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Competition and Inclusion: Co-operatives' Role in the Australian Retail, Care, and Farming Sectors

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JEL Classification: L31, L13, D21

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COMPETITION AND INCLUSION: CO-OPERATIVES' ROLE IN THE AUSTRALIAN RETAIL, CARE, AND FARMING SECTORS

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Executive Summary

This report examines the role of co-operatives in promoting competition, inclusion, and economic efficiency in three key Australian sectors: retail (with a particular emphasis on groceries), care services, and upstream production. We develop a unified economic framework to explain why conventional profit-maximizing firms often fail to enter or adequately serve regional, rural, and remote markets.

The central argument is that co-operatives differ fundamentally from investor-owned firms in their objectives. Rather than maximizing profits for external shareholders, co-operatives internalize benefits to members—who may be consumers, workers, producers, or communities. This shift in objectives alters entry incentives, market outcomes, and welfare effects in ways that are particularly valuable in “thin” markets characterised by high entry costs, limited demand, labour shortages, or imbalanced bargaining power.

Across all three sectors, we demonstrate that co-operatives can correct structural market failures by reshaping entry incentives, improving competition, and embedding economic activity within communities and workforces. A more explicit recognition of co-operative business models in competition policy, regulation, and sectoral design would support inclusion, efficiency, and resilience in parts of the Australian economy where conventional market solutions have repeatedly fallen short.

1 Literature review

The report builds on a broad literature examining how ownership structure affects firm behaviour, market entry, competition, and welfare. While standard economic models focus on investor-owned, profit-maximising firms, the papers reviewed here demonstrate that co-operatives, mutuals, and other member-owned organisations exhibit systematically different incentives and market outcomes. These differences are especially relevant in markets characterised by high fixed costs, thin demand, labour intensity, or bargaining power asymmetries: features that are central to the Australian retail, care, and upstream production sectors analysed in this report.

A core theme in this literature is that co-operatives pursue objectives broader than profit maximisation. [Enke \(1945\)](#) provides an early formal analysis of consumer cooperatives, highlighting how internalising consumer surplus alters pricing and output relative to monopoly provision. This logic underpins the report’s modelling of consumer-owned supermarkets that supply output closer to the socially efficient level.

Analyzing market formation, [Sexton and Sexton \(1987\)](#), model cooperatives explicitly as market entrants and show that co-operatives may enter markets where investor-owned firms do not, because co-operatives internalise member benefits (such as consumer surplus or producer returns) that are not reflected in profits. This result provides a direct theoretical basis for the report’s analysis of cooperative entry into underserved retail and care markets. Subsequent papers examine competition between co-operatives and investor-owned firms in mixed oligopolies. [Giannakas and Fulton \(2005\)](#) study process innovation in mixed oligopolies and find that co-operatives can influence both innovation incentives and market outcomes, even when they are not profit-maximisers.

Another strand of this literature focuses on worker-owned firms and labour-managed organisations. [Craig and Pencavel \(1992\)](#) study worker co-operatives in the US plywood industry and find that worker-owned firms behave differently from conventional firms in terms of employment and output decisions. Their evidence supports the idea that worker ownership internalises employment and wage benefits, leading to distinct supply responses and motivates the part of our report concerning worker-owned cooperatives.

[Rey and Tirole \(2007\)](#) examine financing constraints and access in co-operatives, emphasising that limited access to capital markets can constrain co-operative entry despite their welfare advantages. This insight is directly relevant to the report’s discussion of entry costs and the role of membership fees and policy support in enabling co-operative formation.

More recently, [Carney, Haines, and King \(2015\)](#) show that farmer cooperatives raise farm-gate prices for all farmers by intensifying processor competition, even benefiting non-members, when structure stays unchanged. If a cooperative causes rival exit, some farmers gain higher prices while others lose from reduced competition. Free-rider problems and no side payments block profitable conversions between structures, creating two stable equilibria: all profit-maximizers or cooperative coexistence.

Several empirical papers study the role of not-for-profit organizations in improving market outcomes. [Banerjee, Besley, and Guinnane \(1994\)](#) study credit co-operatives and show that co-operative design can overcome information and enforcement problems, improving access for underserved members. [Fioretti \(2022\)](#) examines firms that explicitly care about social impact and show that embedding social objectives into firm decision-making can improve welfare, even if it weakens profit incentives. In health and insurance markets, [Dafny \(2019\)](#) compares for-profit and non-profit ownership and shows that ownership form affects prices, coverage, and spending. Their findings reinforce the report’s broader argument that ownership structure is not neutral and can materially affect outcomes in essential service sectors.

Finally, the literature on ownership and market power provides an important competition-policy backdrop. [Backus, Conlon, and Sinkinson \(2021\)](#) show that common ownership among competing firms can soften competition and raise prices, highlighting the importance of ownership incentives beyond traditional concentration measures. While their focus is on investor-owned firms, their results reinforce the report’s broader point: ownership structure is central to understanding competition and welfare. Using Italian supermarket data, [Duarte, Magnolfi, and Roncoroni \(2025\)](#) strongly reject the hypothesis that cooperatives take into account consumer welfare in their objective, finding no significant deviations from pure profit-maximizing conduct. However, they show that even mild consumer welfare internalization by the cooperatives would yield consumer welfare gains comparable to their regulatory advantages.

