



A Response Submission to the Harper Competition Policy Review Draft Report

Competition Policy Review Secretariat

The Treasury

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th November, 2014

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Executive Summary

White's Grocers appreciates the opportunity to make a response to the Harper Competition Policy Review Draft Report.

The future prosperity of all Australian small businesses and family concerns, including my own, is very much dependent upon the recommendations for Competition Law reform, as proposed by the Harper Competition Policy Review Panel.

The right balance between large and small businesses all competing on a level playing field is complex and challenging to achieve. Recommendations made in the Harper Competition Policy Review Draft report carry certain implications for all business players. This report aims to elaborate on and emphasise some of the important factors that would contribute to achieving a sustainable platform for small business and big business players to coexist, from a smaller operator's perspective.

The implementation of an 'effects test' in the eyes of small business, would be welcomed to keep larger, more dominant players in a position of responsible decision making, ensuring unintended consequences and detrimental impacts do not adversely affect overall consumer choice.

Similarly, allowing smaller players to choose achievable pathways to resolve competition dispute issues would create a fairer test of the laws.

Planning and zoning laws must be considered when attempting to establish a fair playing field. It is imperative that overall economic and social implications be measured when planning and zoning decisions are made in the interests of achieving true competition.

The recommendation to remove any remaining restrictions to trading hours, if adopted by the state government, will result in adverse outcomes for communities and the overall competitive landscape.

. Response Brief

By virtue of experience with 21 years participating in the grocery industry, White's Grocers lodged a submission to the Panel on the 10th June 2014 raising some of the following questions. They are as follows:

- a) Should an effects test or an economic impact study have been conducted prior to the introduction of a major player into this community?
- b) Could this be considered as floor space crowding with an oversized supermarket footprint model being built well in advance of the requirements of the population of this community?
- c) What consideration was undertaken for town planning purposes with respect to achieving a central hub, beneficial to an entire community?

Our original submission also reported on trading hours and local impacts.

The Harper Competition Policy Review Draft report has addressed some of these factors which, some of the recommendations we support but others we do not.

This response submission seeks to elaborate on some of the relevant factors and emphasise why certain recommendations made in the Draft report could potentially contribute to lessening competition with dire implications for smaller market players but particularly for consumers.

· Competition and Consumer Act – section 46 – Misuse of Market Power

We congratulate the Harper Panel for their recommendation to introduce an ‘effects test’ into section 46 (Misuse of Market Power), in the Competition and Consumer Act. We believe the introduction of an ‘effects test’ is vital to establish a global perspective of the possible negative flow which may arise when big business is sanctioned to crowd out smaller players, disconnect communities and decrease overall consumer choice and diversity.

Section 1 of this report makes reference to relevant questions raised in the White’s Grocers submission dated 10th June, 2014 as listed above namely a), b) and c).

Competition in most markets should be welcomed. It ensures market players are motivated to vie for the consumer’s interest and engagement however if a dominant player misuses its market power and that damages or deters competitors from entering a market, a test should be required.

Comprehensive impact studies, including planning considerations should be undertaken to evaluate what possible flow on impacts are likely on the community. Not just economic impacts but social outcomes also. Fair competition, allowing a sustainable platform for both big and small business to operate on will provide more certainty and confidence to drive economic productivity, innovation and further investment in business.

The existing central business and community hub, population demographics and relevant services relied upon such as the availability of public transport or medical providers should be vital considerations when allowing a new entrant into a market. Holistically, what would the outcomes be when a new, more dominant entrant is enabled to disrupt certain elements of a community? An ‘effects test’ might consider the longer-term implications which would contribute to preventing reduced consumer choice and diversity.

Importantly however, changing the dynamics of a community, the fragmentation of a once thriving central hub and the unintended consequences of residents being less able to access vital services is even more damaging.

The Harper report recommendation that a large corporation will be required, as a defence, to prove that their actions/behaviours will not substantially lessen competition should be clearly reported as to what that defence might be. If a smaller independent player would not enter a market based on solid rational business strategy then a large dominant corporation should not be permitted to either, particularly if the long term strategy is to cross subsidise operational costs to achieve a presence in the market in advance of the needs of that community. Once a market player is dominant, their market power abuse should simply be prohibited.

3. No Cost Orders

At present, it is completely cost prohibitive for an independent business owner to bring an action in the Federal Court seeking relief from anticompetitive behaviours without the threat of having to pay the other party's costs, in the event that the application is unsuccessful. Independent family enterprise mostly operates on a risk basis, which is the essence of entrepreneurship. Operators build up assets and cash flow by mortgaging their homes. In other words they have 'all their skin in the game'. There is a fundamental difference between corporate structures with shareholders run by CEO's and rewarded by performance with no other financial ties and family owned and run enterprise with high risk factors.

When a genuine claim to misuse of market power or acquisitions that substantially lessen competition may be warranted, costs of litigation are far too high resulting in a reluctance to lodge potentially successful claims and put at further risk, the family home and the means to remain independent. This would preclude the competition laws to be enforced or tested except by the largest companies in Australia.

If independent business remains unable to access the courts to enforce the Competition Act, it would remain unfit for purpose in a precarious sense.

We strongly support the Harper Panel consider recommending that a 'no costs order' be introduced. The reassurance of a 'no-costs order' would be likely to encourage businesses to challenge situations where they believe an application to defend a particular right is justified.

. Planning and Zoning

We acknowledge the Harper Competition Policy Review Panel's findings that, planning and zoning legislation and processes lack effective economic objectives and proper consideration for competition. If the amenity and economies of local communities are to prosper and the long term interests of consumers are to be seriously considered, then state planning and zoning legislation must be inclusive of a net community benefit test, to protect robust competition.

We disagree with the principle that more floor space and more entrants in a market equals more competition, this is simply not sustainable. Businesses (Coles, Woolworths, Costco, Aldi), with the deepest pockets (unlimited resources), will crowd out family owned businesses, which have limited resources, thus reducing consumer choice and lessening competition. There must be state planning and zoning controls put in place to protect competition and consumers.

. Retail Trading Hours

White's Grocers submission to the panel dated 10th June, 2014 outlined key adverse impacts on the broader business community should deregulation of trading hours be granted in Queensland. It explained the financial loss impacts, resulting in a 30% sales decline of day's trade as a result of the introduction of Sunday trading. This directly correlated to the

business model being repositioned to a financially unsound level which resulted in an overall loss of capital value of the asset.

The Queensland Government has maintained their position to oppose the deregulation of trading hours. They have stated that to protect the needs of small business they do not believe there is a need to deregulate trading hours in Queensland.

Chamber of Commerce and Industry Queensland (CCIQ) undertook a survey of Queensland businesses in July 2014. Subsequently, they adopted a firm view to oppose the deregulation of trading hours in Queensland. Highlights from the Queensland Shop Trading Hours Report CCIQ September 2014¹ include:

- 58% of small businesses with <20 employees and directly involved in the retail sector are OPPOSED to the deregulation of trading hours
- Small businesses directly impacted by the shop trading hours have significant concern about full deregulation
- Market dominance of the major retailers is a key concern amongst those businesses opposed to deregulation of shop trading hours
- Especially in regional and remote areas detrimental impacts on the strong and vital connection between small retail businesses and the community is a great concern
- Commercial viability of smaller operators is a major concern leading to closures when increased market dominance of the major retailers is allowed resulting in less consumer choice in the longer term
- Consistent feedback that deregulation of shop trading would not increase the overall level of consumer spend but merely spread the current level of consumer spending over more hours – alas add cost
- Continued regulation of shop trading hours is needed to facilitate the competitiveness of small business
- For 22% of businesses predominant area of concern is impact on profitability indicating their business' profitability would decrease or significantly decrease
- Penalty rates highlighted as a barrier to potential benefits from any extended trading hours being realised.

