

# ACCC Groceries Inquiry

## Coles Supermarkets' Response to Issues Paper

### 1 Executive Summary

Coles welcomes the opportunity to contribute to the ACCC's Inquiry into markets for the supply of groceries (the *Inquiry*).

Coles recognises the difficult impacts that cost of living pressures are currently having on many families and individuals. The last few years have seen increases in a range of essential living expenses - from mortgage and rental payments, electricity and fuel prices, to costs of education, medical care, insurance, groceries and other household items. These increases are all putting pressure on household budgets.

Coles understands the community focus on supermarkets, which play an integral role in the everyday lives of Australian consumers. Recent years have seen Australian grocery prices (among other goods and services) impacted by a series of concurrent and unprecedented cost drivers and supply shocks. This included a surge in global commodity prices, shipping costs, oil prices and fertiliser prices post COVID-19 as well as supply chain disruption due to conflict, natural disasters and labour shortages. In December 2023, Australian food price inflation had increased by 18.96% as compared to December 2019.<sup>1</sup> While these inflationary pressures have undoubtedly impacted household budgets, food price inflation in Australia was lower than that experienced in many other OECD countries over the same time frame<sup>2</sup> and has continued to ease over the last two quarters. Although the Inquiry must necessarily consider the impacts of these cost and supply shocks on recent grocery prices, a focus on long term competitive dynamics in the sector is also critical.

The ACCC last examined the grocery industry in detail in 2008. Like the current Inquiry, the 2008 inquiry took place in an environment of food price inflation and concerns about a perceived widening in the gap between farmgate and retail prices.<sup>3</sup> After a detailed 8 month inquiry, the ACCC found that grocery retailing in Australia was '*workably competitive*', that new players such as ALDI with '*differentiated business models*' posed a competitive threat to the major supermarket chains, and that there was '*nothing fundamentally wrong with the grocery supply chain*', where farmgate pricing was generally set by supply and demand in competitive markets.<sup>4</sup>

It is instructive to consider these findings against the significant changes in the Australian grocery industry which have occurred since 2008, including:

- the rapid expansion of ALDI (growing from 166 stores in 2008 to over 593 stores today);<sup>5</sup>
- the entry of other overseas grocery retailers with differentiated business models such as Costco in 2009 (now with 15 member warehouses across Australia and more than 1.5 million paid members)<sup>6</sup> and Amazon in 2017 (which now sells thousands of grocery items online);
- the reinvigoration of the Coles business under Wesfarmers which reversed years of declining customer sales growth and which in turn triggered periods of significant investment and renewal in at least two of Coles' major competitors, Woolworths<sup>7</sup> and Metcash<sup>8</sup>;

<sup>1</sup> ABS Consumer Price Index.

<sup>2</sup> 29.5% in the UK, 26.2% in the Euro area, 25.4% in the US, 24.9% in NZ and 23.0% in Canada.

<sup>3</sup> ACCC, *Report of the ACCC inquiry into the competitiveness of retail prices for standard groceries*, July 2008, page xiii.

<sup>4</sup> ACCC, *Report of the ACCC inquiry into the competitiveness of retail prices for standard groceries*, July 2008, page xiii.

<sup>5</sup> ALDI, *Public Submission to the ACCC Grocery Inquiry*, 11 March 2008, page 1.

<sup>6</sup> The Australian Business Review, *Costco a new retail force as Australian sales race towards \$5bn*, 1 January 2024

<https://www.theaustralian.com.au/business/retail/costco-a-new-retail-force-as-australian-sales-race-towards-5bn/news-story/8b4b6f83f501104643d6a335db52628a>.

<sup>7</sup> News.com.au, *Inside Woolies' fancy new stores*, 26 August 2016 <https://www.news.com.au/finance/business/retail/inside-woolies-fancy-new-stores/news-story/048f6c6f7944da3f3c0af61a8f8507ed>; see also Australian Financial Review, *Woolworths' culture change drives turnaround*, 28 November 2017,

<https://www.afr.com/companies/retail/woolworths-culture-change-drives-turnaround-20171128-gzucdz#:~:text=After%20five%20quarters%20of%20soft,and%20improving%20service%20in%20stores.>

<sup>8</sup> Metcash, 2015 AGM Chairman's Address, 27 August 2015, [https://mars-metcdn-](https://mars-metcdn-com.global.ssl.fastly.net/content/uploads/sites/101/2017/04/18105135/2015-August-27-Metcash-2015-Annual-General-Meeting.pdf)

[com.global.ssl.fastly.net/content/uploads/sites/101/2017/04/18105135/2015-August-27-Metcash-2015-Annual-General-Meeting.pdf](https://mars-metcdn-com.global.ssl.fastly.net/content/uploads/sites/101/2017/04/18105135/2015-August-27-Metcash-2015-Annual-General-Meeting.pdf); Inside Retail, *Metcash makes inroads with turnaround plan*, 29 September 2015, <https://insideretail.com.au/news/metcash-makes-inroads-with-turnaround-plan-201509>.

- changes in the shopping habits of Australian consumers, including more frequent and smaller shops and a greater preference for "cross-shopping" across retailers and purchasing online; and
- substantial investments by grocery retailers to improve their online offering and omnichannel experience, including Amazon opening six customer fulfilment centres<sup>9</sup> (**CFCs**) from 2018 to 2023,<sup>10</sup> Woolworths building 7 CFCs since 2014,<sup>11</sup> Coles currently constructing two automated CFCs through its partnership with Ocado, and Metcash enabling online delivery through partnerships with Uber Eats and DoorDash.<sup>12</sup>

These substantial investments in supermarket store networks, supply chains, and the core aspects of the customer proposition (price, quality, range, service and location) are consistent with vigorous competitive responses to both changing preferences on the part of customers and to innovations introduced by other, competing grocery retailers. They are also consistent with grocery retailing being a highly dynamic industry, one that creates opportunities for new forms of competition between existing participants and from new participants.

Since the 2008 ACCC inquiry, the interrelationship between supermarkets and Australian farmers and primary production industries has remained an ongoing regulatory and political focus.<sup>13</sup> However, the ACCC has found on a number of occasions that some of the concerns being raised about supermarket behaviour were not ultimately supported by evidence. For example, in the 2018 Dairy Inquiry, the ACCC recognised that \$1 per litre private label milk was unlikely to have a direct impact on farmgate prices because private label milk contracts enabled processors to pass-through movements in farmgate prices to supermarkets.<sup>14</sup> Coles has invested heavily over the last decade to improve its relationships with farmers. One highly effective strategy has been the transformation of Coles' procurement model in categories such as meat and dairy where Coles has moved to direct contracting with some producers. These models have created greater price and supply certainty for farmers and primary producers. Coles considers that further reforms could be explored in the perishable goods sector to improve pricing transparency for producers and enable them to better plan and invest in their businesses for the longer term.