Our report builds on these insights by offering a unified economic framework tailored to the Australian retail, care, and upstream production sectors, with particular emphasis on inclusion, entry, and welfare in thin markets.

2 Co-operatives and competition in the retail sector

Co-operative and mutual enterprises are businesses owned and democratically controlled by their members. Members can be consumers, workers, producers, or a combination of these. The overarching purpose of a co-operative or mutual is to benefit members, rather

than shareholders. There are approximately 1,800 co-operatives and mutuals operating in Australia across all sectors of the economy¹.

The Business Council of Co-operatives and Mutuals (hereinafter, BCCM) estimates that more than 230 producer-owned co-operatives are active across the grocery supply chain. These co-operatives allow farmers, fishers, small manufacturers, and independent retailers to work together to achieve efficiencies that are otherwise available only to their large corporate competitors. Examples include Norco and Tasmanian Independent Retailers.

The BCCM estimates there are more than 70 consumer-owned grocery retail co-ops in Australia. While representing a limited overall market share, these co-operatives play an important role in regional Australia (e.g. The Barossa Co-op), as a model for Aboriginal and Torres Strait Islander community-controlled retail (e.g. Bynoe Community Advancement Co-operative), and as first movers in bringing new products to market (e.g. Blue Mountains Food Co-op).

While both producer-owned and consumer-owned co-operatives can play an essential role in promoting a competitive supermarket sector, we focus on the consumer-owned model.

Lack of supermarket competition in regional and remote areas of Australia

The interim report of the ACCC’s supermarket inquiry highlights a critical issue: the lack of competition in regional/remote areas of Australia, resulting in limited access to affordable and varied grocery options. Residents in these areas frequently report having “no other option” than their primary grocery store, which is often the only provider within a reasonable distance. In these areas, entry barriers for new supermarket providers are particularly high due to geographic isolation, logistical complexities, and increased operational costs. The inquiry noted that these high barriers limit the market’s ability to offer competitive pricing and contribute to inflated grocery costs in these regions.

Furthermore, the inquiry underscores that market concentration dominated by Coles and Woolworths results in limited competition at the retail level in regional/remote areas,

¹The Business Council of Co-operatives and Mutuals (2024), *National Mutual Economy Report*.

often driving higher prices. This oligopolistic structure is not conducive to vigorous price competition, as large supermarket chains may not see enough financial benefit to enter, lower prices, or improve services in regions with sparse populations. Consequently, consumers in these areas are less likely to experience the benefits of competition, such as access to diverse grocery products and lower prices through price comparison opportunities.

Our submission aims to address the issues outlined in "Box 1.1: Key Issues for the Remainder of the Inquiry" in the interim report by explaining why the co-operative business model can offer one potential solution.

- Issues impacting vulnerable consumers, focusing on consumers on lower incomes and remote consumers.
- The competitiveness of independent supermarkets, including the impact of Metcash on the ability of independent supermarkets to compete on price
- Entry and expansion, including barriers to entry or expansion, with a particular focus on access to retail sites.

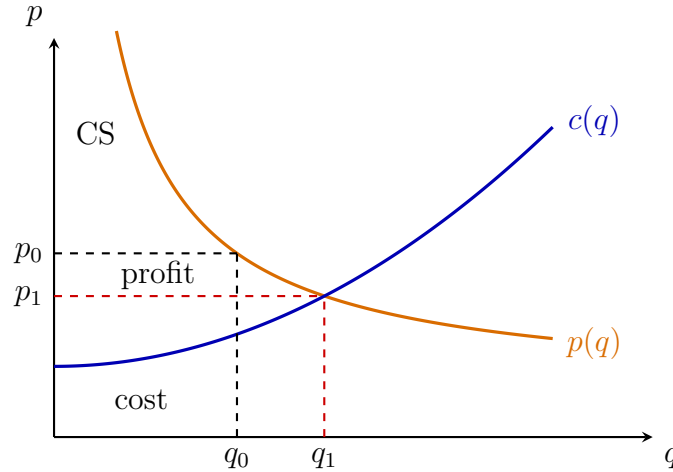
Co-operatives' unique advantage in entering regional and remote areas

As member-owned entities, co-operatives operate with a mission that differs fundamentally from that of conventional profit-maximizing firms. Rather than focusing on financial returns to investors, co-operatives prioritize maximizing benefits for their members. They accomplish this by adjusting prices and quality and redistributing profits through rebates, discounts, and other member-centered incentives. This broader mission shapes co-operatives' decisions on market entry, production, and pricing, often leading to behaviors distinct from those of traditional firms.

This economic distinction is particularly significant in regional/remote areas, where co-operatives may become local monopolies due to geographic isolation and limited access to major supermarket chains. In these underserved markets, co-operatives are uniquely positioned to address local needs by aligning their objectives with community welfare rather than prioritizing profit maximization. Figure 1 below illustrates how a consumer-owned su-

permarket, operating as a local monopoly post-entry, maximizes not only members' benefits but also overall efficiency.

Figure 1: Profit-maximizing and consumer-owned supermarkets' optimal choices.



