Supermarket Pricing Inquiry

Submission No:	16
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Publication:	Making the submission and your name public
Attachments:	See attachment
Submitter Comments:	

I have some experience in State management of a large, international, ham, bacon and smallgoods manufacturer (production plants in Qld, NSW, Vic, WA, Tas and New Zealand) in addition to my farming activities at Mungar where we produced more than 5000 pigs per annum, as well as lambs, all of which were sold onto the Australian market, except some breeding stock we exported to Indonesia and The Philippines. I have also, during my travels, been a Director of the Queensland Pork Producers Organisation and Pork Producer organisations in Western Australia and Tasmania. I was the inaugural national pig industry consultant to AUS-MEAT (the Authority for Uniform Specification of Meat and Livestock).

As far as Supermarkets are concerned, food manufacturers, hopefully converting base product produced on farms in Australia, generally do not expect to make any money from supplying product to the major Supermarkets. Because of the duopoly, competition to gain a supply contract between producers/manufacturers is intense and brutal owing to the large volumes of product able to be moved. In many instances, the best one can hope for is a major contribution to overheads, so reducing the overall cost per unit production by the large volume of sales. Other smaller outlets contribute substantially to the profit margins, if any, of the manufacturer, so the consumer may suffer again.

This competition for shelf space means that the successful supplier's margins are cut to the bone and beyond, and is a significant part of the reason for lower prices paid to the primary producers. Supermarket buyers are generally aware of production costs and bargain ruthlessly with suppliers to get the lowest possible price for product to sell at what becomes a higher profit margin. Let us not forget, although officially frowned on, the "parcel" of free product, or goods "in kind" as a necessary consideration before the supermarket buyer will even sit down for a meeting.

Once the supermarket accepts a product, it must go "on special" to promote the new product in stores. The supplier is expected to lower the price further for the period of the "special" and pay for the advertising/promotion of the special outside of stores, eg., newspapers, television, other media. If the processor/agent is to remain in business, then clearly all of these extra costs impact on the price able to be paid to the original producer. I remember one instance in NSW when one of the majors told us that they were going to put cocktail frankfurts on statewide special for one week from a certain date. We went ahead and produced our estimate of 25 tonnes for the commencement of the special by the Friday of the week before the special commenced on the Monday. It was all in one chiller. I went into the chiller early on the Monday morning and all the product was still there. I raced to our sales manager's office to find out what was going on. He phoned the buyer who blithely said that they had cancelled the "special", and what is more, they had accidently deleted the product from their approved purchase list and that, if we wished to have the product reinstated, then we would have to go through the entire product submission process again. How much did that cost us and our ability to pay our producers? Heaps. Did the supermarket care or apologise? Not likely.

When on "special", individual stores, on many occasions, overorder product. As all our product was refrigerated, it was perishable and had a finite use by date. If there was product left over in store after a "special", we were expected to go any remove the product from stores and refund the cost of the excess product. For hygiene and legal reasons, we could not take product back into the factory, so it was mostly dumped – all at our cost. We had an instance where one particular store ordered an unheard of 1000 packets of product for one special. We checked that the number was correct and were assured it was. Six weeks after the special, the store manager phoned and said that he had 650 packets of product left over, all out of use by date and some very smelly. If we still wanted the supermarket business, we had to collect the product, dump it and refund the price of the returned product.

Other tactics used by the major duo include:

1. A demand to extend their terms of payment from 30 days to 90 days. They will still stock your product if you agree, otherwise? Clearly, all extra costs of increased overdrafts, interest, etc., were borne by the supplier while the supermarkets enjoyed using their money for an extra 60 days.
2. Advertising some popular product specials, eg., soft drinks, in store and then not ordering enough so that, unless the customer is in the shop soon after the product is delivered, there is nothing on the shelves. However, the supermarkets rely on the fact that, once in the store, the customer will purchase something else, so they still make their dollars.
3. No matter what, the supermarkets still make a profit no matter how good the "specials" deal seems. For example, a popular brand of cordial normally now sells for $5.90 per bottle, strangely at both of the majors. When on "special", it is normally less than half price, but the supermarket will still make a profit. So, what margin is there at normal price? It is also at the same "special" price at both of the majors. (It is amazing how many other products are priced exactly the same at each. Price collusion????? Of course.) It is a well-known fact that personnel from each of the majors, and also the not so majors, tour the opposition stores each day and report back on the prices being offered. Some are as well known in opposition stores as their own staff. From these visits, prices are adjusted to ensure that consumers pay similar prices for the same product at each outlet. It would not do to sell much cheaper than the opposition.
4. Remember that a "special" just means that the product is displayed at a "special" price, not necessarily a cheaper price.

Another method of price gouging concerns imported product. The Federal Government sanctioned the importation of pigmeat from Canada in 1990. From there on, pigmeat is now imported from other countries including the USA, Netherlands, Denmark. Pigmeat production is subsidised in all of those countries, either directly or by subsidization of feed ingredients to feed pigs, eg., grain. The importation of pigmeat increased to around 10000 tonnes per annum around the late 1990s and devastated the industry in Australia, from which it has never recovered. In recent years, the annual importation of pigmeat has exceeded 160000 tonnes. The imported meat must be boneless, skinless and must be cooked prior to sale for disease control reasons. It is this processed meat, ham and bacon, that finds its way into the supermarkets. If anyone looks carefully at pigmeat product it is rare to find any ham and bacon with more than 50% Australian content available for sale.

The only reason that pigmeat is imported into Australia is that, with internal subsidies in the producing countries, it can be landed in Australia cheaper than we can produce it here. The supermarkets are aware of this and understand that they are able to screw the processor down to a cheaper wholesale price than Australian product. However, try and find any imported ham and bacon for sale at cheaper prices, even "specials", than Australian product. As a guide, the brine solution pumped into ham and bacon is of the order of 30 – 50% of the original weight. How much Australian content is there in finished product labelled at 5, 10, 18, 28% Australian content??????? There are rarely any bacon rashers with more than 18% Australian content available for sale in any supermarket deli section . So much for the much-touted support for Australian farmers constantly espoused by the major Supermarket chains.

The people who suffer most are the pork producers whose price for the animals they sell is limited to the price of imported raw product. The supermarkets sell the imported stuff it at the same price as Australian product. The other party suffering, of course, is the Australian consumer who cannot buy Australian product to support Australian farmers and who are conned into paying far more for their imported ham and bacon than they should due to the rapacious profit greed of the major supermarkets.