SundayStarTimes

The high cost of low prices

TWO LITRES of milk for under $3, a 10kg sack of potatoes for $7, a bunch of Ecuadorean bananas for a few of those new copper 10c pieces. And if there is room in the trolley, why not pick up a budget microwave – on sale just past the gardening section.

Face it: the goods for sale in the modern Kiwi supermarket are cheap. That's what the shoppers like, so that's how the supermarket owners try to keep it. But there's a high cost to low prices. As you marvel at the ever-smaller price tag on those chicken drumsticks, it's worth considering who really pays.

It works like this. Supermarkets' profit margins are already low (usually in single figures) and volumes high. To push prices lower, a retailer needs to squeeze suppliers for bigger discounts or pay workers less. Or both.

This is what any sensible businessperson trying to carve out a market share and boost profits would do – up to a limit. But Progressive, half of the duopoly controlling all New Zealand supermarkets, has just about reached that limit.

The company, which runs Woolworths, Foodtown and Countdown, is not much more or less saintly than any other big company. But last year, Progressive changed hands – Australian owner Foodland sold it to Woolworths Australia. Under this new and aggressive ownership, Progressive has shown its teeth.

The current battle is with the 500 distribution workers locked out by Progressive. But earlier this year the Aussie bruiser got to work on its suppliers. In January, worried food producers told the *Sunday Star-Times* Woolworths Australia was demanding cripplingly large discounts and rebates. The norm has long been around 5% to supermarkets. Woolworths Australia wanted up to 15%.

There is something worryingly familiar about this story of a huge company abusing its dominance as an employer and a buyer. This is because that is also the story of WalMart, the American mega-retailer.

WalMart is famously cheap – at one time it boasted of giving its customers a "payrise" by leaving more cash in their pockets.

But the sheer size of the firm causes gross distortions in local economies in the US. Predatory siting of superstores sees off smaller competitors. American suppliers have been driven out of business trying to keep up with WalMart's obsession with low prices. WalMart doesn't care; it just uses cheaper overseas firms: the customer gets a "payrise", the US worker gets a redundancy letter.

WalMart throws its enormous weight around in the labour market too. It has a culture of aggressive anti-unionism, and, in regions where local competition has been stifled, there aren't many places its underpaid workers can go.

It would be too much to suggest that Progressive is practising abuses on a scale even approaching WalMart's. One crucial difference is that Progressive controls only 45% of supermarket retail. Rival chain Foodstuffs (owner of New World, Pak n'Save and Four Square) should be keeping it honest (although in truth, two players aren't enough – it's all too easy for a duopoly to function as a cosy club run for the benefit of its members).

There are other important differences between the options available to WalMart and to Progressive, differences that should give comfort to the locked out distribution workers. New Zealand offers far more protection to workers than the US. It also has a tradition of respecting fair play and disliking bullies.

New Zealanders have donated more than $120,000 to support families of workers who have been prevented from working for the past three weeks. Perhaps that is because we have been shocked to learn that some pay rates (including allowances) have fallen from around $20/hr to $15/hr in the past three years. Or maybe it is because this dispute has reminded us that the lowest price is not necessarily the best price. Either way, Progressive should watch its step. As the lockout grinds on, shoppers may desert Woolworths, Foodtown and Countdown, and not simply because there's not much on the shelves.

'It's unwise to pay too much, but it's unwise to pay too little. When you pay too much, you lose a little money, that is all. But when you pay too little, you sometimes lose everything, because the thing you bought was incapable of doing the thing you bought it to do. The common law of business balance prohibits paying a little and getting a lot. It can't be done. If you deal with the lowest bidder, it's well to add something for the risk you run. And if you do that, you will have enough to pay for something better.'

John Ruskin (1819-1900)