

UNEDITED TRANSCRIPT

THE HOUSE OF ASSEMBLY SELECT COMMITTEE ON GROCERY MARKETS AND PRICES MET AT PROSPECT ON 6 MAY 1997.

Mr LIONEL JAMES (SAM) RICHARDSON AND Mr GRAEME NOTT WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

CHAIRMAN (Mr Benneworth) - Thank you for coming along and thank you for allowing us to use your premises for today's hearings, and also thank you for the invitation to look over the warehouse; we are appreciative of that. We thought it would be better to come here rather than drag you to Hobart, so we do thank you for that.

The second thing I would like to say is, could you explain for the record the relationship between Statewide Independent Wholesalers and Tasmanian Independent Wholesalers?

Mr RICHARDSON - Tony, let me reciprocate and thank you for the opportunity to meet with you here today. I must commend the Committee on the action that they are taking during this inquiry. I was very disappointed with the 1989 inquiry; I felt that that was quite superficial, and at least this inquiry is getting to the grassroots and finding out how the industry works,

as evidenced by you coming here today.

Having said that, let me explain very briefly how Statewide is composed. We are a joint operation. It is co-owned by Woolworths and the independents, Northern Wholesalers Cooperative Society, which trades as Tasmanian Independent Wholesalers. It is a little bit confusing, but Statewide is the entity that was set up when Roelf Vos, the individual, and Northern Wholesalers both had warehouses which we outgrew, and rather than build two new warehouses we decided to merge our operation, and we called it Statewide Independent Wholesalers.

It was probably about eighteen months later that Roelf Vos sold to Woolworths and therefore Northern Wholesalers gained a new co-owner in Woolworths. So the ownership is 60 per cent Woolworths - and perhaps if I use Tasmanian Independent Wholesalers because that is what you know us as now - and 40 per cent is Tasmanian Independent Wholesalers. However, we have a five-man board on which I sit as chairman. There are three Woolworths directors and two Tasmanian Independent directors. Irrespective of the shareholding, one of the things that we were able to negotiate when Vos wanted to sell to Woolworths was that there had to be a 75 per cent agreement on the board before any major structural changes could be made within this warehouse.

It operates virtually as a cooperative. Whilst it is not a cooperative, it operates along the same lines as a cooperative, whereby any profits generated are rebated back to both Vos and individual Independents pro rata to purchases. Statewide General Manager, Graeme Nott, has a brief from the board, that he is not to make more than 1 per cent profit. If it is, we reduce our sliding scale service fee. Everybody buys out of here at the same wholesale price, be it Vos or the smallest Independent. The only variance is a sliding scale service fee, and between, say, a Roelf Vos and a Festival store there would probably be 1.5 per cent - if that - variance.

CHAIRMAN - That is actually one of the questions I was going to ask. In today's submission, you are talking to us as the General Manager of the Independent group?

Mr RICHARDSON - Yes, that is right. Graeme has not made a submission. Graeme is here - and I am sorry I did not explain that - merely to facilitate the wholesale operation and to be here to answer questions in that regard. When we get to prices, Graeme will bow out because it is a co-owned warehouse and I would not put him in that situation.

CHAIRMAN - Could I just ask a couple of questions then about the co-op itself. Are you convinced the co-op is working to its best advantage on behalf of the grocery purchasers in Tasmania?

Mr RICHARDSON - As far as the operation here?

CHAIRMAN - Yes.

Mr RICHARDSON - It is probably the most efficient industry that is in Tasmania. We are very fortunate that we have been able to work in such close harmony with a corporate company such as Woolworths. That having been said, the main reason is that Woolworths were very clever in the fact that they left the original management structure in place when they took over, and therefore it has been really an independent culture that the people here have come from. Therefore we have been able to work quite - not really amicably some times because we would probably cut one and another's throats outside the door, and there is a bit of blood splattered around here and some of it probably mine.

But other than that, we are very fortunate that we have focused on Statewide. Every time we walk through that door there into this boardroom, the focus is on Statewide and Statewide alone. What we do outside is between our individual wishes. But as Statewide, the goal of Statewide is to get product into this warehouse in the most efficient and best price possible and distribute it to all and sundry of our members, be it Vos, in the most efficient and price effective way. That is the aim of it.

CHAIRMAN - And as a co-op, does that mean that Freddy Smith who owns Sam's at Newstead has an ownership share in here, or the group has an ownership?

Mr RICHARDSON - As far as the Northern Wholesalers Co-operative, if that is what you are alluding to -

CHAIRMAN - Yes.

Mr RICHARDSON - each and every one of our members has to be a shareholder, and they own Northern Wholesalers Co-operative Society, and by virtue of that own the 40 per cent of Statewide.

Mrs BLADEL - Through you, Mr Chairman - I am just a bit unclear. Woolworths is your major shareholder - 60 per cent.

Mr RICHARDSON - Of this warehouse.

Mrs BLADEL - And 40 per cent is the Co-op. Is that right?

Mr RICHARDSON - That is right.

Mrs BLADEL - So Roelf Vos is Woolworths?

Mr RICHARDSON - That is correct.

Mrs BLADEL - So Woolworths own Purity?

Mr RICHARDSON - Yes, correct.

Mrs BLADEL - I see. This is a typical Tasmanian family - the Black Bobs type.

Laughter.

Mr RICHARDSON - That is correct.

Mrs BLADEL - I daresay we will get on to how that connection works, will we, as we go along?

Mr RICHARDSON - Yes.

CHAIRMAN - Does it break even? Your plan is to make a 1 per cent profit, is it?

Mr NOTT - At Statewide. I have a brief that if my bottom line produces more than 1 per cent, we cut back on service fees or cut back on whatever our charges are.

CHAIRMAN - So rather than pay a dividend back, just actually just cut your operating fees back.

Mr NOTT - Yes. Out of our profit we have to fund our capital investment for the following year of course, but then a balance out of that we pay back to our shareholders. We pay 60 per cent to Roelf Vos, we pay 40 per cent to Northern Wholesalers, as I call them - but we will call them TIW because that is the trade name - who then in turn hand it back to me so I can distribute it to the Independent pro rata to their purchases through the warehouse. So if Jimmy Smith, as Sam said, is a part-owner of this organisation because he is part of Northern Wholesalers, he gets exactly the same percentage - although it might only be very small - on his purchases, as do Roelf Vos or the biggest Festival store - whoever.

CHAIRMAN - Can I ask this question then. If Bruce Goodluck's Four Square store at Westbury and Bruce Goodluck's Four Square store at, say, Shepparton - completely different States - is Bruce Goodluck at Westbury better off than Bruce Goodluck at Shepparton in his buying power because he is a member of this co-operative?

Mr RICHARDSON - I would suggest he would be because he owns the company that he is purchasing through -

CHAIRMAN - Buying from them.

Mr RICHARDSON - He is buying from them, albeit 40 per cent of Statewide. But he has the opportunity. The Co-op itself, Northern Wholesalers Co-operative, we have the board of directors that come from out of the shareholders. We also have a management committee of two members from each of the banners that are an advertising executive. We also have regular group meetings where there is input from the grassroots membership. So he has that opportunity where on the mainland that fellow would be under the control of a particular wholesaler.

It is unique. Tasmania is unique and this one is especially unique. You will not find a co-owned warehouse in this manner anywhere else in Australia. It is unique. Also it is unique because it has lasted so long, but basically because of the fact that Woolworths left their original management structure in place that had been working with us. But the fact that a co-op co-owns a warehouse with a corporate company is rather strange in their coming together. That is why this one will survive and the ones that Woolworths are trying to put together in Queensland and other places I do not think will survive because they control and have every knowledge of those independents' price structures, prices and everything.

CHAIRMAN - The point I am trying to make here is if I was running a Four Square store in Victoria, I would be buying off who - a wholesaler in Victoria, I presume?

Mr RICHARDSON - Davids, for instance - Davids Holdings.

CHAIRMAN - Which I would have no ownership of? I am not even a member of it; I would just be buying.

Mr RICHARDSON - Unless you were a shareholder of Davids.

CHAIRMAN - So could we assume that this unique Tasmanian system we have is in fact working in the interests of our grocers out there to really ensure that they are getting the absolute best price?

Mr RICHARDSON - Yes, it would be, Tony, because not only as chairman of the board but also Warren Croome, who is the Chairman of Northern Wholesalers, is the other Northern Wholesalers director on this board. I have full knowledge of all the price structures within this warehouse. We, as a co-operative, have full and complete knowledge of all products that are purchased through this warehouse in the wholesale operation. We help set the service fee structures, the freight distribution, and all the rest of those

things are controlled by the board of which we are part. I can walk in to any of the warehouse structures and look at any of the warehouse details that I desire.