Supermarket retailing is a high volume, high cost, low margin business with considerable operational complexity, particularly in Australia which has one of the smallest but most geographically dispersed populations in the world and where volatile weather and seasonal impacts are becoming more pronounced. Supermarkets must offer strong value to their customers through competitive retail prices. Robust cost price negotiations with suppliers help to keep retail prices low and can also lead to suppliers developing more efficient supply chains. However, negotiating excessively low cost prices can create pressure on suppliers who need to achieve a sufficient return to invest and grow their businesses sustainably. Investing in stores, distribution centres, online platforms and new technology is critical, but spending must also be balanced against programs to cut costs and drive efficiencies. All of these factors must be carefully balanced to deliver a competitive supermarket industry that is sustainable and efficient in the longer term.

While Coles considers competition and consumer outcomes in grocery retailing to be generally strong, and improving over time, Coles welcomes an open discussion about areas for additional improvement. Coles notes the ACCC's caution in 2008 that the detriment of proposed recommendations must be considered carefully, including the potential for recommendations to increase operating costs, reduce efficiencies or even increase grocery prices.<sup>15</sup> Coles agrees with these observations and is strongly of the view that recommendations to enhance competitive and consumer outcomes must be grounded in sound economic logic.

In the context of an inquiry into many aspects of supermarket operations, Coles wants to acknowledge upfront that it does not always get things right. Coles recently apologised and offered full purchase price refunds and substantial additional promotional discounts on some items in the Dropped & Locked campaign where the wrong price was charged. Following decisions by the Coles Grocery Code Arbiter, and through our own internal reviews of decisions, we have provided compensation to, or adjusted trading arrangements with, some suppliers. Where we make mistakes, we seek to own them, to rectify any customer or supplier concerns, and – equally importantly – to improve our internal processes so these issues do not arise again.

Competition in grocery retailing has intensified since 2008 and is continuing to grow. While the major supermarket chains are only part of the competitive landscape, they play an important role in the Australian economy which should not be

<sup>9</sup> Dedicated fulfilment centres for online orders.

<sup>10</sup> WA today, *Amazon builds new mega warehouse as shoppers seek out larger items*, 10 April 2024.

[https://www.watoday.com.au/business/companies/amazon-builds-new-mega-warehouse-as-shoppers-seek-out-larger-items-20240408-p5fi7j.html?ref=rss&utm\\_medium=rss&utm\\_source=rss\\_feed](https://www.watoday.com.au/business/companies/amazon-builds-new-mega-warehouse-as-shoppers-seek-out-larger-items-20240408-p5fi7j.html?ref=rss&utm_medium=rss&utm_source=rss_feed); Amazon, *Take a behind the scenes look at Amazon Australia's robotics fulfilment centre in Western Sydney*, 25 July 2023 <<https://www.aboutamazon.com.au/news/workplace/take-a-behind-the-scenes-look-at-amazon-australias-robotics-fulfilment-centre-in-western-sydney>>.

<sup>11</sup> Woolworths, *2023 Annual Report*, August 2023, <<https://www.woolworthsgroup.com.au/content/dam/www/investors/reports/2023/f23-full-year/Woolworths%20Group%202023%20Annual%20Report.pdf>>, page 15; The Sydney Morning Herald, *Woolworths opens first online-only 'dark' store*, 11 August 2014 <<https://www.smh.com.au/business/companies/woolworths-opens-first-online-only-dark-store-20140811-1021h0.html>>.

<sup>12</sup> Metcash, *2023 Annual Report*, page 14.

<sup>13</sup> See for example the ACCC's 2018 Dairy Inquiry, the ACCC's 2020 Perishable Goods Inquiry.

<sup>14</sup> ACCC, *Dairy inquiry – final report*, April 2018, pages xiii, 134.

<sup>15</sup> ACCC, *Report of the ACCC inquiry into the competitiveness of retail prices for standard groceries*, July 2008, page 6.

underestimated. Coles employs over 120,000 team members nationally, including in regional and remote communities, paying over \$5.1 billion in salaries, wages and benefits in FY23 alone. In FY23, Coles paid \$1.1 billion in tax contributions to Australian federal and state governments and paid \$883 million in dividends to thousands of retail and institutional investors. With an extensive network of stores and distribution centres, national supermarkets also provide resilience in the supply chain and we have worked closely with governments during national emergencies such as the 2019-2020 bushfires and the COVID-19 pandemic to ensure that customers could continue to safely access groceries.

Coles looks forward to working constructively with the ACCC and other stakeholders on this important Inquiry, including listening to and contributing to proposals for reform which can enhance competition and consumer outcomes in this important sector. More generally, Coles is committed to continuous improvement in its own business in order to deliver on its goal of helping all Australians eat and live better every day.

This submission is structured as follows:

- Section 2 provides an overview of Coles' current operations in Australia;
- Section 3 addresses some common criticisms about the Australian grocery industry;
- Section 4 provides an overview of the major changes in grocery retailing since the ACCC's 2008 inquiry;
- Section 5 considers Coles' initial suggestions for areas of improvement or reform, for consideration by the ACCC; and
- Section 6 provides a conclusion to this submission.

## 2 About Coles

Coles is one of Australia's leading retailers with 1,800 retail stores nationally, including over 840 supermarkets and 960 liquor stores trading under the Liquorland, First Choice Liquor Market and Vintage Cellars brands. Coles' online platform ('Coles Online') offers customers the ability to shop for their groceries online and obtain home delivery or 'Click&Collect' at their nominated store.

### 2.1 Team members

Coles proudly employs more than 120,000 team members who reflect the diverse communities in which Coles operates, including more than 4,000 Indigenous Australians. In FY23, Coles spent \$5.1 billion on salaries, wages and benefits for its team members. Employee costs have increased by almost \$600 million across a five-year period, driven by employing more team members and increasing wage costs.

### 2.2 Suppliers

Coles engages with more than 8,000 suppliers of goods and services and last year paid them a combined \$32.3 billion. Many of Coles' supplier relationships are longstanding, with some lasting more than 50 years in fresh produce and more than 20 years in meat, dairy and grocery.

Coles purchases directly from over 2,500 producers. This includes acquiring milk directly from dairy farmers for Coles Own Brand milk and Coles Own Brand cheese and nearly all of Coles' beef directly from farmers through forward contracting of feedlot and pasture raised cattle.

In 2012, Coles introduced its Australia First Sourcing Policy, whereby Coles commits to purchase local produce wherever possible. In FY23 96% of fresh produce, by volume, was sourced from Australian suppliers and all Coles Own Brand fresh pork, chicken, turkey, duck, beef, lamb, milk and eggs were Australian grown.

Coles launched its Nurture Fund in 2015 which funds innovation projects by Australian farmers and producers. Since 2015, Coles has offered more than \$33 million in financial support to almost 100 small and medium sized businesses. In 2023, Coles awarded \$3.1 million in Nurture Fund grants to support 7 new projects including a plan to develop a carbon neutral banana range, a system to divert packaged food waste from landfill and a new farrowing system to improve animal welfare standards in pork production.