¹ CCIQ Queensland Shop Trading Hours September 2014

- More hours = more staff, more cost and no increase in sales/revenue – consumers have finite spending power.
- 73% of businesses opt to retain the current regulated hours on Good Friday, Easter Sunday and Christmas Day.

TH2014/8 application, recently lodged with the Queensland Industrial Relations Commission (QIRC) by the National Retail Association (NRA), representing Coles and Woolworths in Queensland, seeks Sunday trading in the Dalby region. The hearing in November saw an unprecedented number of small business operators opposing the application including the local Mayor. The Dalby Chamber of Commerce representing business operators in the region and the Western Downs Council have both opposed the application. Witness statements to oppose this application vary across a broad spectrum of industries.

Section 8.6, page 103 of the Competition Review Draft report states ‘restrictions on retail trading hours impede suppliers’ ability to meet consumer demand’. Healthy competition provides diversity and choice to a consumer, which also fulfils demand. The deregulation of trading hours in states outside of Queensland has allowed dominant players to increase their dominance which if allowed to continue will not be in the longer term interests of consumers. Adverse social impacts and detrimental economic factors create a negative flow on effect to entire communities, particularly regional areas.

What level of consumer behaviour would be influenced from shopping on-line if Coles and Woolworths and other big business players are authorised to open 24 hours a day? We acknowledge there is an increasing demand by consumers to participate in on-line shopping however grocery on-line has been operational for many years with a comparatively smaller percentage of uptake throughout this time. How could deregulation of retail trading hours using the argument it will assist to combat increased use of on-line shopping alter consumer demand? Would a customer decide to venture out into the darkness at 3a.m. in the morning, and do their weekly grocery shopping or purchase a new dress as opposed to undertaking the same task in the comfort, warmth and shelter of their home when they

have both options available to them? Are consumers calling for deregulation or is big business making these demands?

A new trading hours application lodged by the National Retail Association in the last few weeks, TH2014/23, to extend hours in South East Queensland, prompted an on-line survey through the local Sunshine Coast Daily newspaper in November, 2014. The survey results indicate that only 44% of respondents are keen for additional trading hours to be made available. The remaining 55% indicated they had concerns. Consumer feedback indicates they understand the importance of maintaining healthy competition to achieve diverse shopping choice. The majority of consumers appear to be satisfied with the current shopping hours available to them through 'bricks and mortar' retailers.

The restriction of retail trading hours in Queensland contributes to allowing all tiers of the market to operate symbiotically. When large shopping centres are enabled to operate in a deregulated market, evidence suggests big players would not increase jobs but in fact staff numbers would be spread over longer hours.

Pressure on smaller or independently owned business operators would create a need for owner/operators to work longer hours or increase costs to operate, particularly when the appropriate penalty rates are applied. In the event of Sunday trading, families' lives would be worse off in the homes of independent operators when they are compelled to work but larger operators would simply spread their staff numbers resulting in fewer staff on the selling floor at any given time as stated below by an employee providing evidence at this recent retail trading hours case TH2012/7 Toowong.

An excerpt from the transcripts of the TH2012/7 Toowong hearing earlier this year:

134] However, Ms Powell, an employee of Kmart at the Toowong store for more than 25 years, gave oral and written evidence to the effect that previous extensions of trading hours have not led to increased employment. Rather, staff numbers have been spread over a longer period resulting in fewer staff on the selling floor at any given time. Consequently, an increased workload is placed on individual employees to maintain expected standards of customer service. That results in increasing levels of stress.

We oppose Recommendation 51 in the Harper Draft Review, that the remaining restrictions of retail trading hours are to be removed because it can only serve to enhance the market power and dominance of large corporations such as Coles and Woolworths, substantially lessening competition, reducing retail diversity and eroding consumer choice but most importantly having unintended adverse social and economic outcomes on communities.

. Conclusion

To achieve a sustainable economy providing jobs to Australians, supporting local communities and offering diverse choice to consumers at times meets complex challenges. However; crushing the innovative spirit and entrepreneurial nature of pioneering Australians in business would imperil the fundamental characteristics our country was built on.

We applaud the Australian Government for implementing this initiative of reviewing competition policy to ensure it is fit for purpose. We welcome and encourage fair competition policy to achieve a healthy and sustainable economic platform to support all tiers of business.

We thank the Panel for their efforts in consulting with many business groups and operators from many sectors across the nation to establish fair and viable recommendations.

Understanding economic and societal distortion: an exploratory study into the impact on regional Queensland communities of the major retail chains

November 2014

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Abstract

The Queensland Government has developed a plan for Queenslanders and an action plan for small business. At the heart of regional and rural Queensland are over 412,000 small businesses.

The Queensland Government's plan to support and grow small business needs to be applauded. However whilst highlighting the challenges to small business such as, global economic uncertainty, the high Australian dollar, poor consumer confidence, red tape, labour shortages and the increasing cost of doing business, it is silent on the greatest challenge facing small and independent business; the growth in terms of economies of scale and economies of scope of the two retail giants; Wesfarmers and Woolworths.

Important for the context of this study a definition of an independent business was stated so that clarity around issues is maintained. As small business people are independent but small, in terms of the ABS definition, the term small business is too limiting. Independent business is one that is privately owned and that the owner will have in the past, present, or future put his/her own personal livelihood at risk, either through any combination of the following:

- The injection of their own capital for startup, investment or the operation
- The borrowing and being guarantor for the debt, for the purposes of startup, investment or the operation
- Being guarantor on such collaterals as leases etc, and therefore personally liable for the performance of the business

This is in contrast to Wesfarmers and Woolworths where the Executives who share the same

responsibility for management of the business with their independent counter-parts, who may have shares in the company, however have no other personal stake in the business other than those as acting perhaps as a Director of a public or private company.

The prior literature is limited in the following ways; it has focused on food retailing, this is predominantly around the supermarket business and to a lesser extent about liquor retailing. It has skimmed the surface, that is, it has not dived deeply to examine to any real extent the detailed impact to local Queensland communities of the growth of Wesfarmers and Woolworths. It has had a national perspective rather than a deep examination at regional and rural centres in Queensland. And finally it has been about direct competitive issues rather than indirect issues that exist at a local economic level.

Given the limited previous examinations into the impact of Wesfarmers and Woolworths on Queensland regional economies, a gap exists in understanding the issues.

Therefore the objective of this study was to explore the impacts to a broad range in terms of the type of local independent businesses across regional Queensland, of the increase dominance of the chain retailers; Wesfarmers and Woolworths. This includes but not limited to supermarkets indeed not just retailing but to look closely at the impact to other types of independent businesses including service provider, growers and suppliers. This research examined closely the range and depth of issues that result from the distortion of economies of local Queensland regional communities by the advance, in terms of scale and scope, of Wesfarmers and Woolworths.