The only area that is off-limits to both Roelf Vos, Woolworths and ourselves pertain the retail structure, which is the co-op, the case deals and those sorts of things. We both do our own thing in that regard. We deal directly with manufacturers to orchestrate our promotional activities - our TPRs. All those things we do direct with manufacturers. Roelf Vos do the same thing. We then purchase out of this warehouse. The warehouse does not have anything to do in set promotional prices or retail prices or anything of that nature. That is done by Vos and ourselves individually. The warehouse is just the warehouse. It is a facility to get stock in and stock out. That is really what it is.

CHAIRMAN - What is a TPR?

Mr RICHARDSON - A temporary price reduction.

Mr NOTT - Mr Chairman, your Mr Goodluck in Tasmania would have to be better off than your Mr Goodluck in New South Wales insomuch as the only way he could be worse off - and I am not talking about the buying, the starting price that comes from the manufacturer; I am talking about the running of the distribution centre, the organisation that he belongs to - is the fact that it could only be the excess that we would take and put in our pocket from here where there would be any difference. If we were running the place efficiently, we should be equally as good as someone on the mainland, unless we do not have the expertise or the financial backing. If our net profit is distributed back, it would have to be a co-operative to match that.

CHAIRMAN - It occurred to me, for example, that if Davids needed a few extra quid or their profitability was down, they could just squeeze it up a little bit whereas in this situation it is contrary to anyone's interests, is it not?

Mr NOTT - Yes.

Mr RICHARDSON - It has to be neutral.

Mr NOTT - The two owners have to agree that they need that money for capital or whatever.

Mrs BLADEL - Through you, Mr Chairman - can I ask: Sam, let us say the manufacturer of, say, peaches - Edmonds, say. Are they still in business?

Laughter.

CHAIRMAN - SPC.

Mrs BLADEL - SPC - and let us say it is 1.25 -

Mr RICHARDSON - There are various sizes.

Mrs BLADEL - Yes - and a case of peaches. So when you go to SPC to buy that case of peaches, does your organisation pay exactly the same price as, say, Purity would?

Mr RICHARDSON - On peaches they would, but on taxable lines they would not. There is a variance in the manner in which wholesale sales tax is applied, Fran. We need to address that with you because that is one of the problems that we have between this warehouse and a 100 per cent-owned Purity warehouse, and also Coles, because a wholesale sales tax is applied at the last point of wholesale. Through here, for instance, we have some of

these instances here on generic cat litter where the product that we buy at \$3.80 - and there are examples in the briefs that we sent you. There is a warehousing allowance of 4 per cent, there is a knowledge of .015, and then there is freight. It costs us 43 per cent in freight to get that generic cat litter in here.

Mrs BLADEL - That is from the manufacturer to wholesale.

Mr RICHARDSON - From the manufacturer to in here - 43 per cent. Then there is a settlement discount that we get of 2.5 per cent.

Mrs BLADEL - What is that for?

Mr RICHARDSON - That is for prompt payment because we are good people and we pay on time, Fran. So there are those settlements there. There is a warehouse cost of doing business of approximately 4 per cent to run the warehouse. Then at the end of that, that \$3.80 with all those variables comes to \$5.28. That is when the sales tax on that product of 22 per cent is applied. So that brings that product to us at this warehouse before we give it to Vos or to the end vendor up to \$6.44.

If you go to a Purity and Coles here in Tasmania, and you go through that exercise, they pay their wholesale sales tax at the manufacturer's gate because theirs is really just a straightout distribution centre; it is not a wholesale operation. So therefore they pay at the manufacturer's gate. They do not pay sales tax on the freight, the warehousing cost or any of those other add-ons. Therefore their price on generic cat litter, where ours is \$6.44, their price would be \$5.86. That is assuming that they still pay 43 per cent freight. Because a Victorian chain does not have that same freight component, and they also pay at the manufacturer's gate, they buy that product at \$4.33. So a Victorian chain would be \$4.33; Purity and Coles in Tasmania would be \$5.86, and we at Statewide - that is, Roelf Vos and ourselves - would pay \$6.44, simply because of that wholesale sales tax. That is an issue. In fact I am in Canberra on Thursday pursuing that with the Federal politicians over there. We have been there once; we are going back

again.

Mrs BLADEL - That makes quite a difference, does it not?

Mr RICHARDSON - It does. There are so many instances. Pal is another one. Pal 1.2 - without going through that all again - the cost to Roelf Vos and Independents - and let us be aware that we supply Independents right around the State - our cost is \$26.32; Purity's is \$25.31; and the Victorian chain would be \$23.88. What we are saying on the sales tax issue to the Federal Government and politicians is that they are giving the major chains a \$120 million subsidy against Independent Wholesalers, because we are a true wholesaler and it is that which is part of the reason that there is some price variances here.

Mrs BLADEL - So if they can get that at the manufacturer's door and then they pay their wholesale there, then why have a co-operative? Would it not be cheaper if you did not?

Mr RICHARDSON - No. The wholesale sales tax has to be applied at the last wholesale sale, and for us to do a distribution as such -

Mrs BLADEL - But for the smaller shops, it is cheaper for them to do this through your organisation - your network - than buying directly from the manufacturer?

Mr RICHARDSON - The manufacturer does not look. They have too many accounts now, Fran; in fact they are trying to cut back because it is not cost efficient for them to supply individuals.

Mrs BLADEL - It does not seem very fair.

Mr NOTT - It is the difference between wholesale and retail. You are saying it is a disadvantage for the small store. To a certain degree I bow out of that, but what Sam is saying is right: that the small store can in no way buy direct because he does not have the volume of, say, Purity; you have to buy huge amounts to make your buying quantities. Purity are not wholesale; they are retail, so they pay their tax like you or I would when we go and purchase the goods but wholesale I have to quote a sales tax number - it is Federal law - and pay my tax on the last sale.

But the little storekeeper who would want to go and deal with SPC or Edmonds or whoever, they would not take him on; they would refuse to supply him, I believe, and he would not have no way in the world to make the quantity; where he would buy a carton of Pal and a carton of Omo or something off us here for his weekly thing. To buy that from Uncle Ben's, where the Pal comes from - you have to buy something like 1 800 cartons, which is their minimum buy; it is just huge amounts.

Mrs BLADEL - Looking at it the other way, does that mean that Moonah Purity and Sandy Bay Coles can go straight to the wholesaler and buy there -

Ms GIDDINGS - The manufacturer.

Mrs BLADEL - The manufacturer - thanks, Lara - and buy their kitty litter and their Pal. Aren't they then acting as a wholesaler if they buy off a central organisation of, say, Purity or Coles?

Mr RICHARDSON - That is our argument, Fran. There should be an uplift from the manufacturer -

Mrs BLADEL - Because they are buying in bulk and then they distribute to their -

Mr NOTT - But the difference is - what Sam is trying to get across - Purity have a distribution centre exactly the same as what we have here, and what Sam is trying to get across is that the cost of distributing those goods once they hit here, or if there is freight on them or whatever, we pay our tax on all those add-ons whereas Purity have paid the tax before here.

Mr RICHARDSON - That is the argument we are putting at the moment.

Mrs BLADEL - Yes. Well, if they have a distribution centre, what is the difference between that and a wholesaler or a warehouse?

Mr RICHARDSON - They are servicing their own stores; they are not servicing outside. For instance, if Purity supplied a Food for Less which they have a head lease on in Sandy Bay, that store has to pay a sales tax component. It is a very invidious law.

Mrs BLADEL - Well, there is no such thing as a level playing field; I realise that.

CHAIRMAN - I really think this is a problem for you; I have no doubt.

Mr RICHARDSON - It is.

Mr GOODLUCK - How are you going with your lobbying?

Mr RICHARDSON - Well, we are getting quite a way down the track, Bruce; in fact we meet with Brian Harradine, who has given us 100 per cent support on this, on Thursday, and also with John Watson, who is recognised as quite an astute taxation purpose man, and we are meeting with somebody from the Democrats and also from the Labor Party. We have already met with Geoff Prosser and he has offered support, but we are not going to get it fixed in this budget; the budget is already bedded.

Ms GIDDINGS - That means that the 60 per cent that Roelf Vos has here -

Mr NOTT - Yes - at Woolworths.

Ms GIDDINGS - At Woolworths - they do not have that problem?

Mr NOTT - Yes, they do. They are caught in the same bind as we are.

Ms GIDDINGS - Well, why are they not operating the same distribution aspect as Coles, and bypassing it?

Mr NOTT - Because they are part of this organisation, and this is a wholesale organisation.

Ms GIDDINGS - So why do you want to stay with -

Mr NOTT - That is their decision.

Ms GIDDINGS - If you can get it cheaper, why would you stay within this organisation?

Mr RICHARDSON - Basically I think it is because of volume. Even as big as you see this warehouse is, we struggle to make volumes on best buys. We really do. We are a very minute part of the whole structure: we are only about 2.8 per cent of the national markets.

CHAIRMAN - Following Lara's line, why wouldn't Vossy just put a partition down 60 per cent of the warehouse?

Mr NOTT - He cannot do that because he would have to buy the stock separately.

Mr RICHARDSON - And you cannot have stock inventories, you can only have one.

