The Australian retail industry has recently experienced another spate of takeovers, when Coles took over Myer and Woolworths took over Safeway, giving us the dubious honour of having the highest level of concentration of retail sales in the hands of two companies. Economist Stuart Rosewarne, from Sydney University, looks at the implications and challenges the go-ahead given to them by the Trade Practices Commission.

When Coles announced that it was to take over Myer, another retail giant, early in August, the Trade Practices Commission (TPC) declared that it would not block the move. The commission held that the take-over would enhance efficiency within the industry and that competition would not be impaired because of the presence of other retail giants and small, independent retailers. This declaration more or less gave the go-ahead for a subsequent take-over of Safeways by Woolworths.

The consequence has been a dramatic increase in concentration in the ownership of sales outlets in the Australian retail industry. The Coles-Myer consortium will control some 20 percent of all retail sales in Australia. Woolworths will enjoy a further 10 percent of all retail sales. In particular segments of the market, the concentration is even more significant. Coles-Myer will hold 76 percent of all discount department store business through its K-Mart, Target and Fossey's stores. Woolworths will hold 17 percent of this business.

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Coles-Myer will dominate shoe retailing through its discount stores and footwear chain stores, Fays Shoes and Ezzywalkin, holding 30 percent of the market. The company will also be the leading liquor retailer. The retail giant will sell 26 percent of all groceries through its supermarkets. Woolworths will enjoy a larger share of this market, controlling some 30 percent of the grocery trade.

This level of concentration of retail sales in the stores of two retail companies is the highest in the western world. It provides the basis for unparalleled market power which can be exercised at the expense of other retailers, workers in the industry, manufacturers and consumers.

Ongoing rationalisation

The Coles take-over of Myer and the Woolworths take-over of Safeway are the latest developments in the ongoing rationalisation of the retailing industry which has gathered pace over the last few years. They follow the substantial rationalisation that has occurred in the department store trade. Less than two years ago, Myer secured control of Grace Bros. In the interim, Myer has taken over the leading Western Australian department store retailer, Boans, and its subsidiary, J.B. Young, has begun to extend its hold on rural retailing by buying a number of independent country department stores. Also, in 1984, the prominent South Australian department store retailer, John Martin, was acquired by David Jones, the Adelaide Steamship subsidiary.

The major retailers have also extended their market control in other areas such as specialty chain stores. Coles acquired Katies in 1984, and Woolworths purchased the interests of Chandlers, an electrical goods retail chain operating 59 stores in New South Wales and Queensland.

The desire by the large retail companies to increase their turnover and market share by taking over other retailers has largely been a response to the static retail market consequent upon the economic crisis of the past decade.

Internationalisation

Rationalisation, or concentration of Australian retailing, has coincided with the Australian companies becoming more international in outlook in other respects. Both Coles-Myer and Woolworths have an American shareholder holding 20 percent of capital. Coles' shareholder being the K-Mart Corporation and Woolworths' being Safeway. All of the major companies have made concerted efforts to establish links with overseas suppliers and manufacturers with a view to buying in the cheapest markets and thereby gaining a competitive advantage over other retailers. Their position has been further strengthened by a growing interest with banking and other financial concerns.

Opposition

In the context of these developments, it is difficult to see how the claims of the Trade Practices Commission can be justified. Not only the Consumers' Federation, but also other retailers, developers, manufacturers, farmers
and workers employed both within and outside the industry, have been critical of the increased concentration of ownership.

In New South Wales and Queensland, independent retailers and smaller retail companies have been forced to follow the large companies in extending the hours they open their stores following the deregulation of shopping hours. This has often been against their wishes: many are required to conduct their operations in large shopping centres on terms that are more or less determined by the retail companies. Other grievances have arisen because of the terms and conditions of their leases, including the charging of higher rents when shopping centre proprietors endeavour to make up lost revenue in the wake of the large retailers demanding rent relief.

A number of state governments have moved to set up tribunals to settle some of these disputes, but there is evidence that the independent retailers and small chains have been forced to withdraw complaints or face "certain consequences". Some of the costs of the retail companies' market power are obviously being borne by the small retailers. As for competition not being eroded, it is also clear that the retail companies have used their bargaining muscle to ensure that certain competitors are not allowed to open stores in shopping centres. They are physically prevented from competing.

Manufacturers have accused Coles of "becoming more and more dictatorial in its buying". Newspapers have reported the eruption of a "civil war" between the retail giants and manufacturers. Because the retail companies have such massive buying power they are increasingly able to, and do, determine the terms on which they contract with the manufacturers for the production of goods.

A recent Countrywide program documented the plight of farmers facing increased imports. Woolworths, in search of cheaper vegetables, began contracting with New Zealand producers and, in the process, placed the future of a substantial part of the Australian pea growing industry in jeopardy.