The study employed a qualitative methodology to dive deeply into the issues so that rich insights could be gained. A variety of independent business people from a broad spectrum of retail and business formats across Queensland communities including; Brisbane, Logan, the Scenic Rim, the Western Downs and the Sunshine Coast were interviewed to develop an understanding of the issues within this debate.

This study was exploratory in nature in order to develop stronger constructs to support a more detailed examination of the issues in the future. The analysis of the data collected posited that there are two issues created by the advance in scale and scope of Wesfarmers and Woolworths that are negatively impacting Queensland regional communities.

1. Economic Distortion: that the premise that the introduction or expansion of a Wesfarmers or Woolworths retail big box retail operation adds employment and as such contributes to the local economy, is misplaced. Whilst the retail giants employ people it is doubtful that these jobs replace the direct or indirect jobs and livelihoods they usurp. Such operations have through an expansion of scope seen the demise of small and independent formats such as Garden Centres Mower Shops, Butchers, Fruit Shops, Paint Shops, Pool Shops etc. Such businesses are the fabric of the community taking products and services locally such as: accounting, legal, insurance, cleaning, car and equipment service, produce supply, timber supply to name a few. The major retailer leverage their scale sending these purchases for products and services out of the community to either their own internal capability or to nationally based service and purchase agreements.

2. Changing Fabric of Queensland Regional Society: issues such as deregulation of trading hours are placing further demands on the livelihoods and therefore the working lives of Queensland communities. Local business have to either close, contract or work longer within their business to compete against the considerable marketing and amortisation capability of Wesfarmers and Woolworths. Do Queenslanders really want more products from Wesfarmers and Woolworths? The analysis contained within this study suggests that perhaps many communities of Queensland don't. As independent business people close or contract in the face of the chain expansion, jobs are lost and support for the local community in many ways not provided by the chains disappears. The question cannot be avoided; is this good for Queenslanders?

This study concludes that the expansion of scale and scope of Wesfarmers and Woolworths is distorting negatively local economies and risk changing the fabric of Queensland communities. This situation if allowed to continue will challenge the ability of the Queensland Government to execute its plan for Queenslanders and their action plan for small business.

Unfortunately unfettered, the dominance the chains will not support the Queensland Vision Statement's wonderful objective of "not leaving anyone behind".

This study was exploratory, however the richness of the insights derived from across different business types and Queensland regions serves to posit a recommendation in the form of a conceptual framework. Against this model more detailed research could be undertaken to fully understand

the two issues concluded from this work. Without further and more detailed understanding, the advance of the two retail giants may have negative consequences that cannot be undone for the future of regional Queensland.

Introduction

Queensland is about communities. These communities are diverse and possess a unique spirit that defines Queensland as a state. At the heart of this culture are small and independent businesses. To quote the Queensland Government;

“Queensland’s 412,000 small businesses span every industry sector. They are the foundation of our regional and rural communities, and the driving force of Queensland innovation, employment and economic progress”¹.

In the not too recent past these small businesses were made up of locally based enterprises such as; grocers, mower shops, pool shops, fruit shops, hardware stores, garden nurseries, coffee shops, to name a few. Locally based accountants, lawyers, cleaners, car dealerships, petrol stations, mechanics and local growers and suppliers of goods, again to name just some, serviced them.

Together they support the communities within which they operate, they are part of the fabric of Queensland regional and rural communities, or perhaps more correctly in so many cases...were.

Small and independent businesses as described above are under threat and therefore the society that typifies Queensland is also under threat.

The Queensland Government’s plan to support and grow small business needs to be applauded however whilst highlighting the challenges to small business such as; global economic uncertainty, the high Australian dollar, poor consumer confidence, red tape, labour shortages and the increasing cost of doing business, it is silent on the greatest challenge facing small and independent business; the growth in terms of economies of scale and economies of scope of the two retail giants; Wesfarmers and Woolworths.

This challenge comes from the advance of the dominance of these two major retailers that hold a duopolistic position in the Australian retail market.

This position, not generally seen anywhere else in the world, has not occurred overnight. It has evolved over the last forty years. In 1975 Woolworths and Coles held jointly only 34% of the grocery market however, today, that combined share is in excess of 80%². The reasons for this are numerous, and have acted in a cumulative effect to produce the situation in the Australian and Queensland retail market that we have today.

This market power enjoyed by Wesfarmers and Woolworths has served to distort the economics of regional and rural communities in Queensland. Though usually known for their supermarkets, it is the two chain retailers recent and rapid expansion of scope into other retail categories in the form, quite usually, of big box stores that are of concern. Today Wesfarmers and Woolworths dominate not just in grocery, but also in liquor, hardware, apparel, stationery, general merchandise and office supplies. Their stores such as; Bunnings, Masters, Dan Murphy’s, Big W, Kmart have combined with

¹ Queensland Government, *Queensland Small Business and Action Plan 2013 - 2015*

² Master Grocers Association *Let’s Have Fair Competition!* August 2012

the saturation of Coles and Woolworths supermarkets to threaten the livelihoods of local operators of, for example; garden supplies, mower shops, paint shops, pool shops, carpet retailers, furniture stores, to name some.

The size and scale of the majors is at a point where local business people cannot sustain the advance. A corporate enterprise the size of Wesfarmers and Woolworths can amortise its costs over an enormous organisation. In comparison, a local independent business person has very limited investment capability which is often secured to themselves personally such as a mortgage over their homes. The chains make investment decisions in major retailing that for a independent business person and indeed most economic benefit analysis, simply does not make sense. It can leverage its scale through the centralisation of its decision-making thereby reducing its costs of doing business. However in doing so it shifts the economic contribution away from local communities as local supply and services are replaced with nationally based supply agreements.

Local business people take service from and employ from the local regional community. Contrary to what the debate may say or what industry observers may believe, when the major retailers enter a market they do not substitute the economic contribution of the independent business they often end up unseating to regional and rural communities in Queensland. This paper highlights this distortion for the purpose of providing a more informed understanding of the impact.

This work details an exploratory study into this disruption. It will argue that this distortion will intensify and that the ramifications and impacts need to be better understood by all regulators,

policy makers, commentators and observers. Previous debates on this issue of dominance of the two major corporate retailer players have centred primarily on supermarkets and the trading impact to the retail businesses that are seen as the obvious direct competitors to Coles and Woolworths. It will be further posited that the downstream and upstream effects of the major retailers advance are not well understood by most and that whilst competition, when on a level playing field, is good for consumers, competition that severely and negatively alters economic efficiency is not good for society as whole.

It is not the intention of this paper to convince consumers of the value of other retail alternatives to Wesfarmers and Woolworths, nor is it a goal to argue for an easy ride for retailers who can't or won't offer the same level of products and services as the majors. Consumers, as always, will make their choices and will judge the local businesses and the chain stores accordingly. The purpose of this paper is to explore the economic distortion discussed above and to highlight the issues, large and small, as to their impact on local communities in Queensland, so that decision-makers can make more informed decisions regarding competitive and regional development policy.

This paper has examined a number of case studies of real Queenslanders who, after putting themselves personally on the line to develop local businesses, have found themselves challenged by the major retailers more than any other aspect in running their small enterprises.

The Queensland Government's small business strategy highlights the initiatives to stimulate sustainable growth and help small business position

them to get their “fair share of work”³. Whilst the goal is wholeheartedly supported the challenge in achieving this is near on impossible whilst this distortion in the economy exists. As an example the advance of Wesfarmers and Woolworths as we see today will ensure that communities are, often without realising, buying outside of Queensland.