Mr NOTT - You can, but we would not fit it in. They are part of this organisation. Sam has his argument and I think at the end of the day he would come out all right with his Federal politicians. There are some for and againsts on sales tax. We pay sales tax on the twenty-first day of the month after we sell the goods, so I have had the use of that money, so there is an advantage there. It may not outweigh what Sam is talking about.

Mr GOODLUCK - There are advantages and disadvantages and it is not all easy going for you, Sam, with this one.

Mr RICHARDSON - No. A store doing \$30 000 a week across the whole supermarket structure would be \$12 000 worse off under this structure than, say, a Purity or Coles store would be. It is three-quarters of 1 per cent across the board. If you only look at taxable lines, the variance is near enough to

2.5 per cent, but if you take all the non-taxable lines right across the whole structure, it is three-quarters of 1 per cent which equates to \$12 000 at the end of the year for an independent retailer, or anybody - Vos included in this.

CHAIRMAN - How does that explain page 24 of your submission where you are saying that Purity is 2.7 per cent higher than Roelf Vos in retail price? Are you saying to us that Purity is creaming off a little bit more than Roelf Vos?

Mr GOODLUCK - Where is Purity's warehouse?

Mr RICHARDSON - Lampton Avenue.

I was made aware that the current affairs, as probably you saw, Flag was going to divulge the cheapest supermarket in Tasmania -

CHAIRMAN - I actually have seen that advertised.

Mr RICHARDSON - and being rather a nosy fellow, I decided to ring up current affairs to find out who it was, and they told me it was Purity. Quite honestly that is a load of rubbish. If you like to have a look - and I must exclude Graham from all of these -

Mr NOTT - I am not telling you how to do it, Mr Chairman, but if you want to ask a question on wholesale and any questions you have about warehouse, and then you can ask for Sam on retail. To get into retail, I am going to hide into nothing because I have to support both sides.

Mrs BLADEL - So you want us to deal with the wholesale.

Mr NOTT - I can answer any questions that you may have on wholesale -

Mrs BLADEL - And then go off?

Mr NOTT - I will be in my office, but I can be called back in. My office is right next door. I can show you around the warehouse and do whatever you want to do. But to get into a retail situation -

Mr GOODLUCK - It is very embarrassing.

CHAIRMAN - I understand and I think the Committee does.

Mrs BLADEL - If we get into wholesale, you mean you are like - what is it - an ashtray on a bull.

Mr NOTT - Yes, something like that.

Mrs BLADEL - Through you, Mr Chairman - can I direct a question to Mr Nott. Going back to the amount you pay for sales tax and the way you are billed, if you have the use of that money for 21 days, you are paying more, but because you are billed 21 days after you receive the goods -

Mr NOTT - No, 21 days after I sell the goods.

Mrs BLADEL - After you sell the goods. So that gives you -

Mr NOTT - It is longer than that. It is on the twenty-first day of the month following. So what I sell in January I have to pay my tax bill on 21 February.

Mrs BLADEL - Right, so you do have use of that money. Then what happens to the profit you make from that? You are at a monetary advantage, aren't you, because you have earned interest on that money before you have to pay it out, I presume?

Mr RICHARDSON - Perhaps if I could explain. Not all of those 21 days - or whatever the days are that we are talking about - Graham has that money in his hands because we supply independent and Roelf Vos. They place their order and they get their stock this week - let us say, today - Tuesday. Independents do not have to pay that bill until Thursday week, so they get between fourteen and seventeen days credit which impinges on what Graham is talking about with sales tax anyway. So it is not the full period that he has that money in his hands.

Mrs BLADEL - But that allows them to have a little bit of flexibility too.

Mr RICHARDSON - That allows the retailer the opportunity to, hopefully, sell that product before he has to purchase again.

Mr NOTT - The terms that we apply to our retailers is a weekly term. What you purchase between Monday and Sunday of this week will produce a statement on - the actual last sale that you can get from us is at lunchtime on a Saturday through our cash and carries. Our warehouse only works Monday to Friday. But let us say that we call the week Monday to Sunday, what you purchase in that week, we mail out a statement the following Tuesday. All our stores would have that on a Wednesday or a Thursday throughout Tasmania, and that is due for payment the following Thursday or Friday. So

you can purchase on Monday in week one and pay for it on Friday in week three and still be within our weekly trading terms and that goes on weekly from there.

But we are not investing money and making money on the short-term market; we are a cooperative, we are not making the money. You have your bad debts and all the myriad of things that go into it. As a wholesaler, I was just saying that is an offset to what Sam is saying, but even with those terms, if you take a retailer buying direct from the manufacturer, some manufacturers have better terms than that but there are some who have less terms than that. We are very big in the Tasmanian market and this is a very large distribution centre for the Tasmanian market, but if you take a company like Nestles - and I think they are about 14 days - in a lot of cases we couldn't get the stock here from the time that they invoiced it and it would not matter how good a payer we were, they will not send any more goods. Even though we do not have it, I will not pay for it until I have received the goods. We are very strong and large down here, but they just say, 'Well, you choose to live in Tasmania'. It is as simple as that. We are horrified at that, but -

Mr GOODLUCK - That is how the system works.

Mr NOTT - Yes, and those are their rules and that applies to 97 per cent of the rest of Australia.

Mr GOODLUCK - Do you have to pay your tax on the twenty-first? Is that fixed?

Mr NOTT - Yes.

Mr GOODLUCK - You do not get an extension at all?

Mr NOTT - No.

Mr RICHARDSON - No pay, no goods, so they hold your order up until the stock has arrived and then Graham pays and then your order is processed.

Mr GOODLUCK - You pay the sales tax to the Taxation Department, don't you?

Mr NOTT - Yes.

Mr RICHARDSON - The warehouse holding is what currently?

Mr NOTT - About \$12 million.

Mr RICHARDSON - And weekly?

Mr NOTT - Turnover?

Mr RICHARDSON - No, in weeks.

Mr NOTT - About three and a half weeks. I had mentioned to some of the members who had called into the warehouse before, our stocks holding runs at about three and a half weeks which is very good for a Tasmanian warehouse. That carries a full range. We do a better job on our stock holding here than do Purity but maybe their funds are more fluent than ours.

But a corresponding distribution centre in Victoria would run at about 1.5 weeks and it is basically the stretch of water. You can argue with me and I would agree with you, it does not take two weeks to get it across the water - it comes overnight - but, again, Tassie is 3 per cent of the market and it is put on the wharf and there is stuff going everywhere and we might be first on but we would be last off, and so on. Then you have the freight forwarders, and I will explain that to you more when we go downstairs to show you the handling that is involved.

Something that has really hit me - and has hit me since I spoke to any of the members of the Committee before - as some of you will know, we are currently designing a frozen and chilled distribution centre for the State which will be built here in the north. We have really put a cat among the pigeons, so to speak, with the design people from Woolworths, because Sam, Barry, the general manager of Roelf Vos and myself, visited South Australia to look at the most modern and most efficient design frozen and chilled warehouse in Australia. It has won the award for the last two years. That particular facility turns over about \$60 million-odd a year or \$66 million a year. We envisage that ours will turn over about \$50 million to \$55 million a year in its first year, and it is what we want to set up. So we looked at this magnificent facility; we will do less turnover and we have said, 'Okay, let's get our design based on that because it's won the design for the last two years in Australia and it does more business than we do'. It deals with 47 stores in South Australia and the Northern Territory.

Mr RICHARDSON - All Woolworths stores - all big stores.

Mr NOTT - Right. We have sat down and put all our numbers together and it has all been done with engineers and all the expert people that Woolworths can throw at it, and they keep coming back to this room and sitting it on the table and saying, 'Graham, you've got to build'. To be efficient and do all the things that you want to do, one of the things they say is, 'You don't buy land. You design your building and then you buy the land to sit it on'. If you buy your land, it will not fit, and so on, and that is common sense. But what they have designed for our throughput, which is about \$10 million less than the throughput of this one that we have seen, is

27 per cent to 30 per cent larger.

The only reason that is the case is because of our excessive stock holding compared to their stockholding, the weeks of cover. We have a few more lines, because we have a bit of diversity of Purity, Roelf Vos and the independents; where you have a generic range of Home Brand, they would only have Home Brand in South Australia; we have Black and Gold as well because we look after Sam's stores, but it is minor in the whole picture. But we have to have a building about 30 per cent larger and that is an impost on Tasmania and I had not taken that into consideration in anything I had done or any discussions that I had with Sam or anyone else on any points that would come about into this Committee. It is astronomical and the cost that that will put on that - it is making it very difficult to fit it on the bit of land efficiently if there is some growth here.