David Jones is a significant importer of overseas food despite the fact that another company in the Adelaide Steamship stable, Petersville, is a leading food processor in Australia. But, rather than disadvantage that conglomerate, this diversity of interests can complement the bargaining power of the retailer.

The Transnational Co-operative's Anti-Union Employment Practices study has highlighted some consequences of this market power for workers. In the clothing trade, retail companies are able to impose various requirements, resulting in an increasing amount of production being contracted out to out-workers. These

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workers, and they are predominantly women, are being called upon to carry the burden of the retail companies' dominance of both the local and the import trade.

Working conditions

Within the retail industry, the position of shop assistants and other workers is deteriorating, not only through jobs lost as a result of rationalisation but also because of casualisation of work and the displacement of adults by teenage workers. Recently, the Shop Assistants Union (SDA) negotiated an agreement to forestall this trend when the NSW government decided to relax restrictions on shopping hours. Yet the State Industrial Commission has decided that shop assistants covered by this award are now to be paid time and a quarter, instead of time and a half, for work during extended shopping hours. The logic for this decision was that retailers' costs had increased; extended shopping hours had not led to the expected increase in sales, but merely spread a static trade over more hours.

Teenage workers face an even more precarious future. Retailers have been at the forefront of the argument that teenagers are priced out of the market and that teenage wages should be reduced.

Another concern is the increasing tendency to employ non-union labour. Despite agreements with major retailers, there is some evidence that employers are not abiding by the agreement to employ unionised labour.

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However tardy the SDA has been in withstanding the deterioration in employment conditions within retailing, a reduction in unionism will further weaken the capacity of shop assistants and other retail workers to preserve their industrial position.

- The Trade Practices Commission has asserted that consumers will not be disadvantaged by the increasing concentration of retail distribution
The High Price of Retail Takeovers

Efficiency and competition?

because of increased efficiency and continuing competition. It is hard to see how efficiency will be enhanced since the reorganisation of the management structure of Coles-Myer is not going to radically alter the pre-takeover structures of the companies. The Coles-Myer enterprise is somewhat of a conglomerate organisation covering not only all sections of retailing, which do not always fit neatly together, but finance as well.

If increased efficiency is a euphemism for an increased ability to reap economic advantage as a bulk buyer, then it is increased market power and not efficiency which should be the more correct consideration in judging the merits of the takeover. As far as consumers are concerned there is no guarantee that the gains from the takeovers will be passed on to them. For a start, margins in that area of retailing, where the two retail giants are most likely to be competing, namely the grocery or supermarket trade, are already low. In fact, the low profit margins in this trade was a key factor in Coles' decision to diversify and expand into other areas of the retail trade.

The increased concentration in the supermarket trade could well be the means by which profit margins are increased. As well, the advantage that Coles-Myer and Woolworths have as large buyers, locally and overseas, will increase their ability to raise margins.

The Metalworkers' Union's survey of grocery prices appears to bear this out, that growing market power is being used to advantage retailers rather than consumers. Despite all the rhetoric about the intense competition within the supermarket trade, the metalworkers' surveys indicated that prices were climbing much faster than all the official estimates, including CPI figures, suggest. And, if one examines the companies' pricing policies there is a good explanation for this.

Coles, for instance, employs a price system called "zone pricing". Essentially, goods are priced according to what the market will bear, so if a Coles' store has a competitor close at hand, then prices, and especially prices of leading sales items, might be lower than in another store. To give one example to demonstrate this point, I have recently observed the board game Trivial Pursuit selling in most stores for around $40 while in one store facing intense competition it was selling for $28.

The computerisation of the retail industry, and especially the introduction of scanners (which read barcodes on packaging), has increased the capacity of the retail companies to monitor turnover and, for instance, to determine which "specials" attract custom and the extent to which profits can be recouped from sales of other items.

TPC impotence

The decision by the Trade Practices Commission to ratify the more recent retail company takeovers reflects not so much an appreciation of the effects that the takeovers will have on the community's well-being (it does not appear to have given much thought to this) as the complete impotence of the commission to act to prevent such large takeovers. A recent decision rejecting the commission's right to rule out restrictive trade practices in the transport industry has forced the commission to continue to pursue its long-established policy of seeking to negotiate adherence to the Act. Labor government moves to strengthen the Act have not been followed through, with the result that the status quo remains.

"If there is increased efficiency in retailing consequent upon the increased concentration, then it is the increased efficiency to price for profit."

For consumers, workers and others adversely affected by the growing concentration in retailing, it would seem that the most appropriate course of action would be to demand a strengthening of the Restrictive Trade Practices Act and a more rigorous policing of its conditions. For the time being, industrial action and the policing of retailers by community groups and trade unionists, following the example set by the Metalworkers Union and others, appear to be the only actions which will forestall the erosion of our standard of living.

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