In Figure 1, the downward-sloping curve represents the inverse demand that captures the maximum price $p(q)$ at which a specific quantity q of output can be sold. Each output unit can be considered a standardized basket of grocery items. The upward-sloping curve represents the production cost, capturing the minimum cost $c(q)$ at which a quantity q of output can be produced. A conventional profit-maximizing supermarket would set the price at p_0 , which corresponds to the sold quantity of q_0 . This price maximizes the supermarket's profit, represented by the area below p_0 , above the cost curve, and to the left of q_0 . The output level q_0 is inefficient, as producing additional units would generate social value $p(q)$ that exceeds the social cost $c(q)$ when q is between q_0 and q_1 .

Unlike profit-maximizing supermarkets, consumer-owned supermarkets maximize the sum of profits, which will be later distributed to their members, and transaction surplus, which consumers obtain when buying from co-operatives. In Figure 1, this transaction surplus is represented by the area below the demand curve but above the price (labelled CS), reflecting the monetary equivalence consumers gain by consuming the corresponding quantity of output. Consumer-owned supermarkets thus maximize the whole area under the demand curve and above the cost curve up to the production point, supplying the market at q_1 , where the marginal value of products equals the marginal production cost. This outcome achieves

post-entry efficiency, aligning output with the level at which social welfare—measured as the total surplus generated by all transactions—is maximized.

For profit-maximizing supermarkets, the potential profits of entering a regional/remote area, denoted by $p_0q_0 - c(q_0)$ in Figure 1, is often insufficient to recoup entry costs. As illustrated above. Consumer-owned supermarkets, however, can generate a greater total surplus than profit-maximizing supermarkets, measured by the area $\int_0^{q_1} (pq - c(q))dq$ ². This surplus enables them to recover entry costs through membership fees if necessary, providing **a unique advantage in entering markets that profit-driven supermarkets often find unappealing** due to limited profitability. By leveraging member contributions, consumer-owned supermarkets can sustainably enter and serve these underserved regions, aligning their incentives with community welfare rather than short-term financial returns³.

2.1 Potential value created by co-operative supermarkets in regional and remote areas

In many regional/remote areas of Australia, consumers face significant challenges accessing affordable, diverse grocery options. Through their community-centered model, consumer-owned supermarkets can foster economic resilience and create meaningful social and economic value in regional and remote areas. We will next explain the specific ways in which consumer-owned supermarkets can benefit these communities through facilitating commercial transactions and shaping the market. Given that we have covered the monopoly situation in the previous discussion, this discussion focuses on a scenario in which an incumbent supermarket is already present in the area and may compete with the consumer-owned supermarket if the latter enters the market.

²Profit-maximizing firms that can use nonlinear pricing tools can also achieve the efficient outcome. However, in that case, consumers are left with zero surplus. In addition, non-linear pricing is not a common practice in the supermarket context.

³Even though consumer owned supermarkets have a relative advantage in entering regional/remote areas compared to traditional supermarkets, they may still face challenges due to limited access to financial markets. If they need to charge membership fees to use part of the consumer surplus generated to cover entry costs, they can only do so after initially paying these costs, which typically requires them to first secure bank financing.

First, the entry of consumer-owned supermarkets can create value through **inclusion**, enabling consumers who might otherwise lack access to supermarket shopping to become regular customers. Their entry into regional/remote markets can alleviate the problems of high prices, limited selection, and long travel distances in several ways. By establishing additional locations, a consumer-owned supermarket reduces travel distances for residents, enhancing convenience and accessibility. Additionally, a co-op's commitment to broadening product variety and providing member benefits like discounts and rebates helps offset high prices, making groceries more affordable for local residents. These advantages can be realized even if the incumbent supermarket does not alter its pricing or offerings in response to the entry, as the consumer-owned supermarket's presence alone can at least partially address accessibility and affordability concerns.

Second, the entry of consumer-owned supermarkets can generate value by **promoting competition**, forcing the incumbent to lower prices and ultimately benefiting consumers. If the consumer-owned supermarket operates alongside an incumbent supermarket, the resulting competition could prompt price reductions by the incumbent to retain its customer base. These lower prices benefit two groups of consumers: those who already shop at the incumbent store, who can now enjoy reduced prices, and those previously priced out of the incumbent's offerings, who may now find them more affordable. This competitive effect benefits the entire community by encouraging fairer pricing practices in the area.

Finally, the entry of consumer-owned supermarkets creates value by **expanding consumer choice**, allowing shoppers to switch from the incumbent store to the co-op as their preferred option. A strong consumer-owned supermarket could attract customers from the incumbent store, increasing consumer choice and flexibility. With more than one supermarket option, consumers previously reliant on the incumbent can mix and match their purchases, benefiting from a wider product range and potentially better pricing. This mix-and-match purchasing pattern arising from the entry not only empowers consumers with greater flexibility but also fosters a healthier retail environment where stores must continually strive to meet the community's needs.

In summary, the benefits outlined above can be fully or partially realized when consumer-owned supermarkets enter regional/remote markets, whether or not an incumbent is present.

The same reasoning for why consumer-owned supermarkets are more likely to enter underserved markets compared to traditional supermarkets in the monopoly scenario also applies to scenarios with existing supermarket competition. The co-operative business model makes these consumer-owned supermarkets strong candidates to enter markets that profit-driven supermarkets may otherwise deem unprofitable, provided certain conditions are met. These include a strong local community and business ecosystem to establish and support the co-op, relatively good access to financing, and a reasonable level of initial bargaining power against upstream suppliers. Formal recognition of the value created by the co-operative business model can help consumer-owned supermarkets meet the pre-conditions for entry.