They came back and said, 'You're wrong, you couldn't possibly, you're only going to do this turnover', but the stockholding that we carry - 3.5 per cent against their 1.7 per cent - and to fit it in efficiently. There are all sorts of ways you can do it. You can see how we have jammed stuff in here when you walk around, but to do it the most efficient way like they can do it on the mainland, we need about 27 per cent to 30 per cent larger, and that is a specifically built thing that is very costly per square metre. On the same item, which I had mentioned previously and Sam and everyone else has mentioned, although we have a lot of power here, it is not huge, but when I go into frozen and chilled, power it is a very high percentage of my business. Our budget, based on the engineers and everything, is between \$22 000 and \$24 000 a month power bill to run this building that we are going to build and have operational by June -

Mrs BLADEL - Just that building.

Mr NOTT - Yes. The difference between Victoria and here with the 26 per cent difference in power costs will add another \$70 000 a year comparable to Mr Goodluck's Four Square dealing from here to dealing in Victoria on that building alone.

Mrs BLADEL - Is it true you are going to buy the Hydro and -

Laughter.

Mr RICHARDSON - The other comparative there is 1.7 stockholding with Foodland, Western Australia. I cannot understand how they get it over there for 1.7 to have 1.7 weeks of stock in Western Australia, but that is what their equation is.

Mr NOTT - It is road and rail.. It is just going all the time and it is backfreighting, whereas we know what that stretch of water does to us.

Mr RICHARDSON - Tony, do you mind if I throw a couple of things in?

CHAIRMAN - Just before you do, I think Lara had a couple of questions.

Ms GIDDINGS - Sam, you mentioned some of the products and going back a bit to your Pal and the other product, the kitty litter that you mentioned. I was wondering if you have an example of that for the Kellogs company. I know I have discussed it with you before that the Kellogs Company sells all of its products at the one price regardless of transport costs around the whole of Australia. Do you have a comparison, with all your added on-costs that you save there, do you have a comparison between what a packet of cornflakes would be at Coles compared with what it is at an independent wholesaler once it has gone through here? What it is when you sell it to an independent wholesaler?

Mr RICHARDSON - Probably that is getting into the retail structure as well, Lara. As far as the wholesale on Kellogs, the structure would be virtually identical, because it is not a non-taxable line and if it is free into store in Western Australia or Victoria or Tasmania, the price structures are

very similar.

Ms GIDDINGS - Yes. With the kitty litter one, I think it was, you mentioned that Victoria was cheaper because there were no transport costs there.

Mr RICHARDSON - That is right.

Ms GIDDINGS - That is why I wondered if you do have a direct comparison of prices - take the transport cost out of something like the cornflakes which should not be there in terms of at least getting it to your wholesale position.

Mr RICHARDSON - I do not know if I have an example of that. Graham, do you have one?

Mr NOTT - No. As you said, Kellogs are primarily tax exempt so there is no tax problem in that. If it was free into store at the same price throughout Australia then it would be identical to everyone other than that if there is a quantity buy and Tasmania, because of its small numbers, cannot make a top quantity buy. That is where you could have a differential.

Mr RICHARDSON - That and the stockholding , Lara, would be the only variance.

Mr NOTT - It would cost them a lot if that is the case because it would be very costly to transport.

Mr RICHARDSON - It was not that long ago that there was a freight component imposed on Kellogs, Lara, but it is now identical right around all the States. You had a couple of questions?

Ms GIDDINGS - No, that was it.

CHAIRMAN - Can I just stick with Graham for a minute on the wholesaling, before we go any further?

Mr RICHARDSON -Yes, that is what I want to address. For instance, there has been a lot of talk of free into store into Tasmania. In many instances that is a furphy because one of the marvellous things of having a corporate co-owner is that you are able to check the prices between Victoria and Tasmania. For instance, on 1.25 Coca Cola, the Victorian price is \$14.84, as those examples I have given you, against \$17.11 here in Tasmania. They have added a freight component into the Tasmanian price, albeit they say it is FIS. So there are quite a few examples that I have put in that brief that give you those instances where, whilst it will appear as FIS, it is not FIS. That is a furphy.

The other thing I would like to point out is local product. There has been comment made about local product being cheaper on the mainland. In most instances the Tasmanian consumer is subsidising that because if a local manufacturer wishes to get his product onto the shelves of the major chains on the mainland, he has to be prepared to subsidise that product for six or twelve months to get it onto their shelves before he is able to get to a level playing field of charging the same price in Tasmania, for instance. So there is that area where there have been comments that I think Lara raised. So I researched some of that. That is because they offer an investment case deal: they will go over and say, 'I'll give you \$2.40 for six months or \$2.40 for twelve months' merely to break into that major market. If they tried to sell it at Tasmanian wholesale costs they would not break into the market.

I do not disagree with what they are doing because if they are producing jobs in Tasmania, that is fine, and I think the consumer should be prepared

to be a little bit lenient in that regard. But also - like Mal Colston - the broad brush gets swept across all of us. We have some bad apples in Tasmania as far as price structures, and I might outline some of those for you later after Graham has gone, but I get very upset, quite honestly, when an industry that I am proud of and a company I am proud of is labelled with that broad brush because we are, I believe, the most efficient warehouse in this industry in this State and I will stand on that.

Mrs BLADEL - But the consumer does not know that, Sam; the consumer only knows what it costs her.

Mr RICHARDSON - A tin of tuna here and a tin of tuna over there.

Mrs BLADEL - How is sales tax applied, by the way? Some goods are not sales taxed and some are - is that right?

Mr RICHARDSON - That is right.

Mrs BLADEL - What is the rule? What attracts sales tax and what does not?

Mr RICHARDSON - It is stupid. Toothpaste and toothbrushes are variable: one is 22 per cent, the other is not. To get into that, Fran, you are opening up a real box of worms because -

Mr GOODLUCK - That is why the GST failed, didn't it?

Mr RICHARDSON - Yes. What consumers do not understand - and I do not blame them because it takes a lot of years to acquire the knowledge - is

that they are already paying a hidden tax in sales tax. It is an invidious way of doing business, quite honestly.

CHAIRMAN - Would you promote a GST?

Mr RICHARDSON - In fact I was supportive of the GST, Mr Chairman. In fact I did a price comparative for the *Mercury* but because it did not suit their needs at that particular point in time, it was not printed.

Mrs BLADEL - Good old *Mercury*!

CHAIRMAN - Just on that, are you saying that a GST would lower grocery prices?

Mr RICHARDSON - It would be a more fairer and equitable way to collect a tax. At the moment it is an invidious way of collecting wholesale sales tax at the moment. In fact I am not aware of all the variances within it, and I have been in it 42 years. If you asked me how many lines there are that contain sales tax and how many are exempt, I can probably tell you a fair few of the exempts but I would probably get a fair few wrong too. But with wholesale sales tax, with the manner in which it is applied to this warehouse, on the lines that are taxable, there is a 2.5 per cent variance to the manner in which Purity pay wholesale sales tax. But if you equate that right across the board with all non-exempt product, it is three-quarters of 1 per cent.

CHAIRMAN - Would a GST balance that out across the nation?

Mr RICHARDSON - Yes.

Mrs BLADEL - But then what you are really saying is, aren't you, that the tax structure is ludicrous?

Mr RICHARDSON - It is, totally.

Mr GOODLUCK - That is why the GST floundered, because it was not researched and the simple component was going to cost the taxpayers more out of their pay-packet. Consequently it was a political point that was lost.

Mr RICHARDSON - Bruce - I know this is political but anyway - I went and listened to a couple of explanations that were given, and I walked out more confused than when I walked in, and I know how -

Mr GOODLUCK - Exactly. But the point you made was very right: if it was introduced and everybody was aware of it, it would be much fairer and consequently the user would pay. If a person wanted to buy a fur coat, she would pay for it.

Mr NOTT - That was a sexist remark to say 'she' would pay for it!

Laughter.

CHAIRMAN - Just perhaps trying to wind up the wholesaling side of it - or the warehouse side of it - Graeme, if I can just ask a couple of other little questions. The submission from Tasmanian Independent Wholesalers is obviously quite critical of transport and the costs that are involved in transport. Can you see any quick-fix to the transport problem of groceries in Tasmania?

Mr NOTT - Is it your transport coming across or your transport within the State?

CHAIRMAN - I am actually lumping it all in together. I think Sam -

Mr RICHARDSON - I think it is coming across.

CHAIRMAN - it is very much coming across.

Mr NOTT - No, I cannot, Tony. We all know - and I do not know the depth of the reasons why - but it is the dearest piece of water in the world. However, having said that, our stuff flows fairly well now compared to years ago. It is a regular service now and our strikes have been few and far between - thank goodness - and when they have we have been exempted in most cases. So it has been good in that regard. I cannot find a cheaper way.

There are things that we have from time to time that we will do. For example, when we are buying something particular that we are paying freight on - you are not buying from one of the majors - we will sit on it and wait until someone has taken a load of furniture over and we will try and get them to bring it back and do things like that. But you just cannot do that on an on-going thing with the huge volume of stuff we have got going through.

CHAIRMAN - Do you have a comment to make to the Committee at all about internal transport? Is there any aspect of internal in your distribution that you would like mentioned in the report or make a comment on?

