The impact of a new and very large supermarket operator in any local market will have an adverse impact on the existing operators. Any claim by the prospective new entrant that its growth will be derived from ‘organic’ growth within that local catchment needs to be viewed with scepticism as it ignores the reality of how people shop. It also overlooks the fact that all businesses need to generate sufficient profits to cover their operating costs.

Kaufland is a global operation that has the economies of scale to ensure its operating costs are less than those of the local, independently-owned supermarket. Consequently, it will offer its product range at lower retail prices than its local competition. The claim that, in these circumstances, Kaufland’s growth will be organic, is patently not true as it assumes that consumers in the local area will not be influenced by this pricing difference, that only the ‘organic’ consumers will shift their shopping to Kaufland. In fact, a large proportion of the catchment will redirect their spending to Kaufland at the expense of the local operators who are unable to compete.

The misleading nature of the ‘organic growth’ claim is underlined by the commentary from Kaufland that it requires special treatment from governments because of ‘the scale of the project’. We ought to infer from this that Kaufland will require large scale profits to provide a return on this large scale investment. If the organic growth in the supermarket industry is around 2% per annum in Australia, then is it likely that this global supermarket operator can generate sufficient profits to cover their investment with just a 2% share of the market? Unlikely.

It is important to note that when Aldi entered the Australian market it claimed it wanted just a 3% share of the market. Today, the market share of this global operator in the Australian supermarket market sits around 10%. This extra 7% is business taken from supermarket operators already existing when Aldi entered the market.

Kaufland, like Aldi, claim that, given the increased competition its price-driven model brings to any local market, the consumers in that market are the winners. With this statement, it seems unlikely they are referring to the 2 or 3 consumers out of every 100 they claim to be targeting. Dick Smith, a veteran of Australia’s retail industry, has stated, “If it’s one cent cheaper, everyone will run to it”.

The simplistic argument is that, if an operator can reduce the weekly shopping bill for the average Australian family, then that is a good thing. On face, that seems a safe position to adopt. However, it ignores the contribution the local, independently-owned supermarket makes into its local economy. The Barossa Co-op (the Community Co-operative Store (Nuriootpa) Limited) is a clear example of the importance of the local operator.

The Barossa Co-op is a co-operative owned by and operated on behalf of its local community. There are 23,000 local members who all own one share each in the business. The Co-op operates a supermarket under the Foodland banner and is supplied by Metcash for around 50% of its product needs. The other half is supplied by smaller, local producers. These number around 120. The Co-op invests around $20 million each year with its smaller, direct suppliers.

The Co-op is the largest employer of people under the age of 25 in the Barossa region. The supermarket employs 140 locals in total, investing more than $6 million in wages this year.
The Co-op also invests in the cultural activities of the local community with sponsorships last year of $80,000 given to sporting clubs, town bands and other community groups.

In November 2017, an Aldi supermarket opened in the Barossa. The revenue of the Foodland supermarket dropped 10% overnight as local consumers shifted their shopping, or a part of it, to the new entrant whose global scale allowed it to sell food products at lower prices. This had an immediate impact on the Foodland operations. Rosters were cut as the sales revenue no longer supported the same levels of employment. Purchases from local operators were reduced and the sponsorship program was less generous.

This scenario crystallises the complexity of the question, Were the local consumers the ‘winners’? The answer is, Only if you ignore the economic impact on the community as a whole. Employment in the community reduced because the low cost business model of the Aldi operation employs less people per consumer dollar spent than the Foodland model. Many local producers earned less income because the Aldi model does not support local producers. Its products come from far and wide. Many local community groups had to work with less resources.

Was there any growth, organic or otherwise, in the consumption of food because of the arrival of a cheaper supermarket? Unless we assume the local population was not eating all it needed because it could not afford enough food, then the answer is no. The only growth was generated by any increase in the local population.

Whether local communities are ‘winners’ when a cheaper supermarket comes to town is not a simplistic comparison of retail prices. The economic contribution of a business to its local community is a multi-faceted combination of the many ways in which that business contributes to the overall economic wellbeing of its community. Given the empirical evidence of our Barossa experience, it seems unlikely that local communities are actually winners.

There is a long term issue that also needs to be considered. The Barossa Co-op, like any business, has to make long term business decisions regarding investment in infrastructure. Over the last 5 years, The Co-op has invested more than $30 million in a new shopping centre that includes a new store for the Foodland supermarket. This decision was based upon the zoning regulations as they stand now and into the future. How unfair would it be to the local owners of The Co-op if these regulations were to be changed to allow a very significant new competitor into the local market? Such an action would put the assets of the community at great risk.

Any significant investment in infrastructure requires surety for the period of time needed to ensure a return on that investment. That is why regulations exist in the first place. For these to be varied at short notice provokes uncertainty in investors’ minds and will adversely affect investment in the long term.

It is for all of these reasons that The Barossa Co-op does not support the entry of Kaufland into the Australian market. There will be a net decrement to the quality of life enjoyed by Australians.

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