### 2.3 Sustainability strategy

Coles' corporate strategy aims to create a more sustainable future through strategic activities aligned to four key pillars:

- **Energy and Emissions:** Coles is reducing energy emissions across its stores and supply chain and aims to deliver net zero emissions by 2050 through reducing scope 1, 2 and 3 emissions. In furtherance of its target, in 2023 Coles announced a three-year energy alliance with Origin to install 20 megawatts of solar panels on top of 100 stores and to install batteries at one third of Coles' stores to capture and store excess electricity. In 2023, Coles also launched its commitment to reduce scope 3 emissions by working with more than 75% of its suppliers, by spend, to help them set emissions reductions targets by the end of FY27. Coles has reduced combined scope 1 and 2 emissions by 33.5% since FY20.
- **Waste:** Coles is committed to minimising food waste, both upstream and downstream in its value chain, and to identifying and supporting initiatives to reduce waste to landfill. Coles has been providing unsold, edible food to food rescue organisations SecondBite and Foodbank since 2011 and 2003, respectively. Coles provided the equivalent of 40.1 million meals to SecondBite and Foodbank in FY23. In FY23, Coles diverted 84% of the Group's solid waste from landfill through expanding and increasing resource recovery options in stores and distribution centres, as well as through its relationships with industry and recycling providers, such as its partnership with Cleanaway. Coles' 'I'mPerfect' range of fruit and vegetables supports its growers to use more of their crops and helps to reduce food waste, with more than 20,000 tonnes of I'm Perfect fruit and vegetables sold in FY23.
- **Packaging:** Coles is focused on reducing unnecessary packaging and making it easier for customers to recycle. Coles developed its own R<sup>3</sup> Packaging Framework for Coles Own Brand products based on the three pillars of Redesign, Recycle and Reimagine to drive its sustainable packaging agenda. Coles has made good progress including through reducing plastic in Coles Own Brand bottles, removing the plastic opening on Coles Own Brand tissue boxes, launching a three-year partnership with Planet Ark to work on a range of waste reduction and recycling initiatives, and transitioning Coles' pre-packaged deli sliced meats to trays made from recycled plastic and renewable sources. Whilst the collapse of the REDcycle in-store soft plastics recycling program in November 2022 was disappointing, Coles has been working as part of a Soft Plastics Taskforce with Government and Industry towards the reintroduction of soft plastics recycling for Australian consumers and has released a Roadmap to Restart, outlining the steps needed to launch a new supermarket soft plastics collection scheme.

- **Sourcing and Farming:** Coles is committed to supporting its supply chain to deliver sustainable agriculture outcomes, maintaining its comprehensive responsible sourcing program, and protecting nature biodiversity and animal welfare. In FY23, Coles continued to expand its Ethical Sourcing program as part of its commitment to respecting human rights throughout its own business and operations, as well as for the people within its supply chains. In FY23, Coles completed an intensive assessment of commodities with the highest potential for environmental impacts (such as meat, eggs and dairy) in an effort to enhance its existing Responsible Sourcing Program. Coles was recognised as a trailblazer at the Marine Stewardship Council's 2023 Sustainable Seafood Awards for being the first and only Australian retailer with MSC Chain of Custody certification for seafood sold at Coles deli counters. In its endeavours to support Australian producers, Coles directly sourced milk from 101 dairy farms across Australia in FY23 to produce several varieties of Coles Own Brand milk and cheese.

## 2.4 Community

Coles is committed to working with stakeholders to drive positive change focusing on fostering belonging, gender equity, accessibility, pride (LGBTQI+), and Indigenous engagement. Coles provides significant financial assistance and in-kind donations to national, state and local community partners and in 2023, Coles was ranked number one for community contribution by an Australian company in the Giving Large corporate philanthropy report for the fourth consecutive year, measured as a percentage of pre-tax profit over a 3-year period.

### 3. Common criticisms of the Australian Grocery Industry

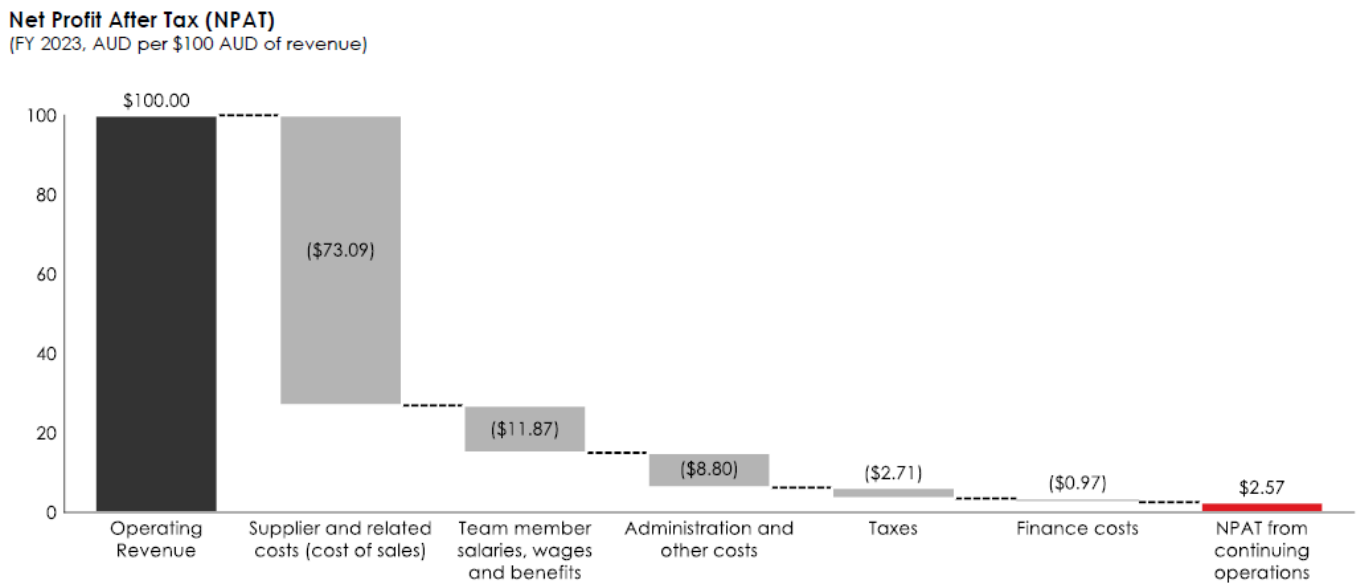
Coles supports an evidence-based review into competition in grocery retailing. It is therefore important to address upfront some of the common criticisms about grocery retailing to ensure that there is an appropriate foundation for an analysis of the competitive dynamics and the many changes that have occurred since the 2008 ACCC inquiry.

#### 3.1 Profitability

##### (a) Corporate profit margins

The supermarket sector is a high volume, high cost, low margin sector. In FY23, Coles achieved operating revenues of over \$40 billion, but its net profit after tax (NPAT) was just over \$1 billion or 2.57%. Put another way, for every \$100 of operating revenue earned by Coles in FY23, it made NPAT of \$2.57. This is set out in **Figure 1** below.