Although outside the scope of this report, producer-owned co-operatives could also help address competition issues at the wholesaling level identified in the interim report. By leveraging economies of scale and enhancing collective bargaining power with upstream suppliers, producer-owned co-ops can promote greater competition within the supermarket supply chain.

3 Co-operatives' entry into the care sector

The primary challenges facing Australia's care sector—particularly in regional, rural, and remote areas—are limited consumer choices, persistent workforce shortages, and inadequate infrastructure. These problems are rooted in structural factors such as a lack of diverse organisational models for service delivery, high service delivery costs, sparse populations, and lower household incomes. Together, these conditions reduce the profitability of operating aged and disability care services in these communities, deterring private providers from entering and making it difficult to attract and retain a skilled workforce. As a result, many Australians in these regions experience significant gaps in access to essential care services. While additional government funding and regulatory reforms are critical components of any solution, they may not be sufficient on their own. There is growing recognition of the need for alternative business models that can complement public efforts and better adapt to local conditions. Community-based care co-operatives and worker-owned services represent promising alternatives. By embedding governance and ownership within the community

or workforce, these models can improve responsiveness, increase trust, and strengthen long-term workforce commitment. They also help reduce service delivery costs, improve consumer choices, and lower entry barriers through the mobilisation of local resources, social capital, and shared purpose.

This report provides a conceptual economic analysis of how co-operative ownership structures—specifically community-owned and worker-owned models—can promote greater entry into care markets in underserved regions. Other models, such as producer-owned co-operatives, can also play a role in social care but are outside the scope of this report. We focus on the market-facing aspects of co-operatives: how they affect the decision to enter a market, how markets are shaped, the quantity of care supplied, and the alignment of service provision with broader social welfare. We abstract away from questions of internal organisational efficiency and governance performance, which, while important, fall outside the scope of our analysis. Instead, we aim to clarify the economic mechanisms by which co-operative models can address key structural barriers to entry in the Australian care sector. To that end, we first examine the case of community-owned care co-operatives, followed by an analysis of worker-owned care co-operatives, highlighting how each model shifts incentives relative to conventional for-profit providers and affects service outcomes.

Insufficient entry in the regional care industry

This section uses a simple economic framework to illustrate why care services may fail to enter regional, rural, and remote areas, despite clear community need. The core issue is that private incentives for entry may fall short of the socially optimal level.

Let the local demand for care services be represented by a downward-sloping inverse demand curve, $p(q)$, where q denotes the quantity of care provided (measured in hours), and $p(q)$ is the corresponding price per hour for a given q . The inverse demand curve slopes downward because, holding factors such as service quality, income levels, and individual preferences constant, a higher quantity of care can be sold only at a lower price.

Now consider a profit-maximizing care provider contemplating entry into the region. To establish operations, it must incur a fixed entry cost K , which may include costs for regulatory compliance, land and facilities, and initial setup. Once operational, the provider

must also hire care workers at a market-competitive wage. If it offers wages below w , it risks losing potential staff to other sectors or locations.

After entering the market, the provider chooses how much care to supply to maximize its profit:

$$(p(q) - w)q \tag{1}$$

In this expression, $p(q) - w$ represents the per-unit profit margin, while q is the total quantity of care provided. Let q^{pm} denote the profit-maximizing quantity. The resulting post-entry profit is $p(q^{pm}) - wq^{pm}$. Importantly, both the total service supply q^{pm} and the post-entry profit $p(q^{pm}) - wq^{pm}$ decline if the wage w increases, reflecting the sensitivity of private provision to labour costs.

The insufficient entry problem arises if the post-entry profit is not large enough to cover the fixed entry cost, i.e.,

$$(p(q^{pm}) - w)q^{pm} < K \tag{2}$$

In many regional, rural, and remote communities, this condition holds, even though there is a significant unmet need. This creates a market failure. From a social planner's perspective, care should be provided to all individuals whose willingness to pay meets or exceeds the marginal cost of provision. That is, the efficient supply quantity q^e satisfies $p(q^e) = w$. At this point, every resident willing to pay at least the labour cost of care would be served.

Several factors contribute to this inefficiency:

- High competitive wages: Due to labour shortages or relocation incentives, wages in remote areas can be higher, reducing post-entry profitability,
- Low local income: Demand is suppressed when households cannot afford care services, flattening the demand curve and reducing revenue potential,
- High entry costs: Regulatory compliance, infrastructure requirements, and geographic isolation often raise the cost of establishing a care service.

Community-owned care co-operatives

Suppose a local community is considering whether to establish a care service that is owned and governed by community members, rather than operated by a for-profit provider. In such a model, any profit generated by the service is not distributed to external shareholders. Instead, it is reinvested into the service to benefit the community directly. These reinvestments may include:

- Improving the quality of care through better training and staffing,
- Expanding service availability to meet growing or unmet demand,
- Upgrading infrastructure and facilities to enhance resident well-being,
- Subsidizing fees for low-income or disadvantaged community members.

In other words, profits are shared among the community in non-monetary but socially valuable forms. This distribution mechanism is particularly meaningful in regional, rural, and remote areas of Australia, where access to aged care is often limited and the commercial incentives for private providers are weak.