Mr NOTT - No. We have a standard transport fee that we charge our members. That was something that was agreed by the members many years ago as an offset to their service fees, so they just took it off one and put it on the other. Again that was done for a slight saving in sales tax. Say their

service fee was 5 per cent and the transport was going to be 1 per cent, we brought transport on for 1 per cent and reduced their service fee to 4 per cent. So they paid sales tax on the 4 per cent and did not pay it on the 1 per cent, because that is after it left the warehouse; the transaction finished at the warehouse door. So it saved them a little bit in sales tax. This is part of the up-lift that Sam was talking about.

But having said that, we just have the one rate. Our transport rate now is 1.2 per cent. George Rettas - you can nearly throw a rock on his shop just down the road - pays 1.2 per cent, and we pay 1.2 per cent to take it to Huonville or to Smithton. But we did it by an offset against their service fee. It is owned by the same people so it does not make any difference.

CHAIRMAN - I am happy. Is everyone happy with -

Mrs BLADEL - Yes.

Mr RICHARDSON - Just following on, Tony, if I could. You said I was quite critical about that - and you are very right - because the tourists and exporters reap that benefit of the subsidy, that goods - and critical goods - coming in do not have any such subsidy coming across from the mainland and that is something that I think each and everyone of our local politicians, as well as Federal, should be attempting to get that, if they want to level the playing field as far as price structures in this State.

CHAIRMAN - But has Western Australia got a subsidy to get it right across on the Nullarbor?

Mr RICHARDSON - No, they do not have a subsidy but, as Graeme said, they still have their rail and freight whereas a container - as explained here, you can get a container from Melbourne to Sydney for \$850 to \$970; down here to get a full container it is \$1 600 to \$2 000. So there is a huge difference in that regard.

Mr NOTT - It is all the handling and you will see some of that -

Mr RICHARDSON - We will take you through that.

CHAIRMAN - Okay.

Mr RICHARDSON - If you have finished for wholesale, perhaps if you want to talk about things that you raised earlier, Graeme could probably be excused.

CHAIRMAN - Thank you, Graeme.

Mr NOTT - Thank you very much for the opportunity, and when you have finished with Sam on his retail side of it, I would be more than happy to arrange with Mike, our distribution centre manager, to show you into the warehouse. I will come around with you too, mainly to show how, when we say it is 'free into store', the amount of work that has to be done by someone other than us, and that is why the costs are dearer - because of how it has to be broken down to be landed into our warehouse. Just have a look at it so you have an understanding. Thank you very much; I appreciated it.

MR NOTT WITHDREW.

CHAIRMAN - Can we take you right back to the start of your report. About page 2 of your report you were very critical of the 1989 survey.

Mr RICHARDSON - Yes.

CHAIRMAN - We have obviously had before us the author of the 1989 survey who was very critical of you being very critical of him.

Mr RICHARDSON - That would be right.

CHAIRMAN - Could you just perhaps elaborate on the report, Sam - on your submission to us?

Mr RICHARDSON - Well, it is virtually what I said right at the outset, Mr Chairman, in that I believe that the 1989 inquiry was very superficial. It, in my point of view, was instigated probably as a red herring more than anything else at that political framework that was happening at that stage, and it did not do the job that you are doing now - and that was to go around and talk to the grassroots and to the industry itself. It merely called for submissions and took a lot of those submissions at face-value and made judgments without really looking further.

I do not mean to sound as if - and it probably comes out a little bit egotistical - but there are very few in this industry that can conduct a proper prices survey. Unless you have the full knowledge of the case deals, the temporary price reductions, the promotional activity, the ability to know when a manufacturer is quitting a product because they are going to release a new one, it is virtually impossible for anybody outside a fairly select group in the industry to be able to ascertain what is a proper prices survey.

There are so many variables. For instance, one of the problems that is associated with a price survey is the belief that people are going to buy the cheapest product that is in front of them. That is not right, otherwise we would not have market leaders, because most of the market leaders are never the cheapest. So the furphy that they pick up the cheapest is not right because if you have a Nescafe drinker, no matter what price you put on International Roast, he is not going to buy that product; he is going to take it off the shelf at normal shelf price.

It is the same with most of those products that you would like to mention; they are not going to pick Vitabrits up if you are giving them away if they are a Weetbix consumer. So to go in and do a survey and say, as the survey that these people from *A Current Affair* did - and they only did it between Coles and Purity in the south - and pick out the cheapest basket, that is assuming that the consumer is going to pick up whatever product is there at that cheapest price, and that is not right.

The only way you can do a proper price comparative is to look at normal everyday shelf prices; what the consumer will pay if their particular brand of Pal or their particular Nescafe is not on special. For instance, Purity had Pal on at \$2. That is probably a poor one to show you - Pal at \$2 - but his normal shelf price is \$2.52. You can buy that any day of the week from Roelf Vos or the Festival in the south for \$2.35. So you have to be able to understand that manufacturers, if their volume is down, they all come and offer us, as Independents - or Roelf Vos or Purity - an incentive to get their volume up.

Mr Chairman was in this game; he knows exactly. If the local manufacturer's representative on the island is not making his quota, he will come and offer you a deal to build his volume back up. He might offer it to the two majors but he might not offer it to the Independents, so you have a disparity there, and so you have to understand what is happening. The same with promotion activity. For a survey to be spot-on, you would have to look at having all majors and Independents running exactly the same products on promotion, on TPRs and throw-outs from manufacturers.

The only real way you will ever get a true price comparative - and I might say it is the first one I have done because I find it very hard to get this through the media's mind because certain people have a lot of clout media-wise, and they are able to put the impression that they are the cheapest, no matter what you like to put out in a table form, as I have given you on the back page of that release. For instance, Purity Eastlands are \$161.32 on normal day shelf prices for those products.

CHAIRMAN - You are talking about a certain football administrator here when you are talking about people who can sell their goods, I presume?

Mr RICHARDSON - That is so.

Mr GOODLUCK - Can I just go back a bit with Purity and Roelf Vos. Is Michael Kent on the board?

Mr RICHARDSON - He is about to become a member of the board.

CHAIRMAN - Here?

Mr RICHARDSON - Here. What is happening in the structure here is that Woolworths have always run virtually two State managements in the State - north and south.

Mr GOODLUCK - That is Roelf Vos -

Mr RICHARDSON - Barry Geskus is the General Manager for Roelf Vos and Michael Kent is the General Manager for Purity. So there has been two separate structures. They are now bringing those closer together. The category management staff will move to Hobart; the financial and administration will move up here, because they cannot do anything about moving it out of here because they have Independents as co-shareholders, and so it has to stay here.

Mr GOODLUCK - That is the distinct difference between Roelf Vos and Purity?

Mr RICHARDSON - That is right. We are in the swim up here. When we were with Purity we were not; we had to take what we were given, so we pulled out of that operation. They had full knowledge of everything that we did as far as promotions, case deals - all the rest of those things, Bruce. It was not working. We pulled out of that and we now service all Independents out of here because we are able to control our own destiny.

Mr GOODLUCK - What about when he goes on the board?

Mr RICHARDSON - He will still only be one of five directors. Barry Geskus will still be on that board. He will have to abide by the board decisions. If we wish to discuss anything pertaining to our southern operation in supply that will create a pecuniary interest as far as he is concerned with his Purity warehouse, he will have to step outside the room. We will be very strict on that, I can assure you.

Mr GOODLUCK - That is our big worry - the entwinement. That is the worry of the consumers outside - the entwinement.

Mrs BLADEL - That is right.

Mr GOODLUCK - I think all of us are starting to understand. It is not a simple process of comparing one price with another. What you have said is very true. But everywhere we go we get this feeling of entwinement, which is particularly worrying to the Committee, I would say - the Purity, the Roelf Vos entwinement - and now you have added to it.

Mr RICHARDSON - TIW.

Mr GOODLUCK - You understand that. That is what our biggest worry -

Mr RICHARDSON - Yes, I fully understand. It is something I have been fighting for years, Bruce.

Mrs BLADEL - The small shopkeepers do have that loss of confidence, Bruce, because of that entwinement, and they have said to me, 'Well, you know' -

Mr RICHARDSON - Mainly in the south, Fran.

Mrs BLADEL - Yes.

Mr GOODLUCK - Yes, mainly in the south.

Mrs BLADEL - And with Kent going onto the board it will be even, I would imagine, more market.

Mr RICHARDSON - That is still to be decided, Fran. I did not want to really air boardroom procedures at the moment.

Mr GOODLUCK - No, but it is very important to us because we cannot go away and get a fair appraisal of the whole market aspect of it if we do not know the innermost facts of it.

Mr RICHARDSON - Bruce, the most important issue that you must remember in this structure is that 75 per cent of the board has to agree to any situation or any change in the structure, which means that one of the two directors of Northern Wholesalers has to agree. Let me also go further and say that I think that we have more clout with our 40 per cent than what Woolworths do, because they are paranoid about corporate governments. We, little Tasmanian Independent Wholesalers, can say many things and get away with lots of things because we are small. They have to be very aware of corporate governments. Bruce, as I have said, many issues get fought over this table but under no circumstances has Woolworths ever tried to push a situation where we did not agree.