Figure 1: Coles' Net Profit After Tax bridge (illustrative)



Source: Coles Annual Report FY23

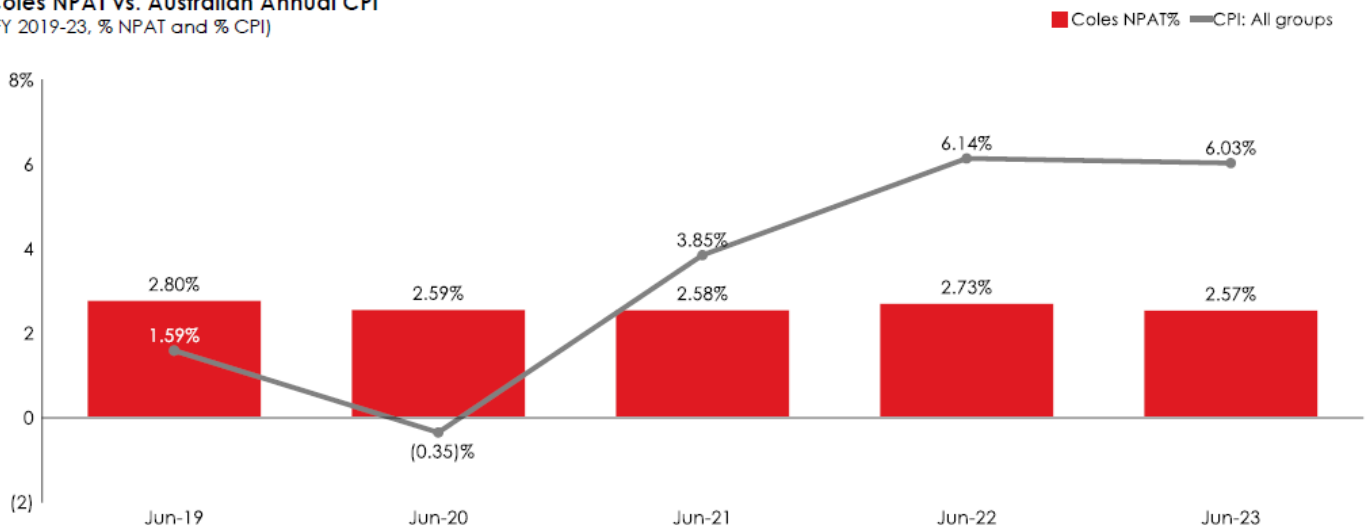
The waterfall of Coles' operating revenue to NPAT illustrates that low margins are a result of the cost structure of a national grocery operation. For every \$100 of operating revenue in FY23:

- \$73.09 was the cost to purchase and transport products to stores. The vast majority of this is cost of goods sold (COGS);
- \$11.87 was the cost of salaries, wages and benefits for Coles' 120,000 team members;
- \$8.80 was administrative costs, in particular property costs and depreciation/amortisation;
- \$2.71 was federal and state government taxes; and
- \$0.97 was interest on debt and lease financing costs.

As set out in **Figure 2** below, Coles' NPAT as a percentage of operating revenue has remained relatively stable in the last five years, with only minor variations year on year.

Figure 2: Coles Net Profit After Tax vs Consumer Price Index: FY19 to FY23

**Coles NPAT vs. Australian Annual CPI**  
(FY 2019-23, % NPAT and % CPI)



Note: As Coles NPAT data is available for Financial years only, year-to CPI change is reported for the June quarter of each year  
Source: Coles Annual Reports FY19-FY23; ABS Consumer Price Index, 2019-23

Comparisons are often made of Coles' EBIT to that of overseas retailers. While comparisons of EBIT between businesses in a single jurisdiction may provide useful insights, NPAT provides a more useful comparison for businesses operating between jurisdictions because:

- NPAT is an absolute profit calculation, which considers all income and costs associated with running a business. It is defined in international accounting standards and is consistently reported across geographies and periods.
- In contrast, EBIT, by definition, excludes key cost components (interest and taxes). These can vary significantly between jurisdictions and can result in substantial differences in the actual earnings of a company.
- Generally, EBIT will only include a portion of the lease costs associated with operations. Under the leasing accounting standard (AASB16/IFRS16), operating lease expenses are now recognised on the balance sheet with lease expenses being split between depreciation (above EBIT) and financing costs (below EBIT). Differences in store portfolio in terms of ownership versus leasing can therefore impact comparisons between companies.
- NPAT is also the basis for dividend payments. In FY23, 80% of Coles' NPAT was distributed to more than 440,000 shareholders, most of whom are small, non-institutional investors. Millions more Australians are indirectly Coles shareholders through their superannuation funds.

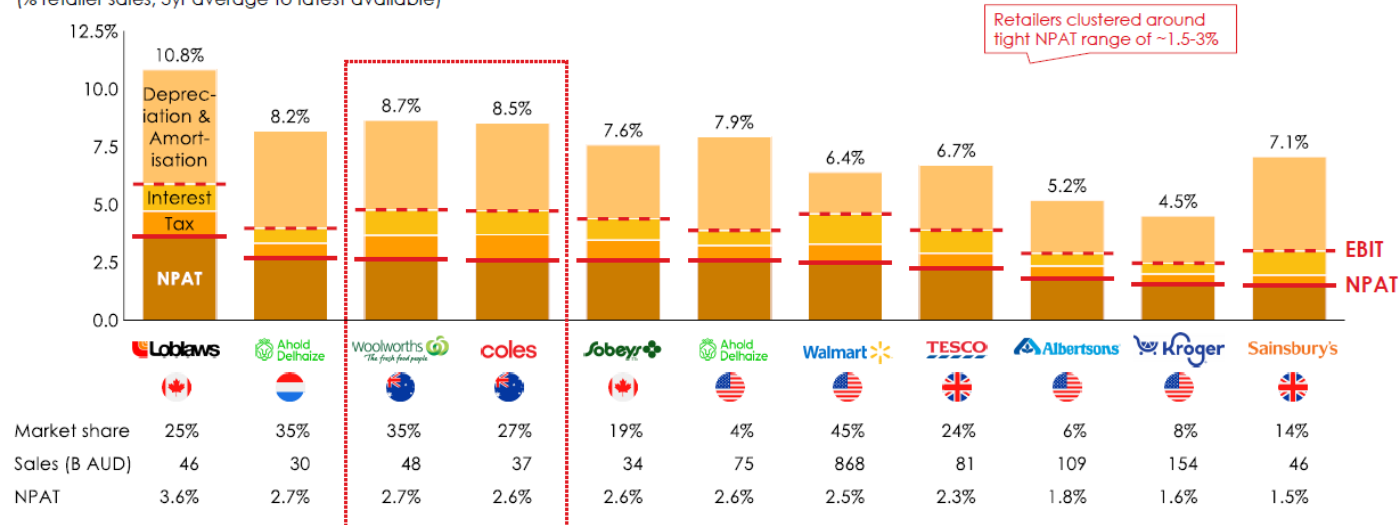
These differences are illustrated in **Figure 3** below, which compares EBITDA and NPAT between the main Australian supermarkets to large global peers. This suggests that:

- The amount of depreciation and amortisation is greater in Australia, for example due to competition driving greater capex investments, such as a younger fleet (new stores and refurbishments) or automated supply chain facilities;
- Interest expense is greater, including because of lease financing costs; and
- There is a substantial difference in the corporate tax rate in Australia compared to the US and UK (30% in Australia relative to around 20-25% in other jurisdictions).