A crucial feature of community-based aged care is that the majority of service users are also members of the local community. As a result, the community enjoys not just the reinvested profits, but also the consumer surplus from accessing care services—namely, the difference between what individuals are willing to pay and the price they actually pay.

From an economic standpoint, a community-owned care co-operative can be modelled as aiming to maximize the community’s overall welfare rather than pure profit. Its objective function includes both the service’s operating surplus and the consumer surplus generated for its members.

$$(p(q) - w)q + \int_0^q (p(z) - p(q))dz \quad (3)$$

The first term represents the surplus earned by the service itself—revenue minus wages. The second term captures the aggregate consumer surplus, which increases with the quantity of care provided. Comparing this with the objective of a profit-maximizing provider, which only includes the first term, we can immediately see that, for any given service quantity q , the value of the co-operative’s objective function (3) strictly exceeds that of the private provider’s objective (1), due to the added value of consumer surplus.

Entry into the market occurs if the post-entry value of the objective function exceeds the fixed entry cost K . A private provider will not enter the region if 2 holds. For a community-owned co-operative, the entry condition becomes:

$$(p(q) - w)q + \int_0^q (p(z) - p(q))dz = \int_0^q (p(z) - w)dz \geq K \quad (4)$$

This formulation reveals that the community-owned co-operative is more likely to enter than a profit-maximizing provider. It internalizes not only the profit generated by the service, but also the benefits enjoyed by community members as consumers of the care service. That is, whenever both (2) and (4) hold, the community-owned co-operative outperforms the profit-maximizing provider in entry. In practice, the co-op may charge a membership fee to raise sufficient funds to cover the entry cost.

Moreover, the optimal service quantity chosen by the co-operative, denoted q^{CC} , exceeds the privately optimal level q^{pm} , since it accounts for the broader social value of care access. In fact, the co-operative's choice of q aligns with that of a social planner seeking to maximize total welfare in the local care economy, denoted q^e . The objective function in (3) captures the standard measure of total welfare—namely, the sum of consumer surplus and service profit. In this context, however, a social planner might also consider the welfare of care workers employed by the service. Because care workers are assumed to receive the competitive market wage, their aggregate welfare increases with employment levels. At the efficient quantity q^e , it is no longer possible to expand employment without reducing surplus elsewhere in the community. Thus, the co-operative not only better serves consumers and the community, but also supports an efficient and sustainable level of employment in the sector.

In the earlier analysis, the entry cost K was treated as exogenous and fixed across different ownership models. However, in the case of community-owned co-operatives, local responsiveness and embeddedness can effectively reduce the entry cost, making entry more viable. Because co-operatives are governed and supported by local members—who may include service users, workers, and community leaders—they often have better access to local knowledge, social capital, and informal resources. This can translate into cost savings in several ways: securing land or facilities through community partnerships, navigating regulatory

requirements more efficiently, attracting volunteer labour or in-kind contributions, and building trust with potential clients and staff more quickly. As a result, the effective K faced by a community-owned co-operative may be substantially lower than that faced by an external for-profit provider, further tipping the scale in favour of entry. This endogenous reduction in entry barriers highlights another key advantage of community-based models, particularly in rural and remote areas where conventional providers often struggle to operate sustainably.

Worker-owned care co-operatives

When a care service is owned by its workers, the incentive structure fundamentally changes. Care workers not only earn wages but also share in the service's profits. As a result, the service no longer seeks to maximize profit for external owners but instead seeks to maximize overall benefit for its worker-owners. This shift in objectives has important implications for both market entry and the quantity of care supplied.

In this case, the worker-owned co-operative's objective function comprises two components. The first is the same as in the profit-maximizing scenario—namely, the operating surplus or profit, given by the expression in (1). This surplus, instead of accruing to shareholders, is distributed among the worker-owners. The second component is the wage income earned by the workers, which equals the product of the total care supplied and the per-hour wage, wq . Thus, the total value accruing to workers is:

$$(p(q) - w)q + wq = p(q)q \quad (5)$$

This expression represents the total revenue generated by the service and, from the worker co-operative's perspective, serves as the new objective function to be maximized.

Let q^{WC} denote the quantity that maximizes the worker-owned co-operative's objective in (5). Since, for any given quantity q , expression (5) is strictly greater than expression (1), it follows that the maximum attainable post-entry value under the worker-owned model exceeds that under the profit-maximizing model. Accordingly, the worker-owned co-operative will

enter the market if the total revenue at $p(q^{WC})q^{WC}$ exceeds the fixed entry cost K :

$$p(q^{WC})q^{WC} \geq K \quad (6)$$

The worker-owned care co-operative outperforms the profit-maximizing care provider if both conditions (2) and (6) hold. In summary, the worker-owned model is more likely to enter than a traditional profit-maximizing provider, particularly in markets where the commercial case for entry is marginal.

Moreover, the worker-owned co-operative typically chooses to supply a greater quantity of care than the profit-maximizing provider, i.e., $q^{WC} > q^{PM}$. This outcome arises because, unlike the profit-maximizing firm, the worker-owned co-operative does not treat wages as a cost to be minimized. Instead, worker compensation is internalized as part of the objective, which naturally leads to greater employment and service provision.