Mr GOODLUCK - What about the petrol one that is coming up?

Mr RICHARDSON - The petrol?

Mr GOODLUCK - Yes.

Mr RICHARDSON - The one I have given you?

Mr GOODLUCK - Yes.

Mr RICHARDSON - That is my survey that I did on the back.

Mr GOODLUCK - Does that put you in an awkward position when Michael Kent is on the board?

Mr RICHARDSON - Quite honestly they do not pay my wages - okay.

CHAIRMAN - Just following Bruce's line of thought there, Sam, how do you explain then the 2.7 per cent discrepancy you claim in your submission between Vos and Purity? I have to be honest with you. You are really saying that Purity is ripping off the people of southern Tasmania - end of story. Is that sustainable? How do you explain it? Is it a rip-off?

Mr RICHARDSON - That there, Mr Chairman, is a factual survey that was done. The manner in which I did it was I purchased the product. We also did a comparative test on Coles Northgate to show that there was no competitiveness amongst those two majors in the south. When you can get a Value Plus group cheaper than Purity in the south, I let you draw your own conclusions to that.

Ms GIDDINGS - Sam, can you say where these other three stores - Roelf Vos, Festival and Value Plus - were?

Mr RICHARDSON - The Festival is a price structure that I set for Festival.

Ms GIDDINGS - Do the stores follow that?

Mr RICHARDSON - When I say I set it, I have a man who I have do our retail price structures. We do price comparatives of Woolworths store; every

six weeks we go right through the whole Woolworths store. We have a reciprocal agreement that we can go and do price checks. So we do one Roelf Vos store at Riverside and we cover that whole store in a six-week period. We do 400 products each week. I employ somebody to do that; he sits next to me in the office downstairs, and we then set a price structure which we believe is fair and equitable to the consumers right across Tasmania. That Festival price list that you have there is the same as what you would buy in Smithton, Beaconsfield, Queenstown or Hobart.

Ms GIDDINGS - And would Independent operators - somebody at a Festival store at wherever, Pontville just for an example - could they then put more on to those prices?

Mr RICHARDSON - No. We set a maximum price. They can sell below but we set a maximum.

CHAIRMAN - So that is a shelf price you have there?

Mr RICHARDSON - That is the shelf price. That is an exact shelf price that we restrict ours to. I cannot go on record and say that each and every one of the Value Plus stores are because there are some smaller operators there that may guild the lily a bit, as I have said. But as far as the major players in the Value Plus and Festival, they would be sticking - especially the scanning stores - on that price list because we download price changes and price reductions, price increases, on a weekly basis. So their scanning equipment scans those prices.

Ms GIDDINGS - One of the things I have noticed down south as well is that Coles at Cove Hill, which is the Bridgewater area, is far cheaper than Coles at Northgate or Coles at Sandy Bay for that matter; that they seem to have different prices at their different locations. Can the same thing be said for Roelf Vos here or again - you only have the one list here - does it vary from - I do not know where you stores are - Newstead to Riverside or something?

Mr RICHARDSON - From my understanding we have checked Superstore down in Kings Meadows with Riverside and we find them identical, Lara. Because it is more convenient in size for us to do Riverside, we do Riverside, and so that is a Riverside price, which is a far smaller store than Superstore anyway. If they were going to do anything, it would be a cheaper price again.

Mrs BLADEL - But Lara's point, I think, is a very pertinent one, Sam, to this argument because Purity North Hobart and Eastlands charge certain prices, but then Purity at Northgate is cheaper. If we looked at a range of price in order to get that price comparison, if we looked at all the Purity supermarkets in the south and compared those prices against the Festivals, Value Plus and so on, we might find that the total evens out.

Mr RICHARDSON - I think you would find, Fran, if you were to check Zeehan, if you checked Huonville -

Mrs BLADEL - Yes, I was thinking of Huonville.

Mr RICHARDSON - Okay - you would find that those prices would be higher, not cheaper. The only reason, I believe, that Purity North Hobart has come down from \$1.61 in Purity Eastlands to \$1.59 in North Hobart is because of Roelf - predatory pricing, in other words.

Mrs BLADEL - And we do not have Roelf here.

Mr GOODLUCK - The point I was going to make is it is up to each individual. You see, we are trying to find out about prices, but each individual manager of Festival has the right to charge what they like. If they can drop the price to create business for their store, they will

drop the price down. Lara mentioned certain areas too, if they were a store manager, would they not put the price up in the more affluent areas like they do in Victoria. They tell me over there that the less affluent areas are always cheaper than the affluent ones because people pay - Toorak, for an example, in Melbourne; they will pay and don't even look at the price whereas in other areas they do look at the price. We are getting into a very complex area if we are going to try and make comparisons between stores, companies and what people pay.

Mrs BLADEL - Woolworths in Double Bay is cheaper then perhaps that is because everything else in Double Bay is so damned expensive that when you go into Woolworths it all looks cheaper.

Mr RICHARDSON - That's right. It is also a perception - like you were talking about Bridgewater - you would find more generic product in that supermarket at Bridgewater than major brands. Therefore that is why it is perceived to be cheaper. All I'm doing is working on market leaders -

Mrs BLADEL - Although I don't know whether I agree with that.

Ms GIDDINGS - No, I don't.

Mrs BLADEL - Because Purity at Bridgewater have some goods that I've looked for elsewhere and cannot find. They have a lot of frozen foods and a lot of variety amongst those frozen foods, like desserts that I have not seen elsewhere, but I am not a big Purity shopper. But, also I have seen yoghurts and things that -

Mr RICHARDSON - You will find that in independents too, Fran, where you cater for your consumers' needs and if they change -

Ms GIDDINGS - The surveys I have seen that compare them are like your basket of goods here, they are not based on generic products which is why I would say I disagree with you just on that point. It seems even with your Nescafes, or whatever else it might be, that it is cheaper at Cove Hill than somewhere like Sandy Bay Coles. I do not necessarily think that is a bad thing when you are talking about whether people who can afford it tend to, except for the students in Sandy Bay, compared to the people who can afford the goods at Bridgewater but it just seems -

Mr RICHARDSON - What I was trying to do with this is to make a factual survey of market leaders on an actual shelf price because we all have TPRs and everything else and I know Mike Kent will come out and say he can do a survey tomorrow and be cheaper, that sort of thing, but you have to look at the normal day shelf prices.

Mrs BLADEL - Sam, where you have John West pink salmon and all the stores are selling it at \$2.69 - it is about five down the column - and then we go down to 425 grams of Edgells beetroot and all the stores are selling it at \$0.93, is that because that was on a special purchase from the warehouse from the manufacturer or what?

Mr RICHARDSON - No, it is more to do with competitive pricing and price checking Fran.

Mrs BLADEL - I see you have Cottee's cordial down there too.

Mr RICHARDSON - If you look at, for instance, Cottee's jam - it is about two-thirds of the way down, 500 grams of Cottee's jam - \$2.98 in Purity Eastlands, \$2.98 Coles Northgate but the rest are virtually \$2.91. They were \$2.91 but all of a sudden it went to \$2.98 and there was not a price variance within the wholesale.

Ms GIDDINGS - With your packet of Coke cans, you mentioned earlier that Coca Cola has a free to store policy but then in reality it is not exactly free to store -

Mr RICHARDSON - Not for us. Not as a warehouse, no.

Ms GIDDINGS - Right - and yet they too are all at one price, so how are you managing that?

Mr RICHARDSON - Because what happens - what I am doing with that price comparative is saying that Purity at \$161.32, should be cheaper than Roelf Vos because they have the ability to pay their sales tax at a far lower rate.

Mrs BLADEL - That is a factor, isn't it.

Mr GOODLUCK - So that is one of your strongest recommendations, to get the prices down.

Mr RICHARDSON - Roelf Vos are paying the sales tax the same as what we are but are taking a lesser margin to the consumer in the retail to the consumer, the same as Festival and Value Plus are because we price right across Tasmania. We do not highlight particular areas. Our Value Plus price, our Festival price, is the same right across the State whereas because of the disparity between Woolworths and Purity, they have been able to do their own thing either end of the island.

Mr GOODLUCK - When Kent gets on the board what is to stop Kent saying to Woolworths, 'Roelf Vos should be the same as us' even discounting that 40 per cent holding you have in it?

Mr RICHARDSON - Bruce, I would suggest to you that he has a little bit of a problem there because he still has to be price competitive against Coles and the independents. If we can survive on those margins why can't he, because his margin would be far better than what we have.

CHAIRMAN -Can I put it to you that you do not really have to be competitive at all with Coles, they will be competitive with you. No matter what you put on yours, they are going to match you.

Mr RICHARDSON - That is where the integrity part comes in, isn't it?

CHAIRMAN - Yes.