Figure 3: EBITDA to NPAT - full line grocery retailer returns - Australia vs global peers

**EBITDA to NPAT: Coles vs. comparable retailers**

(% retailer sales, 3yr average to latest available)



Note: Based on retailer averages of last 3 years' reported financials; Coles, Woolworths, Ahold-Delhaize, Sobeys and Loblaws use IFRS and Kroger, Albertsons, Tesco and Sainsbury use GAAP-complied accounting standards. Source: Retailer annual reports (FY20-FY23 / FY19-FY22 by retailer reporting availability)

Accordingly, while a comparison of EBIT as a measure of supermarket profitability across jurisdictions will tend to suggest that Australian retailers are more profitable than global peers, if NPAT is adopted, and all relevant costs are thereby included, operating margins are broadly consistent.

**(b) Margins on products**

Like many retailers Coles earns different margins on different products, and higher margins on some lines are required to offset lower margins on other products. Accordingly, a basic comparison of margins between products will not provide a meaningful insight into the overall profitability of a supermarket. It is for this reason that Coles generally refers to its historical NPAT as the best overall margin measurement, given it incorporates all relevant costs of operation across all products.

In terms of measurements of margins earned by supermarkets on particular products or in particular departments within the store, Coles notes that caution needs to be exercised in referencing or comparing gross margin or 'shelf' margin figures. These figures generally represent a margin calculated by subtracting the supplier's invoice price to the supermarket for a product, including any rebates or funding specific to that product, from the shelf-edge price paid by the customer. These type of margin figures will not include core supermarket operating costs, such as store occupancy costs, store wages and salaries, as well as supply chain costs such as DC operations and transport.

In addition, there can be variations in operating costs between departments within a store that affect the ability to make comparisons of margins between products. The bakery department, for example, has higher operating costs due to the specialised workforce of in-store bakery staff and their hours of work which leads to higher labour and training costs, the capital expenditure and maintenance costs relating to the bakery equipment, higher electricity costs, and the packaging used to box or wrap the baked products. It also has higher costs associated with wastage for stock not sold before its 'best before' date given the short shelf life of most baked products. Even within the bakery department there are other relevant variables, for example, scratch bakery lines (i.e. products that are manufactured 'from scratch' in the store bakery) will require a greater labour component as well as different equipment (i.e. more capex and maintenance) compared to par-bake lines.

**3.2 Market concentration**

Another comparison that is often drawn between Australia's grocery sector and those in overseas countries is the level of market concentration. However, as discussed below, concentration in Australia's grocery sector is generally in line with comparable OECD jurisdictions.

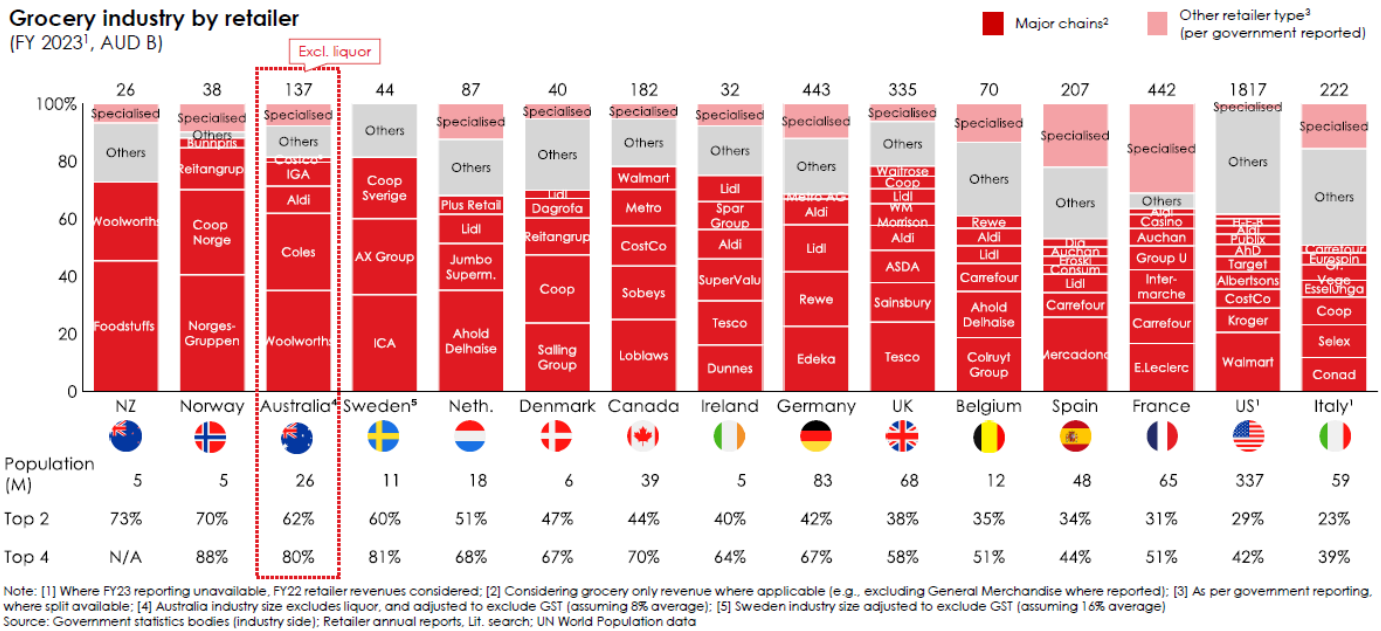
**(a) The structure of the Australian grocery sector is not dissimilar to other OECD countries**

Australia has a diverse and competitive grocery sector which generally features the same range of store formats seen in other developed countries – this includes three national full line supermarket chains (Coles, Woolworths, IGA), a national hard discount chain (ALDI), a growing club retailer (Costco), a thriving independent segment, a vibrant specialist network and fresh food markets, and fast-growing online players including Amazon.



As shown in **Figure 4** below, the structure of Australia's supermarket industry (the top four players accounting for 80% of market share) is broadly in line with other countries of either comparable population size (e.g. the Netherlands) or geography (e.g. Canada).

Figure 4: Share of grocery industry by major retailer across geographies



The data also demonstrates some key differences between Australia and other jurisdictions:

- Many other markets have a more dominant number 1 player as compared to the Australian market (e.g., US, UK);
- The US population is 10 times that of Australia, with several regional markets with large regional champions (e.g. HEB in Texas); and
- Southern European markets are typically characterised by a larger portion of traditional or specialty trade.