Unfortunately unfettered, the dominance the chains will not support the Queensland Vision Statement’s wonderful objective of “not leaving anyone behind”⁴

Understanding this distortion in this exploratory work is an important step in meeting this objective.

Definition of Independent Business

Key to understanding the issues and the complexities is a clear definition of small, independent and major corporation type enterprises. For it is within this definition that an understanding of the problem can be found.

The ABS define small business as being those which employ less than twenty staff. Whilst 96.1% of all Queensland business are classified as small business, given the size and dominance of Wesfarmers and Woolworths, a more appropriate definition of businesses who are impacted is that of an “independent business”.

A definition of Independent Business captures small businesses but also extends to take in those businesses that still may employ more staff than the ABS definition of small or even medium sized business.

An independent business, for the purposes of this discussion is one that that is privately owned and that the owner will have in the past, present, or future put his/her own personal livelihood at risk, either through any combination of the following:

- The injection of their own capital for startup, investment or the operation
- The borrowing and being guarantor for the debt, for the purposes of startup, investment or the operation
- Being guarantor on such collaterals as leases etc, and therefore personally liable for the performance of the business

This is in contrast to Wesfarmers and Woolworths where the Executives who share the same responsibility for management of the business with their independent counter-parts, who may have shares in the company, however have no other personal stake in the business other than those as acting perhaps as a Director of a public or private company.

In other words it is doubtful such Wesfarmers and Woolworths executives would lose their homes given the action of their competitors.

Contrasts between Independent Business and Major Retailers

It is the contrast in how these two business definitions operate that is important in gaining perspective. The chains can amortise marketing, buying, pricing, distribution, oversized stores, uncompetitive stores and saturated markets across a considerably larger business than an independent, even a larger multi-store independent retailer.

³ Queensland Government, *Queensland Small Business and Action Plan 2013 – 2015* page 11

⁴ Queensland Government *Queensland Plan Queenslanders’ 30-year vision*, 2014

To best explain this contrast the following are the key differences.

- a. The majors amortise both investments and costs across a significantly wider enterprise. For example: an independent business person operating in Far North Queensland cannot spread the substantial cost of freight from manufacturing regions in the South of the state and the country, to the Far North. The majors can and do invest in operations such as; freight and in substantial and often blanket advertising and media campaigns. These are amortised across their substantial organisations. The independent's resources are heavily constrained in comparison, unable to spread costs and investments across their business in a way that does not represent hardship to the business, staff, their families and the communities within which they trade.
- b. The major retailers leverage their scale across the country to maximize their supply chain by negotiating nationally based supply agreements for trade supply. Local chain store managers are unable to purchase from local independent businesses for products. In doing so local independent growers and suppliers are effectively now locked out of supplying the local chain store operations.
- c. Local independents utilise the services of local business people such as cleaners, mechanics, accountants, lawyers, car dealerships, newsagents, IT support, insurance brokers etc. The major retailers use virtually none of these services instead using internal corporate services or national providers.
- d. A common misunderstanding is that regional employment by local independent business people simply shifts to the major retailers upon the entry or expansion in regional markets. Wesfarmers and Woolworths leverage their large retail operations in killing categories on mass such as; garden and pools for example, requiring less employment than the aggregate of a community of local independent businesses.
- e. The large retailers have and continue to exert the power to influence the major landlords influencing decisions that impact independent business people in terms of opportunity, location and rent.
- f. Access to finance and capital that is relatively easier to obtain with less risk allow the majors to make decisions such as; placing oversized stores into regional markets. This saturates the regional market place; the major retailer sustains an economically unviable store for many years at the expense of the local economy. The independent business struggle for sustainability as pressure mounts on top line and bottom line performance. They do this as it further leverages their economies and scale and scope whilst serving as an enormous barrier to any competitor entering their regional catchment.

Literature Review

Previous studies, research and debate into the supermarket businesses of Coles and Woolworth are reasonably prevalent. Research and work examining the broad scope of Wesfarmers and Woolworths are however very limited. This is somewhat consistent, for other than loyalty

systems, the majors do not promote that their brands like; Bunnings, or Dan Murphy's are connected to Wesfarmers, Coles or Woolworths, etc. All studies are very limited in terms of examining the economic impact of these two major corporate organisations to regional communities in Queensland.

The prior literature is limited in the following ways; it has focused on food retailing, this is predominantly around the supermarket business and to a lesser extent about liquor retailing. It has skimmed the surface, that is, it has not dived deeply to examine to any real extent the detailed impact to local communities. It has had a national perspective rather than a deep examination at regional and rural centres in Queensland. And finally it has been about direct competitive issues rather than indirect issues that exist at a local economic level.

Having said that given that the literature is dominated by supermarket and liquor centric discussions, it remains worth summarising as the competitive issues can be easily transposed to hardware and other retailing formats.

It is important within this discussion that the competitive issues be understood. The dominance of Wesfarmers and Woolworths has come about through a number of aspects to the competitive environment. These aspects have often been dealt with by regulators and debated by the protagonists individually and in isolation resulting in narrow discussions with decisions of the past contributing and compounding to deliver the duopoly that exist today.

These issues are summarised here for the purpose of understanding and emphasising that within any examination of the impacts locally and regionally

of the dominance of the chain organisations, a macro view must be taken when considering decision-making on individual issues particularly whilst there is an objective within The Queensland Plan to have localised and more effective decision-making⁵.

The issues are summarised as follows:

- Oversized Stores – there has been a pattern of the development of the major retailers of oversized stores in local markets where the population cannot justify. For example within the grocery industry, Woolworths and Coles are the 18th and 21st, respectively, largest retailing organisations in the world yet serve at relatively small population of just 23 million⁶. Their economies of scale are leveraged by amortising losses or under performing stores across their organisations indefinitely. Smaller competitors are forced out of the market place, and this is not limited to independent supermarkets but also butchers, bakers, delicatessens, fruit shops, and convenience stores⁷. The same situation exists for hardware and other retailing formats where the chains are now leveraging their economies of scope. Pittsworth, less than 40 Kms from Toowoomba, has a supermarket oversupply of 35% following the opening of a Woolworths in early 2008 with no prospect of the catchment growing to a level sufficient to support Woolworth's development in the foreseeable future⁸.

⁵ Queensland Government *Queensland Plan Queensland's 30-year vision*, 2014

⁶ Deloitte, *Global Powers of Retailing 2012, Switching Channels Report*, January 2012

⁷ Master Grocers Australia, *Let's Have Fair Competition*, page 15, 2012

⁸ Master Grocers Australia, *Let's Have Fair Competition*, Appendix 1 page iv, 2012

- Saturation – is where local markets are saturated with multiple chain stores for no other apparent reason than keeping out competition. For example; Woolworths has been allowed to operate two supermarkets in the Robina shopping centre on the Gold Coast.
- Deregulation of Trading Hours – Queensland retail precincts are largely regulated. This regulation protects small business and preserves lifestyle. There are currently many applications from the National Retailers Association (NRA) who represent Wesfarmers and Woolworths, for trading hours deregulation before the QIRC. Each application is examined in isolation and is argued that by deregulating is in response to the changing demographics and lifestyles of consumers. The counter argument is that local independent or exempt retailers are meeting these so called unmet demands. It also must be considered that deregulating trading hours in isolation is contributing individually in a small way but when combined with other trading hours matters, or other competitive issues described herein there is a compounding effect in a significant way to the continue expansion and dominance of the chains resulting in the distortion of regional and local economies.

