AUSTRALIAN COMPETITION & CONSUMER COMMISSION

Supermarkets inquiry summary

Margins and profitability

Key findings

- ALDI, Coles and Woolworths increased their average product margins over the last 5 financial years, particularly for branded goods in household and packaged food categories
- Significant funding is paid by suppliers to Coles and Woolworths for promotions and ancillary services
- ALDI, Coles and Woolworths appear among the most profitable supermarket businesses globally

Competition

Key findings

- Australia's supermarket industry is highly concentrated with an oligopoly structure, dominated by Coles and Woolworths
- ALDI, as a "hard discounter", provides an important source of price constraint on Coles and Woolworths for the more limited range of products it sells
- Coles and Woolworths have advantages in securing new supermarket sites

Recommendations

- Large chains to publish prices online
- Very large chains to provide dynamic pricing via API
- Streamline planning and zoning
- Importance of new merger laws and specific treatment of supermarket acquisitions

Supplier

Key findings

- Coles and Woolworths often have monopsony power acquiring fresh produce and some packaged groceries
- Fresh produce growers often do not have the information or certainty they need to make efficient investment decisions
- Some suppliers' dependence on Coles and Woolworths means they take on extra costs and risk

Recommendations

- Enhanced forecasts
- Transparency of weekly tendering
- Transparency of rebates
- Food and Grocery Code enhancements

Trends in consumer shopping behaviour

Key findings

- Convenience is a key factor for where many consumers choose to shop
- There is a trend towards more cross-shopping (shopping for groceries at more than one retailer) and therefore the potential for greater competitive rivalry
- Despite the trend towards more cross-shopping, most consumers do a "main shop" for groceries, so purchase most or all of their groceries in one visit to a grocery retailer
- Only supermarkets provide the range of groceries typically needed to complete a main shop in one trip
- The value consumers place on convenience limits cross-shopping and therefore the competitiveness of non-supermarket retailers
- Consumers are comparing prices before shopping more, with increased availability of online price information, however there remain barriers to undertaking comparisons

Consumer

Key findings

- More than half of products purchased at Coles and Woolworths are on promotion
- Coles' and Woolworths' promotional practices can make it difficult for consumers to assess value for money
- It can be difficult for consumers to assess how much value they obtain from loyalty programs

Recommendations

- Regulation of promotional tickets
- Shrinkflation notifications
- Transparency of loyalty program value
- Review of loyalty programs in 3 years

Remote Australia

Key findings

- Grocery prices in remote areas are higher, sometimes significantly so, primarily due to higher costs to serve these areas
- Some consumers in remote areas may have access to a Coles or Woolworths and benefit from national or state-wide pricing, however some products include freight costs
- Very remote areas are less likely to have a Coles or Woolworths and are served by an independent supermarket often supplied by Metcash
- Consumers in remote areas with lower populations are less likely to have a choice of supermarket
- Consumers in remote areas with little or no choice can benefit from community-owned and run stores
- Some stores in remote locations do not provide price labels

Recommendations

- Support community-owned supermarkets
- Complaints handling
- All stores to display prices in-store
- Fair trading bodies to monitor display of prices and complaint information