**(b) Australians have good access to a range of retailers and split their basket between supermarkets and specialty retailers**

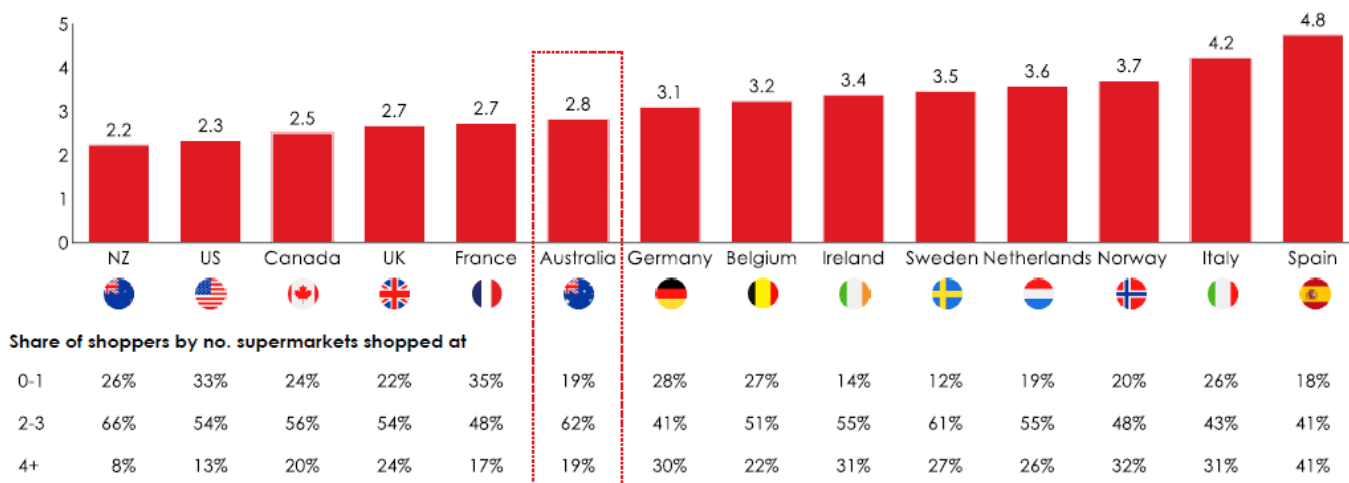
Coles commissioned a consumer survey to understand grocery buying behaviour and access to grocery retailers in Australia compared to 16 peer geographies with similarly mature grocery industries. The survey was conducted over a 2 week period in early March 2024 with 6,000 respondents around the world (with a minimum sample size per geography of 500). Participants were asked about how much choice they have in selecting grocery retailers and their buying behaviours including where they choose to allocate their grocery wallet. According to the results of that survey, the average Australian visits 2.8 different supermarket brands each month. As demonstrated by **Figure 5** below, 62% of Australians surveyed for Coles shop with 2-3 different supermarket brands each month and 19% shop with 4 or more different brands each month.

In comparison to other countries, Australians cross-shop more than customers in New Zealand (2.2), the United States (2.3), Canada (2.5) and the United Kingdom (2.7).

Figure 5: Cross-shopping between supermarkets across jurisdictions

Q: How many different brands of supermarkets did you shop at in the last 30 days?

(% of consumers by # of supermarkets shopped at per month)



Note: Respondents were asked "For each of the types of retailers you shopped at in the last 30 days, how many different brands of retailers did you shop at?"  
 Source: Consumer Survey 2024 (N=6000)

Australians also visit an average of 2.1 other grocery retailers (such as specialist retailers like butchers or greengrocers) each month.

Australia has a particularly vibrant specialty sector, with greengrocers, bakeries, butchers and delicatessens competing with supermarkets for purchases of fresh food. In particular, a common market feature in Australia is one or more major supermarket operators anchoring a suburban or regional shopping centre development or re-development, bringing footfall which supports and facilitates adjacent tenancies by small business independents.

**(c) Market structures within grocery categories are evolving and supermarkets face growing competition from non-supermarket retailers**

The view of Australian supermarket majors as an oligopoly is a reflection of a time when customers did the bulk of their grocery shopping in a large format supermarket supplemented by a few fresh items from specialty stores. Today, it is not just fresh categories that offer a proliferation of competing offers through non-supermarket operators. There has been substantial and on-going change in the supply of main-aisle packaged grocery products, and this change is accelerating.

It is essential that a forward-looking approach is taken in considering the impact of these new offerings on customer choice and competition, including given the decline in the number of 'big basket' shoppers who might previously have tended to use a large supermarket for a major once-a-week shop. Many shoppers are increasingly spreading their grocery purchases over a variety of shopping missions, retail mediums (bricks and mortar, online) and timeframes. Cost of living pressures are also resulting in substantial shifts in traditional purchasing behaviour, in particular a greater willingness to search out value through alternative distributors of traditional grocery products, including on-line operators such as Amazon.<sup>16</sup>

Consumer cross-shopping habits are also apparent as between supermarkets and non-supermarket retailers. Research conducted by Jarden, and shown in **Figure 6** below, looked at cross website visitation trends in FMCG and found high levels of cross visitation between customers who visited the websites of supermarkets and Amazon (around 20%), Bunnings (around 7%) and Chemist Warehouse (around 6.5%). That research found that in the past three months alone, Amazon experienced an approximate 270bp cross-visitation gain from Coles and Woolworths.<sup>17</sup>

<sup>16</sup> Coles has separately submitted to Government that this escalating trend means that any large scale retailer of grocery products should be covered by the Australian Food and Grocery Code of Conduct.

<sup>17</sup> Jarden Research, Online Tracker #38: A look into cross-shopping in FMCG... Is it getting more competitive? 8 April 2024.

Figure 6: FMCG cross-visitation summary

		Also visited									
		Coles	Woolworths	Aldi	IGA	Reject Shop	Chemist Warehouse	Bunnings	Amazon	Petbarn	Priceline
Went to	Coles		33.3%	3.5%	1.5%	0.8%	6.5%	6.6%	19.0%	1.0%	1.5%
	Woolworths	17.6%		2.7%	1.2%	0.6%	6.6%	7.1%	20.9%	1.0%	1.6%
	Aldi	12.8%	17.6%		2.1%	1.7%	4.6%	12.0%	22.1%	1.7%	2.0%
	IGA	30.5%	40.1%	11.2%		0.3%	9.5%	12.3%	18.0%	1.2%	1.9%
	Reject Shop	18.5%	26.9%	12.1%	0.6%		13.8%	23.8%	24.5%	1.6%	4.0%
	Chemist Warehouse	7.4%	14.5%	1.7%	0.7%	0.7%		5.1%	25.9%	1.1%	8.1%
	Bunnings	3.1%	6.6%	1.7%	0.4%	0.6%	2.1%		25.2%	0.9%	0.5%
	Amazon	2.5%	5.4%	0.9%	0.0%	0.0%	3.1%	7.0%		0.3%	0.5%
	Petbarn	6.7%	11.7%	3.5%	0.5%	0.6%	6.5%	12.7%	8.1%		2.1%
	Priceline	8.8%	17.2%	3.2%	0.6%	1.0%	37.5%	5.9%	26.2%	1.7%	

Source: Jarden Research

Some examples of non-supermarket operators are set out below.

**(i) Amazon**

In the 2008 inquiry, the ACCC foreshadowed that the entry of grocery retailers with differentiated business models posed a competitive threat to major supermarket chains.<sup>18</sup> This prediction has proven to be true, with international retailers Costco and Amazon both successfully penetrating the Australian market in the years that followed.