The Productivity Commission's Inquiry Report⁹ has failed to give examination of this issue the rigour it deserves. Full of references to very outdated research, comments from Woolworths, Coles and the NRA; it has largely ignored the views and issues of independent and small business people. The trading hours debate in Queensland needs to go past just the

⁹ The Australian Government, *Economic and Performance of the Australian Retail Industry, Productivity Commission Inquiry Report Chapter 10*, November 2011

benefits to the major retailers and consumers and the assumption that because other markets in Australia and overseas have deregulated then Queensland should also. It needs to move to considering the impacts on communities, including those who contribute so much to the culture and spirit of Queensland; the independent and small business people.

- Property Development – the major retailers can afford to pay for premium to acquire sites, whether that is; greenfield, expansion of existing leases, or creeping acquisitions. The strategy complements the saturation and oversized store initiatives. Zoning and development controls have resided with state and local governments. This issue has become central to retail competition yet regulators and economists have interpreted competition as the price of goods sold to consumers. This narrow definition of competition has allowed property development, core in being able to enact saturation and oversized stores initiatives by the majors delivers for the market and the economy; hyper-concentration¹⁰

Other commentary on the issue is quite limited. As an example; one report by Deloitte touches on the regional economic contribution of Coles¹¹. Whilst it provides a good overview of the supermarket industry in Australia with a somewhat detailed examination of Coles, its measure of regional economic contribution is limited. It has measured this simply as the proportion of Coles staff employed regionally around the country to the total number of Coles employees multiplied by the wages costs.

¹⁰ Master Grocers Australia, *Let's Have Fair Competition*, page 19, 2012

¹¹ Deloitte Access Economics *Analysis of the Grocery Industry Coles Supermarkets Australia 2012*

This type of study typifies the debate; it is focused just on the grocery business, it has singular measure being employee numbers, it aggregates the numbers to a national level, it has distracted the discussion on competition being about one supermarket brand versus another rather than considering the more broader and perhaps micro issues that exist in regional communities and economies when a Wesfarmers or Woolworths operation comes to town. It debates in a slanted view, the impact of any proposed changes to competition regulations around just the impacts to consumers in terms of grocery prices.

By being quantitative in its discussion around the numbers, it serves to hide the real issues that exist in regional Queensland communities.

Other studies that go deeper than the Deloitte report above are very rare and limited in the discussion. Keith's discussion on the impact of Coles and Woolworths on retail and food production at a local level is rare and goes bit deeper. The paper debates that the national duopoly (selling power) and duopsony (buying power) of Woolworths and Coles is reducing competition causing prices to rise and that there is a growing discontent and an ideological opposition from local communities to the advance of the two major supermarkets.

The author cites the Maleny case and others where the local community fought against the development of a new Woolworths in the Queensland township on the basis that the chain was a threat to the local community and character. Campaigns such as Maleny drew attention to the threatened autonomy of local communities and businesses¹². This paper concludes by describing

how the major retailers are trying to change their perception as their reputations are tarnished but that independent food retailers, are fighting back as the true locals with the support of the local community.

Other work supports this position, albeit somewhat dated, Jones concluded that the major retailers ambition is for blanket coverage of territory, even if irrational in terms of the local market. The author also cited examples such as Maleny, that this relentless expansion of the retail giants, underpinned and encouraged by the imperatives of the stock market and the property sector had (in 2006 at the time of writing) reached its natural limits¹³.

Whilst the Keith and Jones papers go deeper into the issues of the local impacts by Coles and Woolworths, and details a Queensland case study along with others from around the country, it remains limited within this discussion because of its focus on food retailing. To truly understand the issues as to the distortion of the economic viability of local communities by Wesfarmers and Woolworths the examination needs to look at the increased economies of scope being leveraged by the two giant retailing organisations and the impact to other types of Queensland local retailers and service providers.

Objective

Given the limited previous examinations into the regional impact of Wesfarmers and Woolworths on Queensland regional economies, a gap exists in understanding the issues.

Therefore the objective of this study was to explore the impacts to a broad range in terms of the type of

¹² Keith Sarah, *Coles Woolworths and the Local*, The Australasian-Pacific Journal of Regional Food Studies, Number 2 2012

¹³ Jones Evans, *The Australian Retail Duopoly as Contrary to the Public Interest. Report for the Fair Trading Coalition*, University of Sydney, 2006

local independent businesses in regional Queensland, of the increase dominance of the chain retailers Wesfarmers and Woolworths. This includes but not limited to supermarkets indeed not just retailing but to look deeply at the impact to other types of independent businesses including service provider, growers and suppliers.

This research examined closely the range and depth of issues that result from the distortion of economies of local Queensland regional communities by the advance, in terms of scale and scope, of Wesfarmers and Woolworths.

This study was exploratory in nature in order to develop stronger constructs to perhaps a more detailed examination of the issues in the future.

Methodology

Given the exploratory nature of the objective and the need to go deeper into the understanding the issues a case study methodology was developed. A range of independent business people we selected and agreed to participate. These operated from different regional locations in Queensland. A qualitative Case Study methodology versus a quantitative method was chosen for this purpose¹⁴. This method was chosen as a more quantitative study as a form of exploratory research can be limited in terms of being able to deep dive into an understanding of the issues¹⁵. As discussed, often the real issues are hidden in numbers that do not describe the entire story. Qualitative methods are well suited for exploratory studies where there is a

requirement, as in this study, to better understand categories and meaning¹⁶.

Data was gathered using an interview method. The interview instrument was of a semi-structured design allowing the interview to move to more contextual based results. It was developed around the issues as described above and within the definition provided above of; independent businesses.

The use of the interview method allows a conversation to develop which is vital in exploratory work as opposed to structured questioning found in survey methods and instruments¹⁷.

The data was then formulated into vignettes as contained within this report. Cases were studied from a variety of participants. Some were independent retailers who competed directly with the majors. Others were services providers to these and then some were related small and independent business people. The cases involved experienced and credentialed views of real Queenslanders who are the part of the community, some having lived in their regions their entire life.

The cases deal with issues of the chains dominance in leveraging their scale and scope, in the impacts to deregulation of trading hours, in over size and saturated marketplaces.

Case Studies

The case studies are detailed as follows.

¹⁴ Densin, Norman & Lincoln Yvonna ed, *Strategies of qualitative Enquiry* Second Edition 2003, Sage Publications

¹⁵ Flick Uwe, *An Introduction into Qualitative Research* Second Edition 2003 Sage publications

¹⁶ Marshal Catherine & Rossman Gretchen, *Designing Qualitative Research*, 3rd Edition, 1999, Sage Publishing

¹⁷ Densin, Norman & Lincoln Yvonna ed, *Collecting and Interpreting Qualitative Materials* Second Edition, 2003, Sage Publications

Mitre 10 Mt Gravatt & Mitre 10 Beenleigh– David Woodman

The first case is that of David Woodman who has been dealing with the onslaught of Bunnings and Masters against his Mitre 10 stores for many years. He has seen first hand the issue of saturation and oversized stores and the ramifications on the communities within which he serves. David shared with the project the extent with which he has his livelihood at the mercy of this situation that exists in the marketplace.