What's interesting is that under the worker-owned model, the supply may or may not be greater than the efficient level. In particular, it can be the case that $q^{WC} > q^e$. This is because under this model, the workers' wage is no longer viewed as a cost in the objective function.

However, a subtle and important insight emerges when comparing the worker-owned solution q^{WC} with the socially efficient level of care provision, q^e , defined in the last section, which equates marginal willingness to pay with the marginal cost of labour: $p(q^e) = w$. Unlike a social planner who balances consumer surplus, the care service's profit, and care employees' wage income, a worker-owned co-operative fails to weigh the benefit of increased employment and wage income against the potential loss in consumer surplus. As a result, despite its ability to promote entry, a worker-owned co-operative can lead to either under- or overprovision of care relative to the efficient benchmark.

If demand is relatively inelastic, meaning that consumers are not sensitive to price changes, the co-operative may supply less than the efficient quantity, as expanding output would significantly reduce the price and, in turn, consumer surplus. Conversely, if demand is elastic, the co-operative may supply more than the efficient quantity, since additional output raises total wage payments without causing a substantial loss in consumer surplus.

In contrast to both the private and community-owned models, the worker-owned co-operative places greater weight on employment benefits, which are fully internalized. While this can lead to greater service availability in underserved regions, it may also result in service levels that deviate from the efficient allocation, depending on local demand conditions and wage levels. One important aspect of worker-owned care co-operatives is that many of their members previously worked for large, hierarchically structured care providers, where they often felt undervalued and saw a decline in care quality. Without the opportunity to work under an alternative business model—such as a worker-owned co-operative—these workers are more likely to leave the care sector altogether. The establishment of worker-owned co-operatives not only helps retain these skilled workers but also allows them to realize the intrinsic value they place on delivering high-quality care.

3.1 Discussion

We show that co-operative ownership models—both community-owned and worker-owned—can play a crucial role in addressing persistent entry failures in Australia’s care sector, particularly in regional, rural, and remote areas by entering and shaping a market that includes diverse organisational models. Using a simple economic framework, we illustrate how these models shift service providers’ objectives from profit maximization to broader social value creation, increasing the likelihood of market entry and expanding the quantity of care supplied.

Community-owned co-operatives promote entry not only by internalizing consumer surplus into their objectives but also by leveraging local trust, governance, and knowledge (i.e., *mutual mindset*) to reduce effective entry costs. Their ability to mobilize community assets and reinvest surpluses into service quality and accessibility makes them particularly well-suited to thin markets. Policy support through targeted funding, regulatory streamlining, and capacity-building initiatives (including education on co-operative organisational models and development of co-operative shared services models) could help scale this model and improve equity and sustainability in underserved regions.

Worker-owned co-operatives also offer distinct advantages. By aligning service provision with worker welfare and offering ownership stakes, they can support workforce recruitment

and retention—two of the most pressing challenges in remote care delivery. However, because worker-owned models may result in either under- or oversupply relative to the efficient benchmark, complementary policy tools such as pricing guidelines or planning frameworks may be needed to align worker incentives with overall social efficiency.

A diversity of ownership and business models in providing care services is essential, particularly in regional, rural, and remote areas where traditional service delivery often fails. Co-operatives offer sustainable, community-driven alternatives in these “thin markets,” yet Australia lags behind other countries in adopting such models in the care sector. Promising examples like Nundah Community Enterprises Co-operative and the Supported Independent Living Co-operative (SILC) show the potential for diverse application and scaling of these approaches to build a more inclusive and resilient care economy, including through utilising producer (i.e. provider)-owned models of co-op that are outside the scope of this report.

Overall, co-operative care models, as a viable and sustainable organisational model, offer a promising complement to existing public and private approaches. By embedding care delivery in the communities and workforces they serve, they provide a flexible, locally responsive, and socially grounded alternative that deserves greater policy attention and support.

4 Upstream co-operatives counter the monopsony power

In Australia, several key supply chains exhibit strong downstream buyer power over upstream suppliers. In the retail sector, for instance, Coles and Woolworths together command substantial national market power in purchasing goods from farmers, food processors, and manufacturers. In dairy and livestock supply chains, large processors, such as Saputo, Fonterra, and JBS, can often dictate contract terms and payment schedules to farmers. Similar bargaining power imbalances can be observed in the markets for grains, horticulture, and seafood, as well as in other sectors such as healthcare procurement, insurance, and parts of the energy market, where a small number of large buyers negotiate with numerous small suppliers. These structural asymmetries often result in pricing and trading conditions that are tilted in favour of the downstream firms.

Monopsony power

Economists describe markets like these as monopsonies, where a single buyer controls most of the purchasing power, or oligopsonies, where only a small number of buyers control most of the purchasing power. The concept traces back to Joan Robinson's seminal work *The Economics of Imperfect Competition* (1933). For simplicity, we will refer to both situations as monopsony markets, since the economic logic of oligopsony is a straightforward extension of the monopsony case. Just as a monopolist sets prices for consumers by facing the entire market demand curve, a monopsonist sets the terms of trade for suppliers by facing the entire market supply curve. Because this supply curve is upward sloping, namely, higher prices draw more suppliers into the market, a monopsonist recognises that purchasing more inputs requires offering a higher price.

