit to supporting the future of the industry, which employs 13,000 Australians often in small, family run or franchised businesses.

We also endeavour to provide a number of potential solutions as to how government policy could promote a level playing field in the retail sector, particularly in the food and beverage sector, where the two major supermarket chains are using their unmatched buying power to leverage an unprecedented proportion of market share.

In Australia, the convenience store industry is at a critical impasse.

Higher utility costs, rising costs of labour, security and penalty rates, the likely introduction of plain packaging for tobacco as well as the rumoured introduction of a 'fat tax', are all negatively impacting convenience stores while the major supermarkets, with their bulk buying power, remain immune to these effects and in some cases actually benefit from these changes.

Aggressive pricing by supermarkets, the fragmented supply chain, the growth of online shopping and the legislative framework is limiting the ability of convenience stores to compete with the major grocery chains. All at a time when retail trading conditions are extremely tough.

The convenience store industry requires government support now more than ever. We encourage the Productivity Commission to recognise and respond to the threats facing our industry in developing its recommendations.

The AACCS wishes to thank the Productivity Commission's consideration of our submission in compiling its final report.

An industry under threat

- The convenience store industry employs 13,000 people in 4,500 stores nationally. The majority of stores operate as small, family run businesses;
- The convenience store sector is responsible for contributing over \$6.1 billion in sales to the Australian economy (source: IBIS report April 2011);
- Convenience stores are experiencing worrying levels of channels shift across many product categories as major grocery chains use their unmatched buying power to strengthen their market share;
- The existing legislative framework is failing to address this channel shift and in many ways actually supports the growing duopoly;
- Consider the case of tobacco. While tobacco sales in supermarkets is increasing, tobacco products represent around 10% or less of total sales. In convenience stores, where customers regularly choose to buy single packs, tobacco sales contribute up to 40% of sales. Inconceivably, in some states, supermarket “Fly-Buy” incentives and rewards programs actually apply to tobacco products, potentially further increasing supermarket market share at the direct expense of convenience stores;
- Now with the pending introduction of tobacco plain packaging, tobacco sales will decline further yet convenience stores will almost solely bear the burden, as they do not have the buying power of the major grocery chains and they do not have the same capacity to offset the decline in tobacco sales as supermarkets do;
- The impact of online shopping, which again requires scale only available to the major grocery chains, exacerbates the problem of channel shift while obviously reducing foot traffic;
- The convenience store industry continues to bear the brunt of legislative changes, supply chain inefficiencies, higher utility and labour costs;
- Like the rest of the retail sector, difficult trading conditions are placing undue pressure on convenience store operators and government support is needed more than ever.

What needs to be done

- The two major supermarket chains are benefitting from the legislative framework and using their immense buying power to further increase their market share across many different product categories;
- The existing retail regulatory framework is skewed towards the two major chains with many products available exclusively through these chains;
- The fact that products such as alcohol are not able to be sold through convenience channels unfairly restricts the competitiveness of their offering ;
- The focus of government policy concerning the retail sector should be to address the imbalance that exists and level the playing field so all retailers can compete on equal grounds;
- Convenience stores have already embraced changes in consumer behaviour and attitude, evolving to offer a range of fresh product like fruit and vegetables, bakery goods and coffee;
- The AACS is not calling for restrictions to be placed on the major chains; we are calling for fairer operating environment for all retailers;
- The livelihood of many small businesses and their employees is at stake.

Addressing the imbalance: potential policy solutions

Policy support for changing business models

Faced with increasing external pressures, the convenience store industry has responded to the challenges presented by evolving its model and product offering in line with changes in consumer attitudes and behaviours. The emergence of a fresh food offering is a prime example.

But policy support to assist the industry in meeting these challenges has not been forthcoming. In fact, some regulations even present further barriers.

Consider the South Australian Government's proposal to introduce the display of kilojoule information at point of sale in food service chains in South Australia, through new Regulations proposed under the *Food Act 2011*.

This proposed legislation, effectively a kilojoule disclosure scheme, would apply to a broad range of businesses including some convenience stores and would require food products presented in packages not provided by manufacturers to display kilojoule information.

The costs in collecting, displaying and updating this information for each fresh food product sold (without manufacturer packaging) will fall directly on the operator of stores for which the regulations will apply. No financial compensation or cost rebates are referred to in the proposal.

Proposed legislation such as this consistently fails to consider the impact of retailers, an inappropriate oversight given the financial burden inevitably falls on the retailers in this scenario.

A glance at the pharmacy retail sector presents an interesting comparison to the convenience store sector. Regulatory changes and the push from major supermarkets to stock traditional pharmacy medicines have required pharmacies to evolve their business model to remain relevant.

The sector has achieved this through the development of generic medicine lines and the embrace of new product categories, such as beauty products, without facing regulatory resistance to limit its ability to compete in a changing market.

It is time the convenience store sector was extended the same courtesy.

Alcohol

As the major chains increasingly use their unmatched buying power to erode the market share of convenience stores – and other small businesses – it is time for government to consider ways to implement policies with the potential to correct the imbalance.

Permitting convenience stores to sell alcohol products is one solution with the potential to provide compelling benefits. Consider the following:

- There is no credible reason why convenience stores should not be permitted to sell alcohol products;
- Like so many other product categories, the two main supermarket chains have successfully used the existing regulatory framework to dominate alcohol sales to a level that has become unsustainable [on Wednesday August 24th 2011, as an example, Liquorland offered a 20cents/litre discount to customers who bought selected alcohol products from them – the convenience channel is however excluded from competing with selling packaged alcohol];
- According to the IBISWorld Industry Report: *Liquor Retailing in Australia July 2011*, “During the past decade, the supermarket duopoly increased their combined market share to over 58% of industry revenue”;
- Also from the IBISWorld report: “Over the five years through 2011-12, the supermarkets have taken advantage of this to strike favourable agreements with alcohol producers, discounting some liquor products to levels independent retailers have struggled to compete with. The supermarkets have also exploited their market position to reduce shelf space dedicated to branded products and push their own, higher-margin private and control-label beer and wine”;
- The convenience store sector in the United States and Europe is permitted to sell alcohol products and this has proven an important revenue source for the sector, one Australian stores are missing out on;
- As evidenced by the responsible sale of tobacco products, convenience store operators are entirely capable of the responsible retailing of alcohol and compliance with all regulations;
- The convenience store model naturally aligns with consumers’ preferences when they make alcohol purchases. According to the IBISWorld Industry Report: *Liquor Retailing in Australia July 2011*, liquor retailing “Competition is based on price, location and available product range” and the majority of alcohol purchases are made on impulse, all of which align with the convenience store industry’s few remaining competitive advantages;

- By restricting the convenience industry from selling alcohol, government is preventing a significant proportion of the retail market from exposure to a potentially crucial revenue stream at a time when threats from the major chains have never been greater and retail trading conditions themselves are extremely tough.

Conclusion

The AACS supports a free market and a level playing field. As the Productivity Commission investigates and considers the drivers of structural change in the retail industry, and the regulatory and policy issues that impact upon this, we encourage the commission to recognise and respond to the challenges facing the convenience store sector.

We thank the Productivity Commission for its consideration of our submission and extend an invitation for the inquiry to contact the AACS directly for further information.

Jeff Rogut
Executive Director
Australasian Association of Convenience Stores