

THE AGE

Business & Money

Supermarket sale set to spark chain reaction

Independents are fighting back against the two major players in the grocery wars, writes **Stephen McMahon**

THE \$60 billion grocery and liquor retail sector is a ruthless battlefield. The big two — Coles Myer and Woolworths — dominate the fight for market share, but independent retailers are staging a belated fight-back.

Fred Harrison, chief executive of Ritchies IGA and chairman of the national board of Independent Grocers of Australia (IGA), is leading the independents' charge for a larger share of the market.

This week's \$3.3 billion carve-up of Foodland Associated between Woolworths and wholesale giant Metcash, which is also the company behind the IGA supermarket network, was a big victory for the retailing giant.

On the flip side, Harrison has identified potential savings from combining the Metcash and Foodland back-office and sales operations, increased negotiating power with suppliers and bigger marketing thrust as major benefits for the independent sector.

"People are saying this is a great win for Woolworths — and it is from a New Zealand perspective — but it is a massive win for independents in Australia. Because all of a sudden Metcash are now the voice of independents across the country," he said.

"By having one independent wholesaler across the country we are in a position to negotiate better buying power, better ranges, better terms, quicker access to new lines in the market. This is a huge win for independent retailers."

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FRED HARRISON, RITCHIES IGA chief executive

Harrison believes that over time it will produce savings of between 0.5 and 0.75 per cent on bottom-line costs for retailers — vital in taking on the big chains.

"We need to get more synergies to help our retail competitiveness in the marketplace so that we can be at the pointy end of the business — offering more aggressive specials and selling certain products below cost from time to time," he said. "That is what Woolworths is doing now, especially in the liquor sector. We must be able to compete on pricing."

Between them, Woolworths and Coles have 76 per cent of Australia's supermarket trade.

Metcash with its IGA network, which is now in all states and territories except Tasmania and Northern Territory, and a few smaller chains such as Franklins and Aldi make up the balance.

With a bit more than 17 per cent, IGA has just enough to estab-

lish itself as a viable "third force" in grocery retailing.

In this week's deal, Metcash gained 60 of Foodland's Action supermarkets around the country, about 250 franchised operations in Western Australia under the Dewsons, Foodland and Supa Valu brands and a distribution operation supplying about 450 grocery stores and corner shops.

Harrison believes Woolworths' decision to move into the NZ market will in the long term make it a potential takeover target for global supermarket chains such as US giant Wal-Mart.

"As the chains are now going into what were traditionally independent sites, if you look at it from an international perspective the same thing is now happening," he said. "The world players are wanting to come (to Australia) just as Woolworths are now wanting to go into country towns."

There are 5206 independent outlets nationwide and Harrison is bullish that the independents can carve out a sizeable niche during the next few years. He predicts that within a decade independent grocery retailers could be pushing for up to 30 per cent of the market share.

"Whilst the arrow for independent retailers has been pointing in a southerly direction for a number of years, there has been a stabilisation and even growth in the independent sector in the last few years," he said.

For Harrison's dream to come to fruition, there will have to be much more consolidation within the independent sector.

In a telling move earlier this month, Ritchies IGA agreed to sell a 26 per cent stake in the company to Metcash. This will provide greater symmetry between the two and a much-needed cash injection for Ritchies' expansion plans.

Industry sources said the deal was worth more than \$34 million. Harrison refused to confirm the sale price, but said it would allow back into the business, with plans to revamp existing outlets and open 25 new outlets within three years at the top of the agenda.

Ritchies is now the biggest single independent retail operator in the country with 38 stores, predominantly in Victoria. Last year's sales topped \$500 million. Harrison's decision to challenge the decade-long retailing dominance of Coles and Woolworths in Griffith, NSW is a sign he is backing up his words with action.

"We are providing the chains with a dose of their own medicine by taking them on head-to-head," he said. "Traditionally... an independent would never have gone into a chain domicile and taken them on, but here the boot is now on the other foot."

A growing number of second-tier shopping centre developers are also now looking much more favourably on tenders for anchor



RITCHIES

Ritchies IGA chief executive Fred Harrison is leading the independents' fight-back for a bigger share of the market. Picture: Michael Clayton-Jones

tenant locations from independent retailers. In the past year, Ritchies IGA has twice been chosen by the developer as the preferred anchor tenant over rival bids from Coles Myer's Bi-Lo brand at greenfield sites in Rowville and Balnarring.

These successes have emboldened several bigger independent retailers within the IGA group, which are studying the Ritchies and Metcash deal with an eye to replicating it in their areas.

In a further effort to counter the growing dominance of the chains, IGA this week launched an

\$18 million marketing offensive. "Local Heroes", IGA's first national marketing campaign, highlights the independents' closeness to their communities and ability to meet local demand as its point of difference in the battle against the chains.

"The brands are brilliant at marketing themselves," Harrison said.

"Woolworths in particular have done a brilliant job — and got the jump over Coles — branding their business, particularly in liquor with Dan Murphy's in this state.

We need to market ourselves to our target audience and build our brand and our profile.

"A large part of the public are comfortable with the brands (Coles and Woolworths) but equally there are a proportion of the public who feel they don't want to shop in a big monolith and want to be associated with the local community. It is not 75 per cent of the public, but it doesn't have to be."

In an effort to strengthen community ties, Ritchies has developed a community benefit card that allows customers to nominate a

charity or local school or sporting organisation and Ritchies will donate 1 per cent of their weekly shopping bill to their chosen group.

Since its inception, it has donated \$13.7 million to more than 3500 organisations or charities.

This loyalty combined with the growth of the IGA group's "one company approach" will be vital if independent retailers are to counter the big two in the battle for market share in this very lucrative sector.

UK expats lose bid for pension rise

By **PETER WEEKES**

BRITAIN will continue to deny indexed pensions to about 236,400 expats living in Australia following an unsuccessful appeal to the House of Lords.

The ruling brings to an end a seven-year legal battle waged by British pensioners living overseas, including in Australia, where the British pension is not adjusted to allow for increases in the cost of living.

British expat pensioners living in Turkey, the Philippines, the US, Israel and European Union countries receive regular inflation adjustments, courtesy of bilateral agreements. The Australian Government has lobbied to extend this here, without success. The British Government has said it cannot fund the estimated \$400 million (\$A960 million) a year required to index all British pensions.

Pensioner Annette Carson, 64, from South Africa was selected by campaigners as the test case, representing about 555,000 pensioners in mainly Commonwealth countries that have been denied indexation.

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LORD CARSWELL

Lord Carswell, who dissented from the four-to-one ruling, said he would have upheld the appeal because "it has the appearance rather of selection of a convenient target for saving money".

According to the *Daily Telegraph*, he went on to say: "Once it is accepted that pensions should be paid to contributing pensioners resident abroad, then no justification remains for paying some less than others and less than UK residents."

The chairman of British Pensions in Australia, Jim Tilley, who spearheaded the Australian campaign could not be contacted yesterday. The federal Minister for Family and Community Services, Kay Patterson, criticised the ruling as "both unfair and discriminatory".

"These people have contributed over many years to earn their pension rights," she said. "They have contributed on the same basis as people living in the UK, former residents now in all the European Union countries and other selected countries such as the United States, Israel or the Philippines. Yet they are denied the same benefits."

"I will continue to pursue this matter with the UK Government on behalf of all UK pensioners in Australia."