On Sunday 28th September 2014, David Woodman closed his Mitre 10 Hardware store at Mt Gravatt. The store had been running at a loss for sometime due to the proliferation of big box hardware stores in the area.

The store had been open for 100 years, it was an icon in the area. David had purchased it in 1995 from Scurr Brothers. The first entry was a BBC Hardware House in 1999 (now Bunnings) opened 500 metres down the road, since then Bunnings have built multiple stores in the vicinity. Since the announcement of the closure of the store a Masters (Woolworths) store has opened across the road, this for David was all he could sustain and no other option existed but to close. David said..

“Independents can’t operate stores at losses. There is no market in the area to sustain the new Masters store yet they can run a business that loses \$260M this year and expected to continue operate at a loss until 2019”

When asked what was the impact David, quite emotionally, replied;

“We employed 30 people at the store, 25 of them are now out of work. But it is not just the staff, we are part of Mt Gravatt economy. We will no longer advertise in the local Mt Gravatt newspaper, the local newsagent, coffee shop will no longer receive the trade from ourselves and the 30 workers. We employed locals to do our gardens, a sign writer to do our chalk boards, cleaners. We purchase things like LPG for our forklifts locally, none of these are large business in the scheme of things but they wont get that business from Bunnings and Masters, their managers don't have the ability to do business locally”

David has also operated a large Mitre 10 at Beenleigh for over 10 years. A year ago Bunnings opened a new large store down the road with immediate effect on our business. David said..

“This new Bunnings store is about 1.5 times bigger than ours. I sat in the car park over a number of days and counted customers and worked out they enjoy about 50% of the number of customers to our store. So how can such a store that is so much bigger with half the trade be sustainable? We can't operate that way but because they are Wesfarmers they can. They don't employ staff to the same level as we do as we employ people who have a knowledge of hardware so we pay more for that. Our wages bill would be approximately twice that of Bunnings in my estimation. The only way we have been able to keep the store viable is to cut staff and reduce things like advertising in the local Logan newspaper”.

David was asked if he has his house on the line with his business and what has been the impact. David replied..

“Yes we owe the bank over \$10M. They (the banks) are very nervous as a new Bunnings or Masters opening will cut sales by 40%. Myself and my brother are tied up with personal guarantees to the bank. The debt is tied to our business valuation which in retail is based upon average weekly sales and profitability, so a new entrant like a Masters has an immediate effect on the value of my business against the borrowings and personal risk to myself. I wonder how much personal risk does the CEO of Wesfarmers have?”

David went on to describe his observations over his many years in the hardware business.

“The majors have killed off so many local businesses that are part of the community and have not replaced that from either a society or economic perspective. You don't see many Garden Centres, Mower Shops, Pool Shops, Carpet Stores, Tile Retailers, Bathrooms, Small Appliance, Lighting Shops. When you do business in a reciprocal manner with other business people in your region, you become part of the culture. This is being lost by the over servicing of stores that have no real sustainable economic basis for being there AND when they open, they do not put back. This culture is being lost forever and no one, governments or others, are doing anything to address this.

We tried to fight one Bunnings development where the council rezoned to support the Bunnings DA, we spent a considerable amount of money that businesses like ourselves can't afford, Wesfarmers and Woolworths can of course. We lost and the Bunnings will open in October 2014”.

Mitre 10 Noosa and Mitre 10 Gympie – Anthony Lovell

Anthony from Sunshine Mitre 10 operates a number of independent hardware stores on the Sunshine Coast. Anthony describes the impact to the local business community of the expansion of a Bunnings stores in Noosa and the extent that he trades with local suppliers.

Anthony's business operates a 2000 m² store at Noosa, at one time it serviced both trade and retail. It competed with a 3000 m² Bunnings. The Bunnings got approval to move to a new site of 9000 m² and this has effectively ended the Noosa store's retail offer. Today the store offer only trade supply.

Anthony was asked what was the impact..

“This compromised the profitability of the entire business. We sadly reduced staff by 20 people, we managed to redeploy some of these into our stores but most were let go. But what many do not understand is that there is more to this than just a loss of jobs. We buy local. We use local providers for things like stationery, cleaning. For example; we have a fleet of 50 utes that we purchase locally, have serviced locally, take fuel, tyres from local independents. After the Bunnings expansion in Noosa, we have had to cut this fleet back considerably. Bunnings don't do business locally like we do”.

We hire equipment, transport, freight all locally but of course Bunnings who are Wesfarmers tie their store managers hands to comply with national service and purchasing requirements. We use the local accounting and legal firms on the Coast, Bunnings of course use firms in WA”.

And there is more, Anthony went on to describe the extent which his business does business with other locals.

“We try where we can to promote and sell products from local suppliers. For example our Mitre 10 store at Gympie stock timber from Gympie Timbers. Given that Wesfarmers and Woolworths have national supply arrangements a company like Gympie timbers would have no chance of supplying to them, but we do take supply from locals wherever possible because it is good for business and it is good for the local community and economy”.

Kruger Law, Sunshine Coast – John Kruger

John has operated his legal practice on the Sunshine Coast for many years. He services local independent IGA retailers, service station proprietors and has seen first hand the hardship from the advance of the dominance of Wesfarmers and Woolworths.

“I have watched the chains open new stores and expand in ways that do not make any commercial sense. I have even assisted in the opposition of such developments but with only limited success, independents don't have the funds to stop them. When they (Wesfarmers & Woolworths) develop new sites they of course use their lawyers in probably Perth or Sydney, not local people like myself. However, other ramifications are enormous. I have had clients go to the wall as their leases come under threat as the power of the majors influences local landlords. I have seen the effects of local independent businesses having to lay off people, and these people do not simply move over to the Coles or Masters store.

Suddenly client's assets worth \$3 to \$4 million are under threat and sometimes gone overnight. They are left with nothing to sell or a legacy to leave their families. Once the threat emerges it then becomes spiral of decline and starts to affect other parts of the business and their personal lives.

For me of course I lose clients who are gone forever as their business disappears. There are so many other local business effected it becomes a chain of suffering. For those that have sustained the assault it is the loyalty of the community that keeps them going but when regulatory issues that protect independent businesses and keep some level of fairness like trading hours come under threat, then for many it will be the end.

I have to say I am fearful. I am scared of what the future holds for the viability of the clients I act for and more importantly the local community and society we have here of the Sunshine Coast. This discussion about the community, the community I am a part of”.

Spanos SupaIGAs, Darling Downs – Frank Spano

The Spano family owns and operates five IGA supermarkets. Three of these are in the Darling Downs at Gatton, Warwick and Stanthorpe. Frank Spano is the CEO, he describes the importance of buying locally..

“We believe when you operate a store say in Gatton, where we are supported by the local community, it is important that we become part of that community and support the livelihoods of the local business people. Gatton is in the Lockyer Valley, the salad bowl, and so we recently asked local growers if they could supply our stores with locally grown produce. The response was enormous,

from those growers who were locked out of supplying the big guys. It would be easier for us to go to the Brisbane markets for everything but it is good for the local economy so it is good for our business too”.