Since entering the market in 2017, Amazon has gained a strong foothold in Australia through its marketplace, which offers a broad range of packaged pantry items at highly competitive prices. It continues to grow quickly, with six CFCs located across Sydney, Melbourne, Brisbane, Adelaide and Perth and a seventh being constructed in Craigieburn.<sup>19</sup> Amazon has reported that Australian retail store revenue has increased by 21% in calendar year 2023.<sup>20</sup> More than four million Australian households have 'Prime' subscriptions, a membership service that provides free shipping on most orders (which is often next-day or same-day).<sup>21</sup>

While Amazon is still new to the grocery category, it has already generated significant competitive pressure on existing retailers, which have also been focused on growing their online presence.<sup>22</sup> Furthermore, its large existing customer base, sophisticated distribution network, customer feedback tools and data analytics (including shopping behaviour and conversion rates) give it a significant competitive edge.<sup>23</sup> In addition, the launch of fresh produce delivery service Amazon Fresh in overseas markets (including the United States, India and Singapore, together with specific cities including London, Milan, Munich, Rome, Tokyo, and Madrid) demonstrates that Amazon has the potential to further expand its grocery offering in Australia beyond packaged pantry items, creating further competition with traditional grocery retailers. During the current House of Representatives Standing Committee on Economics inquiry into Promoting Economic Dynamism, Competition and Business Formation, Amazon representatives recently stated:<sup>24</sup>

*Amazon entered Australia only in 2017, but it is already clear that our entry has prompted very well-established retail businesses to improve customer experience. Across the retail landscape we are seeing established retailers expanding online, building more automated warehouses and opening their stores to other sellers.*

*We recently released new research showing the increasing degree to which Australians are responding to cost-of-living pressures by shopping both online and offline in search of value and convenience. For example, think of all of the Australians who are browsing products online before going in store to purchase them, while a similar percentage are looking at online reviews on comparison sites before buying in store. We think that's a really important story, not just for consumers and Australian small business but also for the committee, as it thinks about*

<sup>18</sup> ACCC, Report of the ACCC inquiry into the competitiveness of retail prices for standard groceries, July 2008,

<<https://www.accc.gov.au/system/files/Grocery%20inquiry%20report%20-%20July%202008.pdf>>, page xvii.

<sup>19</sup> <<https://www.aboutamazon.com.au/news/workplace/construction-has-begun-in-melbourne-as-amazon-australia-announces-second-robotics-fulfilment-centre>>, viewed on 9 April 2024.

<sup>20</sup> Australian Financial Review, Amazon books losses on \$6b Aussie sales as retail and cloud boom, 6 March 2024, <[Amazon books losses on \\$6b Aussie sales as retail and cloud boom \(afr.com\)](https://www.afr.com/news/amazon-books-losses-on-6b-aussie-sales-as-retail-and-cloud-boom)>.

<sup>21</sup> Australian Financial Review, Aussies added 189,000 streaming services despite cost of living crunch, 2 May 2023,

<<https://www.afr.com/companies/media-and-marketing/aussies-added-189-000-streaming-services-despite-cost-of-living-crunch-20230501-p5d4i2>>.

<sup>22</sup> Department of Industry, Innovation and Science Submission, Inquiry into impacts on local businesses in Australia from global internet-based competition, December 2017, page 11.

<sup>23</sup> Department of Industry, Innovation and Science Submission, Inquiry into impacts on local businesses in Australia from global internet-based competition, December 2017, page 11.

<sup>24</sup> See Transcript dated 29 August 2023, Standing Committee On Economics Inquiry into Promoting Dynamism, Competition and Business Formation at ParlInfo - Standing Committee on Economics : 29/08/2023 : Inquiry into promoting economic dynamism, competition and business formation ([aph.gov.au](https://aph.gov.au)).

this important role that companies like Amazon play in making Australia, and Australian businesses, more competitive, dynamic and innovative.

Amazon has demonstrated a willingness to invest over very long time horizons and incur low or negative returns for many years before achieving substantial market penetration.

## (ii) Costco

American retailer Costco, one of the 10 largest retailers in the world, opened its first member warehouse in Melbourne in 2009.<sup>25</sup> In July 2011, Costco expanded nationally opening a second location in Auburn, Sydney.<sup>26</sup> Costco has continued to grow, now operating 15 stores across Australia.<sup>27</sup> In 2023, Costco recorded \$4.4 billion in Australian sales – a 20% increase from 2022, and a 30% from 2021.<sup>28</sup> Costco plans to continue its expansion with plans to expand to 20 stores across the country over the next three years.<sup>29</sup> Costco has stated that its differentiated bulk-buying offering and focus on savings and value has been an increasingly attractive proposition to consumers concerned about rising cost-of-living pressures in recent times.<sup>30</sup>

## (iii) Wesfarmers

Wesfarmers has significantly broadened its operations in the supply of packaged products traditionally sold by supermarkets, and its online presence, since Coles was demerged from the Wesfarmers Group in 2018. In particular:

- **Catch.** In 2019, Wesfarmers acquired Catch, one of Australia's leading online marketplace operators, in order to drive online execution across its portfolio of retail brands.<sup>31</sup> Catch now promotes a range of packaged grocery products. For example, on 3 April 2024, Catch was promoting 45,621 grocery and liquor items on its website, including 735 household laundry items, 10,503 cleaning goods, 1,065 baby care items, 949 baking items, 272 pasta, noodles, rice and grains, 262 breakfast items, 2,679 confectionary items and 1944 condiments;<sup>32</sup>
- **Bunnings.** In 2023, through its Bunnings business, Wesfarmers has expanded into both pet products and cleaning supplies. In early 2023, Bunnings launched a specialty pet-care department offering more than 1,000 SKUs of pet products.<sup>33</sup> In late 2023, Bunnings launched a home cleaning market department, covering laundry detergent to dishwashing tablets, and expanding its strong focus on bulk packages at lower prices with a range of leading popular cleaning brands.<sup>34</sup> It has been aggressively advertising these lines with comparisons to Coles and Woolworths pricing. When launching this expanded range, a Bunnings spokesperson said:<sup>35</sup>

*Customers will no longer need to wait for their favourite cleaning products to go on sale at the supermarket as Bunnings will deliver customers with an even wider cleaning range with bigger quantities and better everyday prices.*

Bunnings Managing Director, Mike Schneider stated that this was part of Bunnings' strategy to sell products from 'the front of the gate to the back of the fence'.<sup>36</sup>

- **Priceline.** In 2022, Wesfarmers acquired Australian Pharmaceutical Industries (API), one of Australia's leading health and beauty companies, acquiring high-profile brands in the pharmacy and retail health and beauty industry, including the Priceline business – a leading Australian supplier of health and beauty products, many of which are also sold

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<sup>25</sup> <<https://costco-business-report-courtneyt.weebly.com/costco-in-australia.html#:~:text=17%20August%202009%3A.location%20in%20Auburn%2C%20Sydney%27s%20West.>>, viewed on 9 April 2024.