Mr RICHARDSON - And that is what I am proud of in this industry.

CHAIRMAN - So, you are really saying that the competitor is your little blokes?

Mr RICHARDSON - The people that are maintaining - the reason that Roelf Vos is competitive is because we are very strong in the north.

CHAIRMAN - These are the little fellas?

Mr RICHARDSON - Yes. We are very strong across the north and we have kept Roelf Vos honest, if you like. But they have always been frugal in their margins and in many instances make it very hard for us. In the south, the independents in the south - and I take the point that you say that they worry about the intertwining and all the rest of it - they have been left many times to their own devices. You have had WPL Wholesalers Pty Ltd, you have had Farmers, you have had Saveway, you have had all those wholesalers down there that they have pinned their hopes on and they have all gone broke.

Mr GOODLUCK - That is right.

Mr RICHARDSON - One of the recommendations of the 1989 inquiry, if you like, was that another wholesaler come in. If another wholesaler came in I could tell you prices would go up because volumes would drop in the current wholesalers that are here.

CHAIRMAN - Could it also be said, Sam, that you probably - and I am being very respectful when I say this - you may well have gone broke yourself had not Woolworths come in as a 60 per cent joint partner?

Mr RICHARDSON - I thoroughly accept that and would say to you that we have come along on the coat tails of technology of Woolworths and I openly admit that but that does not mean that we have to be subservient.

CHAIRMAN - I think you can hold you head high.

Mr GOODLUCK - You do not think Woolworths with that power over you, would Roelf Vos up here - actually on the same point -

Mr RICHARDSON - Let me clarify it Bruce. They have no power over TIW. We have options.

Mr GOODLUCK - I have been getting the *Examiner* and checking the prices of Roelf Vos as compared to Purity in Hobart and they are exactly the same and it becomes more of the same of late.

Mr RICHARDSON - In promotion prices?

Mr GOODLUCK - Yes.

Mr RICHARDSON - Yes, we all are. Because the manufacturer will suggest a retail price point that they want to get to and if they give you \$1.20 they say, 'Okay, I want you to sell that at \$1.98' and you will sell it at \$1.98 if that is going to get you some co-op to advertise the product. Most promotion prices you will find are very similar because the manufacturer, to pay his dollars to have his product advertised -

Mr GOODLUCK - When you say promotional products, what do you mean? Which ones do you mean?

Mr RICHARDSON - The ones that you see in the paper.

CHAIRMAN - The advertised lines.

Mr RICHARDSON - The advertised lines that you are referring to you.

Mr GOODLUCK - Not all promotional ones. Even meat, that is not a promotional one is it?

Mr RICHARDSON - Yes, it is.

Mr GOODLUCK - Is it?.

Mr RICHARDSON - Yes.

Mr GOODLUCK - Well they are exactly the same price.

Mr RICHARDSON - What you will find now is that with their category management, already meat and fruit and veg you will find is controlled by one person for the whole State.

Mr GOODLUCK - Right.

Mr RICHARDSON - That is why they would be similar.

CHAIRMAN - Have you heard the saying: Tasmania is the 5 per cent margin State in Australia.

Mr RICHARDSON - I have heard it said that it is the 3 per cent.

CHAIRMAN - Do you dispute it?

Mr RICHARDSON - I do, quite strongly, and I make no apologies for some of the things I have said in there because I really believe them. I hate being labelled with the same brush by people who are not truly competitive in the market whereas up here in the north and with our stores in the south, we attempt to get a genuine price structure that we believe consumers deserve.

CHAIRMAN - What sort of margin can Bruce Goodluck's grocery shop at Westbury expect to live off?

Mr RICHARDSON - Well, I do not think he would live very well. For instance, Woolworths' net profit is 2.8 and that has been advertised. An independent, if he is doing a good job and an extremely good job, he would be lucky if he got 1.75 percent net to discretionary spend at the end of the day - 1.75 cents in the dollar.

Ms GIDDINGS - It is a lot of work, isn't it?

Mr RICHARDSON - It is a lot of work. As I have said in there, there is a lot that have bought a job.

CHAIRMAN - So, that is the figure you would use, about 1.75 across the board?

Mr RICHARDSON - 1.50 to 1.75 and there would be a lot at this point in time who are not achieving that.

CHAIRMAN - One of the other things that you say in your submission -

Mr RICHARDSON - Which page are we looking at the moment, Mr Chairman?

CHAIRMAN - I do not quite know but I will put the point and then we can look it up, is that there are too many square metres of floor space in Tasmania. If you take that to the next step, are you saying then that if we close down some floor space in Tasmania our prices would come down?

Mr RICHARDSON - It is all a matter of critical mass of volume. The problem we have in Tasmania is the sparsity of population plus the fact that we have 49 major outlets in Tasmania in a population of, what, 460,000?

CHAIRMAN - Yes. I want you to keep going, but that figure of 49, does that include your little blokes or is that all the major supermarkets?

Mr RICHARDSON - No, I am just talking about majors - Coles, Woolworths and K-Mart.

Mrs BLADEL - That is a lot, isn't it, that is high.

Mr RICHARDSON - The name of the game now is protection of market share, it is not expansion of market share. The plaza that you spoke of up here was really nothing more than a protection of market share, it is not an expansion. The same thing will happen when another supermarket goes up at Legana; it is Coles and Woolworths protecting the market share and increasing their cost of doing business at the same time. That is the problem. The cost of doing business in Tasmania in such a limited population is one of the major factors that was not taken in to the 1989 inquiry.

CHAIRMAN - I agree with you wholeheartedly that it is in fact a major component but is there anything that can be done about it?

Mr RICHARDSON - There are too many of us too, do not let me be one-sided about it. There are too many independents. We have four banners in one town.

CHAIRMAN - But if in theory - this is really what I want to get to - if in theory you could close down three major supermarkets in the City of Launceston, five in the City of Hobart, 25 little blokes in Launceston, and 35 little blokes in Hobart, would the consumer be paying less for his or her product? Yes or no.

Mr RICHARDSON - Yes. But let us be practical also, Mr Chairman, we live in the real world and that is not going to happen unless, as is happening now, my little blokes are being frozen out especially in rural areas where there is no development and what have you. Unfortunately every time I think maybe one has gone by the wayside, somebody will come along with a redundancy and set up again and that means that my other two stores in that town are still under pressure.

CHAIRMAN - I just want to take that little line of thinking a step further. Conversely then, if Davids came to Tasmania in a big way and stuck big stores in Launceston, Devonport, Burnie and Hobart - in fact what we are doing then is increasing the floor space - what does that do to prices?

Mr RICHARDSON - It will just exacerbate the problem we have now.

CHAIRMAN - So you would not think it would be of any benefit.

Mr RICHARDSON - No way in the world. Then you would have a problem with your small stores going out the door backwards; they would become drain pipe material. You would have a very competitive price structure for a while but after a while, unless you have an independent structure in there that is viable - and far be it from me to suggest collusion because that is not a word anybody wants to use - but you need a third or fourth player at field there to keep everybody honest, you really do. That is what we are doing at the moment and I think we are doing it very effectively in the south.

CHAIRMAN - I think you are. I think the problem that the Committee may well have though is this: that we are not sure, nor will we ever be, that Sam Richardson is actually walking down the path of the people he is working for or walking down the path of the consumer and I would submit to you that there is quite a difference. We have to protect the little blokes, we know that you know that, but on the other hand we have consumers out there who are clearly paying more than they should be and one of the reasons that I think we are establishing that they are paying more than they should be, is the fact that there are too many of these people out here selling the products. What we, I think, are all grappling with is where is the middle ground? Where is the right spot to be?

Mr RICHARDSON - Well, our problem has been something that has grown over a period of time, Tony, and what we should have had in place, similar to what they have had on the mainland, is restrictions upon where major outlets be they developments like up the way here at Prospect et cetera. They have to go through a whole financial and environmental analysis before they are given the right to set up new things around the State. For instance, be it New Town, be it the one here at Prospect, be it the one here at Legana - they should be able to prove that they are not going to be a burden on the consumers in this State as far as driving up the cost of doing business so that we end up - and I buy groceries - paying more for our groceries and that is what is happening at the moment. There is no real plan for Tasmania.

Mrs BLADEL - That is all part of that planning that you were talking about Tony. It comes to mind with this edifice down the road and the Purity at New Town, there was a lot contention about whether or not that Purity - I have not been in there, but people tell me it is not doing so well. How they make that judgment, I don't know, whether when they go in there are a few customers or not.

Mr RICHARDSON - You will get varied versions of that, Fran, depending on people's perception.

Mrs BLADEL - But it would have been interesting in your survey of prices to compare North Hobart Purity with New Town Purity to see if Ralph's magic extends as far as New Town.

Ms GIDDINGS - If there is an actual increase in price too, to pay for that expansion.

Mrs BLADEL - Well that's right.

Mr RICHARDSON - We did not do the Glenorchy Purity either, Fran, but I am very much aware that they have dropped some prices in there to be competitive with the new store that we put in. But that is more predatory pricing than genuine price reduction right across the board.