Maroochy River Lettuce, Sunshine Coast – Nigel Kemp

Nigel and Laurelle Kemp have been growers of lettuce and other products on the Sunshine Coast for many years. Their farm supplies local independent grocers such as IGA stores, pubs, clubs, convenience stores and the like. Given the size of their operation the opportunity to supply Coles & Woolworths is simply far too remote a possibility. The majors have opened three new stores in his area in two years.

Nigel discussed a recent strategy by the Coles in his marketplace..

“Coles recently dropped the price of their lettuce from \$2.59 to \$0.99. Coles don't necessarily purchase at lower cost than I can, but they can afford to drop their price by such a large extent. With that degree of price difference consumers will not buy local. My customers want the same price so they go elsewhere. So my lettuce feeds the cows. They are forcing me out of business”.

Nigel went on to describe the wide impacts of this action by Coles..

“We had to reduce staff from six down to four. We purchase all our supplies and equipment locally on the Coast and our seeds from Toowoomba. I had to cut all that trading back, it includes things like; fertilisers, fuel, vehicles, servicing, seed. If they (the chains) continue we may have to close down the farm. We have a mortgage that will bite us, if local business become

unviable you are forced to walk away, if the chain stores become unviable, and many are unviable from the start, they don't walk away, because their huge organisations can sustain it”.

Nigel is a strong member of the local Rural Fire Service. He describes the impact the disruption to the community as a result of the actions of the Wesfarmers and Woolworths.

“It is the local business people that support local community organisations such as the Rural Fire Service, not the chains, they simply spend a lot of money selling a perception of their support but when you there, in the heart of the community, you see that the support comes from locals. That support is under threat as local businesses come under threat”.

Your Insurance Broker, Sunshine Coast – Winston Johnston

Winston Johnston has been an insurance broker servicing Sunshine Coast locals for many years. Most of his clients are local business people. He has watched his clients become increasingly marginalised as the chains store operators increase their dominance.

“I have watched my clients move from the businesses they have grown, into niches as Woolworths and Wesfarmers expand. Independent business people are resilient and they can move and adapt as the market changes. However very quickly after moving into niche markets the chains then quickly take these over as well and more often than not, this is all the independent can stand. The result is the business falls over. The impact is more far reaching than just a

failed business and loss of jobs that force young people out of regional communities. I don't think it is readily understood that the extent to which local businesses take services locally and support the local community and these are gone when the independents fall over. The majors have national agreements or use internal services and such the contribution to the Sunshine Coast moves elsewhere”.

Winston went on to describe the impact to his insurance brokerage business by the advance of Woolworths and Coles.

“We now see Coles and Woolworths moving into selling insurance. They are bare bones products and we try to sell a higher quality product but I can't afford to spend the advertising that these two can. Their advertising doesn't present to the consumer that when they have a claim they can't go back to their local supermarket where they purchased to complain or discuss and issue. And again the benefit goes away from the local community for example; when a claim is made for say a replacement TV, the national purchasing agreements dictate where they can purchase the replacement and it is usually not the local independent electrical goods merchant but a chain type organisation”.

Dalby Trading Hours – Independent Business People of Dalby

The NRA recently applied for the deregulation of trading hours for non-exempt stores to trade on Sundays and Public holidays. The independent business community of Dalby banded together to oppose this latest advance towards a stronger duopoly in Queensland.

On the 9th of September 2014, over 40 independent retailers met at a meeting of the Chamber of Commerce to discuss the NRA application. A motion was moved to oppose the application and no one spoke in favour of the application. A small representation of the volumes of commentary from independent business people are show below.

Lorna (30 years in business in Dalby in Haberdashery) described the threat to the contribution that independents make to local communities that extends past just reciprocity. Lorna said..

“I am very concerned about the impact on business in Dalby and the consequences for the community generally. The shops like Foodworks and Betros Brothers that open Sundays will lose their best trading day and I worry that they won't be able to continue trading without that day. Dalby small businesses sponsor many local community events unlike the large retailers. If Foodworks and Betros Brothers or any other small business become unviable because of the extension of trading areas this will affect not only the business owners and their employees but the whole extended community because Dalby will lose another community supporter”.

Malcolm (over 25 years trading in Dalby) described the oversize store and chain amortisation issue. He said it like this..

“Under the current system, local independent stores more than cater for any existing demand on Sundays. Adding the national retailers to that mix will only spread demand across more stores creating insufficient patronage for any one store to be fully viable for that day. Due to the smaller bank balances to sustain locally owned

independent stores over longer terms of non-viability, these stores would close sooner than the big national retailers”.

Lynette (21 years in business in Dalby as a Florist) described how the community would likely change with the change to the trading hours in Dalby. Lynette said..

“I consider there would be many impacts for Dalby if the NRA application is successful. The independent grocery and convenience stores may become unviable and close. This will mean loss of jobs, loss of choice and the loss of local businesses that support the local community. The increasing working week for retail businesses is changing the fabric of our society and 7 day trading would change Dalby”.

Hamish is a local butcher, employs four full time butchers, one admin staff and one cook. Hamish has been in business in Dalby for nine years. He says this about the impact if the NRA application is approved to his business..

“I believe my business will most likely become unviable if the NRA application is successful and that potentially six people including me could lose full time jobs and three people part time jobs. I say this because my trading margins are so tight that the Sunday trade is what is the difference to my viability”.

Chris, operates the Dalby Newsagency, Toyworld and OfficeChoice office supplies. He has been in retailing in Dalby for 23 years. His concern is that Big W will be able to trade Sundays and the impact this will have on his business.

“Extended Sunday trading would have a major impact on the fabric of our society.

And decrease family and community time and negatively impact on small business that support the town”.

Mark has been a resident in Dalby since 1984 and owned the Brumby’s Bakery Franchise for nearly two years. Mark has this to say about the local businesses support of the community..

“My business as the only bakery that bakes in town delivered bread during the 2011 and 2013 flood events. I was photographed by “The Courier Mail” pushing my bike through flood water to deliver bread. No other business could bake bread or had any bread to deliver. All my leftover bread from each day’s trading is donated to charity and I donate bread to numerous community functions. As an independent retailer I contribute to the community in which I do business and the Dalby community in turn supports me. Independent retailers are vital to country communities like Dalby as we are part of that community”.

There were in total 18 Dalby independent business people who submitted objections to the NRA application. It wasn’t just the business people. Contrary to the NRA’s justification for the trading hours extension consumers in Dalby were also opposed. A petition with 182 local Dalby residents opposing the applications was submitted.

Analysis

The data has provided rich and deep insights into the effects of the increase of both scale and in scope of Wesfarmers and Woolworths. Contrary to previous papers this study examined the issue from different perspectives, being:

1. Expanded to other retail formats to what Wesfarmers (Coles) and Woolworths are

traditionally known being; the retail of groceries.

2. Examined the downstream effects of the advance of the chains' unfettered expansion of scale and scope.
3. Explored the impact outside of direct competitive issues of product and price, to look at how this issue may be impacting the fabric of regional Queensland communities.

An aggregation of the data collected provides for a group of common themes, described as follows.