Crucially, the monopsony firm understands its strategic influence on the input price, just as a monopolist understands its impact on the output price. When a monopsony firm seeks to expand purchases by raising the supply price, that higher supply price must be paid not only to attract the marginal supplier but also to all inframarginal suppliers whom it can already sell to at the initial supply price. As a result, the monopsonist's marginal expenditure on inputs exceeds the market's marginal cost of supply. If the firm attempted to raise prices selectively only for marginal suppliers, inframarginal suppliers would quickly demand the same terms, making such price discrimination unsustainable. As a result, the monopsonist's marginal cost of purchasing inputs is inflated, even though the price paid to suppliers remains below the competitive level.

This wedge between the monopsonist's private incentives and social efficiency leads to under-purchasing of inputs. The monopsony firm buys less from upstream suppliers than would occur in a competitive market, and the price it pays is lower than the efficient, competitive input price. Consequently, upstream producers earn too little to sustain investment and/or innovation in production, and thin profit margins can also trigger a range of moral hazard behaviours, including compromised labour conditions, reduced product quality, and weakened environmental management. At the same time, because too few goods reach the retail market, the resulting supply shortage in the retail market will ultimately push up final

consumer prices. This creates a paradoxical yet well-documented outcome: in monopsony markets, low supply prices coexist with low supply volumes, harming both producers and consumers.

Upstream collective bargaining

The monopsony result described above challenges the standard intuition in antitrust economics that a lower supply price should lead to lower final prices and higher output. This paradox highlights why monopsony power was long treated as a niche topic in labour economics and only recently began to attract serious attention from industrial economists and competition regulators. When designing policy tools to correct market failures, a simple but important principle applies: if a market is already distorted, then a conduct that appears distortive in isolation may, in fact, improve efficiency. The type of “distortive” conduct examined here is the collective bargaining or joint marketing and pricing behaviour of upstream suppliers. Under current competition law, such behaviour would normally be prohibited as a form of price fixing, supply restriction, or bid rigging.

These prohibitions are based on the economic premise that firms hold market power over their buyers. However, in monopsonistic markets, market power toward buyers is precisely what upstream suppliers lack. It is therefore worth reconsidering how the “collusive” behaviour of upstream producers affects efficiency and consumer welfare when the downstream market is characterized by monopsony or oligopsony power. Sound competition policy should rest on an accurate understanding of market structure, particularly the distribution of bargaining power between upstream and downstream firms, and a logical analysis of the economic consequences that follow. The standard arguments for prohibiting joint marketing and pricing do not apply to the monopsonistic market.

What happens if upstream suppliers are permitted to jointly determine their marketing and pricing strategies and bargain collectively with a dominant downstream buyer? Focusing on the monopsony case, though the reasoning extends naturally to oligopsony, consolidation among upstream firms effectively reallocates bargaining power between the upstream and downstream firms. The downstream firm now faces fewer alternatives if negotiations break down, and upstream suppliers gain greater leverage in setting terms of trade.

With bargaining power rebalanced, the downstream buyer can no longer dictate purchases along the upward-sloping supply curve. Instead, both parties must negotiate an agreement that divides the surplus according to their relative bargaining strengths. When these interactions are repeated over time, it is reasonable to expect the parties to converge on a joint profit-maximizing supply level and share the resulting surplus. At a minimum, upstream suppliers are likely to secure higher returns than they would when negotiating with the dominant buyer independently, encouraging them to expand production. The resulting increase in aggregate supply raises overall supply chain efficiency and benefits consumers by improving output and fostering more sustainable trading conditions.

Producer co-operatives improve collective bargaining

A producer co-operative (co-op) is a business organization owned and democratically controlled by producers, such as farmers, fishers, or small-scale manufacturers, who unite to improve their collective market position. Rather than competing as individual sellers, members pool their products and resources so that the co-op can coordinate marketing, processing, storage, and distribution on their behalf. The co-op's profits are typically returned to members in proportion to their contributions or sales, rather than distributed to external investors. Well-known examples include agricultural co-ops such as Norco in Australia and Fonterra in New Zealand, which enable farmers to participate more effectively in processing and marketing chains that large downstream buyers would otherwise dominate.

By acting collectively, small producers can often generate substantial efficiency gains. These may arise from shared infrastructure and equipment, reduced transaction costs, and improved access to finance and insurance. Co-ops also help members build and sustain trusted brands that individual producers would struggle to establish on their own, thereby enhancing their ability to market their products and achieve more sustainable economic benefits (See more details from ?). However, one of the most significant and often overlooked sources of efficiency improvement stems from enhanced bargaining power vis-à-vis dominant downstream buyers. In this sense, producer co-ops can serve as a natural upstream counterpart to, and a potential corrective for, the monopsony problem outlined in the previous section. This corrective effect, however, depends critically on whether the co-ops are per-

mitted to negotiate collectively on prices and supply conditions without being constrained by competition law.

Under the current legal framework, joint pricing or marketing by independent producers may be interpreted as cartel-like behaviour, even when such coordination occurs within a co-operative structure. Yet, the economic rationale behind cartel prohibition does not apply in monopsonistic settings. Cartels are harmful when firms with market power collude to extract rents from consumers by raising prices and restricting output. Producer co-ops, by contrast, typically consist of small suppliers with negligible market power who face a small number of powerful buyers. In such cases, allowing producers to determine prices and market conditions jointly can restore a more balanced bargaining relationship, raise upstream prices toward competitive levels, and ultimately benefit consumers through greater supply chain efficiency and more stable supply, entirely consistent with the antitrust principle.