Ms GIDDINGS - One of the problems with the smaller supermarkets is actually breaking that public perception that they are not cheaper. At least in the south I feel that people say, 'We'll go to the local shop' - Value Plus or Tiger Barn, whatever it is - 'to get your milk and bread but you wouldn't buy your coffee or your toilet paper or other things unless you were desperate' because there is a perception that you will buy it cheaper at one of the bigger supermarkets - Coles or Purity.

Mr RICHARDSON - Yes that's right. That is something that we are trying break. Just by looking at that you see that it is not -

Ms GIDDINGS - It is a big margin.

Mr RICHARDSON - But see, you get a group that comes down from the mainland - *A Current Affairs* - that does a price comparison between Purity and Coles, does not go into Ralph's, does not go into any other independent and they make a judgment on two stores in the south. Who is the cheapest supermarket in Tasmania? I can tell them who is the super cheapest one is and that is the Superstore. That is the cheapest.

CHAIRMAN - I think that is competition, isn't it. Coles and Purity can make more noise than the little bloke.

Mr RICHARDSON - In that regard. For instance, another thing I would like to bring to your attention is the cost of advertising in

Tasmania and I tried to make that point there. Just to really clarify it: for the *Advocate*, *Examiner*, and *Mercury*, the press grand total that we spend in that is \$1 365 784, simply because that is where the market is and it is still not working, Lara. You are saying that people still do not perceive our stores as being competitive.

Ms GIDDINGS - I do not know how you break through that creditability problem, that is part of it. Can you just explain also, you have at the bottom of your submission here the examples of all the independent wholesalers - you have Value Plus, Riteway, Sams Cut Price, Festival et cetera - how are they structured? Why aren't you just one group rather than Festival; how are they individually set up?

Mr RICHARDSON - They have a varying price structure, as evidenced on that, because unless they are able to remain viable they are not in the game. If we tried to put a Fabulous store or a Four Square store on the same price structure as Festival, they would go broke. They would not survive.

Ms GIDDINGS - But what is the necessity of having all the different
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Mr RICHARDSON - We had eleven banners here at one stage; I think I have done a damned good job to get them down to virtually four. I want to get them down to three and we are trying to get them to upgrade their premises such as the Festival. We have a new Festival starting in St Helens, we have another one who is trying to negotiate with Longford to start a Festival in Longford and we are trying to get all the other stores to upgrade and put money into their business because if they do not, they are not going survive anyway.

Ms GIDDINGS - Are they competing against each other in St Helens if you have a Festival and a Riteway or something?

Mr RICHARDSON - That is right. They are serving separate niches, if you like. One of the places where it really works well is in Latrobe where you have a Festival, a Sam's and a Four Square. They are maintaining the consumer confidence in that town and all three of those stores are doing quite well. All three of those stores have upgraded and they are competing against one another and the people perceive that they are getting good value.

Ms GIDDINGS - Well, that is the thing, it is this perception of getting value. My local store at Brighton has changed from Tiger Barn, to Value Plus, to Riteway - a number of them - and in the end you get so cynical; you think. 'Well, you're not cheaper, you're no better; it's just you've painted the front different' and again it is part of that perception problem.

Mr RICHARDSON - What happened with them, it was Riteway, Tiger Barn and now Value Plus. The problem that they had when they were a Tiger Barn was that they were only selling promotional products. As you know they have three products and they have them very dirt cheap but that is the only three products that were cheap and they were being supplied by Davids from the mainland and they were not able to cut the cake because what was happening was that too much of a majority of their sales were in their promotional lines. Now, you cannot have it both ways; you cannot have the dirt cheap promotions and dirt cheap shelf prices, there has to be a balance. My Festival stores would possibly run on a GP between 17 and 18 per cent. The Value Plus would go from, say, 18 to 20 per cent and progressively because of the price structures we factor in for them. But that of course is because of the volume and the service fee and everything else that they would pay in doing their product.

Mrs BLADEL - You are right; it is very complicated.

Mr RICHARDSON - It is. I do not envy your job.

Mr GOODLUCK - You have opened up a Pandora's box.

CHAIRMAN - I am very conscious of time, Sam, and I would not mind trying to wrap it up if I could. There is one other thing I would like to bring up - I do not know about the rest of the Committee - and that is the point that you made, I think very relevantly, in your submission re Eftpos. I would just like you to put on the record what the average small retailer is paying for or benefiting from Eftpos as per a Purity or a Roelf Voss supermarket.

Mr RICHARDSON - Eftpos is an imposition on independence; not only supermarket owners but other independent businesses, be they furniture, floor coverings, footwear, whatever. The banks, in my belief, have abrogated their sense of responsibility in their corporate governance in that they are foisting their manual labour onto retailers and they are charging that retailer to do that business. The retailer has become a de facto bank teller.

CHAIRMAN - Do you know what the cost is?

Mr RICHARDSON - My understanding is that Woolworths are paid 2 per cent from NAB to conduct that Eftpos business. But you have to equate that to the fact that they probably do 70 per cent of the service provider work because they just hand it to NAB on a - not on an individual basis; they do quite a bit of work before it gets to NAB. But my belief is 2 per cent that NAB pay Woolworths for that. My stores are charged anything from - the best on credit card is around about 3 per cent.

CHAIRMAN - Charged 3 per cent?

Mr RICHARDSON - They charge 3 per cent. On the debit, which is a cash transaction, they have been charged anything from 10 cents up to 35 cents per transaction. I am currently negotiating a rate at the moment, but with the pushing and throwing, the best I can get at the moment is 3 per cent credit and a sliding scale debit cash transaction.

CHAIRMAN - Finally, you say at the end of your submission you must educate consumers.

Mr RICHARDSON - That was a finding of the 1989 also, but nothing was ever done.

CHAIRMAN - I am asking how would you do it.

Mr RICHARDSON - One of the things - and let us face it, we have to get more competitive in our price structures, both ends of the island, from everyone so that there is a competitive field that we are talking about because otherwise unless you have true price structures that are genuine price structures right across the island, you are not going to get credibility no matter what you tell consumers. You have to have credibility in what you are trying to tell them.

As far as the findings of this inquiry - I suppose that is in your lap but the few bad apples spoil it for the lot of us. If you highlight some of those everybody gets painted with the same brush so you need to be, I believe, very careful in your findings from this inquiry or those true genuine competitive people who are out there servicing their community are going to be labelled with the same brush as those who are not - the Mal Colstons of our industry. Okay? So it is a hard job, Tony, but I believe that you need to set up a group, and it needs to be an industry-related group to help and support you in providing a think tank, if you like, on how to give it the correct information to consumers. You need to have industry-based people working with you.

CHAIRMAN - On a price watch.

Mr RICHARDSON - Not so much probably a price watch because as far as a price watch, I do not think unless you get - and there is probably only six people in this State who could do a proper price comparison. That is in my belief; there is only six people who could do that.

CHAIRMAN - Is Dr Grinall one of those?

Mr RICHARDSON - You have to be industry related; that is what I have been trying to impress; that unless you know the variances within this industry, you can make wrong judgments and wrong perceptions. A price watch would be no better - and I say it with all respect to the people sitting around this table - to what is happening out there now.

Mrs BLADEL - I had a dab at the old price watch. It was very interesting and very educational for me. Duncan Kerr has had a dab at it. What it does is raise consumer consciousness and people see these results published and know there is such a thing and people start to look more carefully at the product and compare prices. They are often prepared to walk a little distance, particularly in a shopping centre like Eastlands where you have got

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CHAIRMAN - Two of them.

Mrs BLADEL - Yes - and compare quality too and people will say, 'Look, it's better to go to Coles for meat than to Purity'. Now whether that is true or not I do not know because I support my local Bellerive butcher. Some people will say that one of those stores has better quality fruit and vegetables than the other. So people become much more discerning, I think, and an education program, even if it just puts the spotlight on people - it is more than prices too; it is quality and the range of offerings. This is where the person I deal with - and that is Ralph - that is where he falls down because he does not have the range of items.

Mr RICHARDSON - Range of product, yes.

Mrs BLADEL - It is a pity Ralph had not come in to see us because that is a disappointing thing. But I know why he cannot get them; I know he would get them if he could.

Mr RICHARDSON - That may be addressed, Fran, now the Caterers' Market has gone out of there and he is talking of expanding into that area which will give him more scope to do that. That is one of the failings of the independents, they do not have a full product range across the board.

Mrs BLADEL - Mind you, he is doing other things; he is doing hot bread and cooked chooks.

Mr RICHARDSON - Yes, he does it very well.

Mrs BLADEL - And he has a delicatessen in there.

CHAIRMAN - On behalf of the Committee, Sam, thanks for your, as normal, forthrightness and honesty. We do appreciate it and again thanks for giving up your time.

Mr RICHARDSON - Thanks for the opportunity.

THE WITNESS WITHDREW.