- A. Independent businesses provide an economic contribution to the local community directly by providing jobs and indirectly by taking products and services from local providers. All respondents explained the negative impact of this contribution upon entry or expansion of the major retailers.
- B. The entry or expansion of the major retailer operations into the region is not justified in terms, i.e. saturation or oversize.
- C. Independent business people have a personal stake in their business and that their livelihoods and working hours are pushed to the limits upon entry or expansion of a Wesfarmers or Woolworths operation.
- D. There are other contributions to the local society in terms of support of community groups that don't get replaced when the independent is usurped. There is a strong belonging to their local communities within which they trade.
- E. There is in general a sense of loss of confidence or even fear for the future viability of their businesses directly attributable to Wesfarmers and Woolworths.

- F. Assumption that community's want extended trading hours or the expansion of Wesfarmers and Woolworths is misplaced.

The analysis of the cases resulted in the development of two key issues that have been derived from the study 1. Economic Distortion and, 2. Changing Fabric of Queensland regional Society.

Economic Distortion

The case studies bring into doubt the often adopted premise that; when a major large retail format store comes to town or expands that jobs are created and therefore the economic contribution to the local region is self evident. This premise needs to be studied and scrutinised with further and closer examination. This study has shown that while jobs are created within the new or expanded store it is evident that these jobs neither substitute the direct employment that it may be usurping nor create additional incremental employment within the community.

From the data it can be seen that a independent business takes services directly or indirectly from within the community that it operates and that when it closes or contracts due the introduction or expansion of an oversized chain store that this economic contribution is either; absorbed within the expansiveness of the Wesfarmers or Woolworths operation, or directed to nationally based suppliers of products or services that may not even be in Queensland let alone in the local community.

This is the result from an increase in both scope: the expansion of the chain's offer from originally groceries to now include (but not limited); paint, garden, mowing, liquor, fruit shops, pool shops and even insurance, etc and scale: where the

Wesfarmers and Woolworths leverage their size and power to purchase services and products nationally including (but limited); legal, accounting, tyres, fleet vehicles, insurance, produce, timber.

The economic contribution to local communities is far more complex than the singular metric of jobs created. As witnessed by Dave Woodman watching from his car in the car park of the new Bunnings at Beenleigh, many of the big box stores do not seem sustainable in the communities that they have been allowed to enter or expand within. The deep pockets of the majors allows any losses to be amortised as the objective to obtain market share from each other, the ultimate source of the increase in scale and scope, continues without any economic responsibility to the communities that they so heavily promote to. The debate and scrutiny of competition needs to move away from the simple measure of price to consumers to explore broadly and deeply the economic impact to local Queensland communities as scope and scale of Wesfarmers and Woolworths continues to dominate the retail landscape.

Changing Fabric of Queensland Regional Society

Is the access to more and more products and services from the two major retailers what Queenslanders want? From this study, probably not, certainly not in Dalby. From within this study the community of Dalby both in terms of local business people and the community as consumers, band together to oppose the NRA's application for Sunday trading of non-exempt stores. The community saw this application as leading to longer working hours just to survive in this latest attempt for incremental gain for the majors.

At the national or even state level the impact of a town like Dalby allowing Wesfarmers and Woolworths to trade Sundays is probably small and so for ease of administration in Brisbane then this should give way to the NRA and chains. It could be justified by saying the shoppers on a Sunday don't have to drive to Toowoomba and so regulators and administrators can feel justified that the easy decision is the right decision. This study indicates that taking such a macro view has long-term impacts to the society that is Queensland. Longer working hours, business viability for anyone in Dalby who is not owned by Wesfarmers or Woolworths under another threat, opportunities and jobs moving out of the town and so on.

Proper examination of the deeper and local issues needs to be undertaken to understand if the expansion of Wesfarmers and Woolworths is good for the regional communities of Queensland. From this study, which dived deep into the issues that affect Queenslanders, the analysis says that there are long-term negative impacts of this expansion, to local communities. In the past such macro level decisions that are narrow in their concern for consumer pricing such as trading hours have, in very small steps, contributed to the dominance that is Wesfarmers and Woolworths of the retail landscape of Queensland and indeed this country.

Conceptual Framework

From this analysis a conceptual framework is posited. This framework is the broad economic and societal model to measure the impact of independent businesses, Wesfarmers and Woolworths on Queensland regional communities. This conceptual model is shown in Figure 1 below.

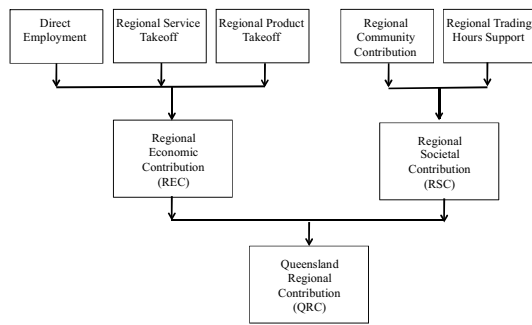


Figure 1 - Conceptual Framework

This conceptual framework within a separate study, could test in a quantitative design, the conclusions of this study. It would measure the impact and determine the net benefit, i.e. (+) or (-) contribution of any proposed new or expanded retail offer by the two majors.

Constructs would need to be operationalised but in broad terms they would be designed to measure within a deterministic model. From Figure 1 above constructs from analysis within this study are as follows:

DE – Direct employment of the retail operation, includes permanent and casual staff

RST – Regional Service Takeoff, the amount of local services the operations draws from the region

RPT – Regional Product Takeoff, the amount of local product the operations draw from regional growers and manufacturers

REC – Regional Economic Contribution – the calculation into a single construct of DE and RST and RPT above. This is the measure of economic benefit/distortion.

RCC – Regional Community Contribution, is the contribution community groups minus the marketing benefit to the retailer.

RTHS – Regional Trading Hours Support, is the degree to which the local community supports any

extended trading hours minus or plus work life issues.

RSC – Regional Societal Contribution, is the calculation into a single construct of RCC and RTHS above. This is the measure of the impact to the Queensland Regional Society

QRC – Queensland Regional Contribution, is the calculation of REC and RSC to combine to quantify the impact of the operation on Queensland regional communities.

Conclusion

This study concludes that the unfettered expansion of scale and scope of Wesfarmers and Woolworths is distorting negatively local economies and risk changing the fabric of Queensland communities.

This is contrary to the Queensland Government’s Plan for Queenslanders and their action plan for Small Business. Achieving these noble and worthy objectives will be difficult whilst these conditions within the Queensland retail marketplace exist.

This study was exploratory, however the richness of the insights derived from across different business types and Queensland regions serves to form a recommendation in the form of a conceptual framework that more detailed research be undertaken against to test and so fully understand the two issues concluded from this work.

Without further and more detailed understanding, the advance of the two retail giants may have negative consequences that cannot be undone for the future of regional Queensland.

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Acknowledgements

The author would like to extend his gratitude to Ms Helen Spain who interviewed extensively the independent business community of Dalby.

The author would also like to thank those numerous Queensland independent business people who gave so willingly and openly of their time and experiences within this study.

Finally the author would like to thank Roz White for her support and her incredible passion for the

development of independent business in Queensland.

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Derek has over twenty years experience leading and managing people. He has had an extensive executive career leading large complex organisations across a diverse range of industries from engineering to Fast Moving Consumer Goods. This career is typified by Derek leading major; industry, business, cultural and organisational change. Derek coaches and mentors senior managers, executives and business owners from a range of industries and organisations most notably independent retailers.

Derek has a Master of Business Administration from Macquarie Graduate School of Management and has researched extensively competition and strategic decision-making, attaining his Doctor of Business Administration in 2009.



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