There are also important long-term benefits from enabling collective bargaining among upstream producers by legalising joint marketing and pricing activities in wholesale markets. Even in sectors where downstream buyer power is moderate, stronger collective bargaining can increase upstream profitability and stimulate new investment. Higher and more stable producer returns encourage productivity-enhancing investments, such as technology adoption, product innovation, and quality improvements, and attract new entrants into the sector. Over time, these dynamic effects lead to greater product variety, higher quality, and potentially lower prices for consumers. Thus, enabling producer co-ops to engage in coordinated marketing and pricing is not a relaxation of competition policy but rather a low-cost, high-impact reform to reduce red tape, correct a structural imbalance, and enhance productivity across key supply chains (See more details from ?).

Exemptions for producer co-ops

In Australia, producer co-ops play an important role in supporting small and medium producers in markets increasingly dominated by a few powerful buyers. Yet under the current Competition and Consumer Act (CCA), these co-ops lack the kind of clear legal exemption that the Capper–Volstead Act provides to farmers in the United States (similar exemptions are also available in EU and UK). The Capper–Volstead framework recognises that

collective marketing and joint price setting among agricultural producers are not inherently anti-competitive when they serve to counterbalance monopsony power downstream. By contrast, Australian producer co-ops must seek case-by-case authorisation from the ACCC to coordinate on prices or marketing, a process that is uncertain, time-consuming, and costly. Granting a standing exemption, subject to basic transparency and governance safeguards, would give producers a stronger institutional footing to cooperate legitimately and improve their bargaining position against large retailers, processors, and exporters.

Current competition law assessments often rely on producer revenue or turnover as a proxy for market power, but this measure is ill-suited in markets characterized by buyer concentration. A small group of dominant buyers can still exercise monopsony power even when individual producers have high revenues simply because they must sell into a thin and highly consolidated market. Revenue reflects the size of output, not the ability to influence terms in the wholesale market. When the main competitive imbalance arises from buyer dominance, focusing on producers' revenues risks misidentifying where market power truly lies. An appropriate lens is the relative bargaining position between upstream suppliers and downstream buyers rather than the upstream suppliers' absolute size in the upstream sector.

Restricting exemptions to products marketed under a co-op's own brand also misses the policy's core economic logic. Monopsony power operates through buyer control over input prices, not product branding. Whether producer co-op members sell under a cooperative label or under an independent label, the underlying asymmetry remains the same: fragmented producers face concentrated buyers. Therefore, exemptions should extend to all coordinated sales by a registered producer co-op, regardless of branding, provided the co-op is genuinely producer-owned, and its members have little power to bargain independently with the buyer. Limiting protection to co-op sales would undermine the potential efficiency and equity gains.

Introducing a Capper-Volstead-style exemption in Australia would be a low-cost, high-impact reform to cut red tape and enhance productivity in the agricultural and resource sectors. It would provide legal certainty to producer co-ops, encourage investment in collective infrastructure such as storage and logistics, and improve producers' ability to negotiate fair contracts. By empowering small producers to act collectively, the policy would strengthen competition against dominant downstream firms, support rural economies, and align Aus-

tralia’s framework with international best practice dealing with co-ops in antitrust. In short, a carefully crafted exemption allowing producer co-ops to engage in joint marketing and pricing in monopsony markets would not undermine competition policy; instead, it would modernize the framework to account for the contemporary realities of concentrated buyer power and increasingly consolidated supply chains.

Conclusion

This report examines the role of co-operatives in addressing structural failures in Australian markets, with a particular focus on retail, care, and upstream production sectors. Across these settings, a common pattern emerges: conventional profit-maximizing firms frequently under-enter or under-supply markets characterised by high fixed costs, thin demand, labour shortages, or strong bargaining power asymmetries. These failures are most acute in regional, rural, and remote areas, where limited competition and constrained service provision undermine inclusion, efficiency, and long-run welfare.

The central conclusion of the report is that co-operative ownership models: consumer-owned, community-owned, worker-owned, and producer-owned—systematically alter entry incentives and market outcomes by broadening the objective function of firms beyond pure profit maximisation. By internalising consumer surplus, worker welfare, or producer returns, co-operatives are able to generate and mobilise economic value that remains invisible to investor-owned firms. This allows them to enter and sustainably operate in markets that would otherwise remain underserved, while often delivering outcomes closer to socially efficient benchmarks.

A few recommendations emerge from our analysis. Policymakers should recognise that no single ownership model is universally optimal. A diverse ecosystem of investor-owned firms, co-operatives, and hybrid models is essential for resilient, inclusive, and competitive markets: particularly in regions where conventional market solutions. Australia should consider introducing a standing exemption or safe-harbour framework for genuine producer co-operatives engaging in joint marketing and pricing in markets characterised by buyer power. Such reform would modernise competition policy, reduce regulatory uncertainty, and strengthen

supply-chain efficiency. The co-operatives should not be viewed as marginal or exceptional organisational forms. Instead, they represent economically grounded, institutionally robust solutions to persistent market failures, deserving a central place in Australia’s competition, care, and regional development policy frameworks.

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