<sup>26</sup> <<https://costco-business-report-courtneyt.weebly.com/costco-in-australia.html#:~:text=17%20August%202009%3A.location%20in%20Auburn%2C%20Sydney%27s%20West.>>, viewed on 9 April 2024.

<sup>27</sup> Realcommercial.com.au, *New Costco stores opening in Australia*, 11 October 2023, <<https://www.realcommercial.com.au/news/new-costco-stores-australia>>.

<sup>28</sup> News.com.au, *Costco sales up 20% fuelled by cost of living crisis*, 2 January 2024, <<https://www.news.com.au/finance/business/retail/costco-sales-up-20-fuelled-by-cost-of-living-crisis/news-story/7f93b9c92760f26e61edda3b3d195c38>>.

<sup>29</sup> New Idea, *Costco reveals huge expansion plans for Australia*, 6 July 2023, <<https://www.newidea.com.au/costco-expansion-australia>>.

<sup>30</sup> Realcommercial.com.au, *Several new Costco warehouses planned across Australia*, 12 July 2022, <<https://www.realcommercial.com.au/news/several-new-costco-warehouses-planned-across-australia>>.

<sup>31</sup> Wesfarmers, *Completion of Acquisition of Catch Group Holdings Limited*, 12 August 2019, <https://www.wesfarmers.com.au/util/news-media/article/2019/08/12/completion-of-acquisition-of-catch-group-holdings-limited>.

<sup>32</sup> <[https://www.catch.com.au/shop/grocery-liquor/all?f%5Bcategory\\_correlated%5D=1104&page=1&selected\\_first=1&sort=0](https://www.catch.com.au/shop/grocery-liquor/all?f%5Bcategory_correlated%5D=1104&page=1&selected_first=1&sort=0)>, viewed on 3 April 2024.

<sup>33</sup> Australian Financial Review, *Bunnings launches biggest product expansion in decades with pet care*, 28 February 2023, <https://www.afr.com/companies/retail/bunnings-launches-biggest-expansion-in-decades-20230224-p5cneg>.

<sup>34</sup> The Australian Business Review, *Bunnings to move into \$5bn cleaning market with bulk packaged goods to compete with supermarkets*, 20 November 2023, <https://www.theaustralian.com.au/business/retail/bunnings-to-move-into-5bn-cleaning-market-with-bulk-packaged-goods-to-compete-with-supermarkets/news-story/629bdaff5a531004b42f760d38ed5a6e>.

<sup>35</sup> 9 News.com.au, *Bunnings expands bulk cleaning products to compete with supermarkets*, viewed on 9 April 2024.

<sup>36</sup> The Australian, *Bunnings to move into \$5bn cleaning market with bulk packaged goods to compete with supermarkets*, 20 November 2023, <https://www.theaustralian.com.au/business/retail/bunnings-to-move-into-5bn-cleaning-market-with-bulk-packaged-goods-to-compete-with-supermarkets/news-story/629bdaff5a531004b42f760d38ed5a6e>, viewed on 9 April 2024.

through supermarkets.<sup>37</sup> Grocery items available for purchase at Priceline include personal care, dental care, vitamins and cosmetics. In relation to the cosmetics industry, Roy Morgan CEO Michele Levine noted in 2019:<sup>38</sup>

*The cosmetics industry is a very competitive one with pharmacies and chemists, supermarkets, department stores and discount department stores all vying to increase their share of the market and looking for an edge to retain existing customers and draw in new ones.*

#### **(iv) Other discount retailers**

Discount department stores such as Big W and Kmart, and discount retailers (Reject Shop, Chemist Warehouse) are also increasingly offering grocery items in areas such as cleaning, long-life grocery, baby, health and pet, as well as expanding their online offering. For example, the Reject Shop has more than 380 locations across the country,<sup>39</sup> and offers customers grocery items such as household, kitchen, laundry, cleaning, pet care and snacks and drinks, including brands such as Whiskas, Morning Fresh, Finish, Cadbury, Tresemmé, Palmolive, Dove and Pepsi.<sup>40</sup> The Reject Shop's offering is value-focused with a commitment to delivering products at the lowest price and offering a 10% discount on an item if a customer is able to find the item elsewhere at a cheaper price.<sup>41</sup>

### **3.3 Relationships with farmers and producers**

Since the 2008 inquiry, the relationships between supermarkets and Australian farmers and primary production industries have remained an ongoing regulatory and political focus.<sup>42</sup> However, as noted in the Executive Summary, the ACCC has found on a number of occasions that some of the concerns being raised about supermarket behaviour are not ultimately supported by evidence. For example, in the 2018 Dairy Inquiry, the ACCC recognised that \$1 per litre private label milk was unlikely to have a direct impact on farmgate prices because private label milk contracts enabled processors to pass-through movements in farmgate prices to supermarkets.<sup>43</sup> Similarly, in the 2020 Perishable Goods Inquiry, the ACCC found that supermarket chains were competing vigorously to acquire perishable goods from growers and processors, but that there was no substantial evidence to suggest that the efficient supply of goods was threatened over the longer term.<sup>44</sup>

Despite these findings, Coles recognises that the introduction of \$1 milk in 2011, while of direct benefit to consumers, greatly impacted Coles' standing not only in the Australian dairy industry, but with primary producers more generally. Since then, Coles has invested heavily over the last decade in improving its relationships with farmers. One strategy where Coles has seen significant success has been the transformation of Coles' procurement model in a number of key categories, through the disintermediation of supply by moving to direct contracting with growers.

#### **(a) Dairy model**

Coles introduced a direct contract model in 2019 for Coles Own Brand milk in Victoria and the south coast of New South Wales, which allows Coles to deal directly with farmers rather than through a processor. This model provides certainty of income for farmers through fixed pricing and a choice of 1, 2 or 3 year agreements, which allows dairy farmers to plan better, including ongoing investments in their business.

Under the direct sourcing model, Coles offers a farmgate price directly to farmers, and pays dairy processors to process milk under a toll processing agreement. We have now rolled this model out in South Australia, and in Western Australia.

By offering farmers the opportunity to lock in a price and giving them choice on the length of contract, Coles is investing in the long-term sustainability of our suppliers and the Australian dairy sector. This model also offers transparency, with Coles' minimum milk prices published on our website.

As at the end of FY23, Coles directly contracted with 101 farms in Victoria, Southern New South Wales, South Australia, Western Australia, and Tasmania to supply more than 408 million litres of milk yearly for Coles Own Brand fresh milk and some Coles Own Brand cheese.

In FY23, Coles introduced options for farmers to select non-exclusive or exclusive contracts, giving them choice over how they contract their milk. By being an exclusive farmer, they receive a premium for their milk supply. In January 2023, Coles introduced an additional tenure payment for those farmers on 2 or 3 year agreements.

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<sup>37</sup> <<https://www.wesfarmers.com.au/our-businesses/wesfarmers-health>>, viewed on 9 April 2024.

<sup>38</sup> Roy Morgan, *Priceline 'makes up' even more of the Australian cosmetics market*, 31 May 2019, <<https://www.roymorgan.com/findings/priceline-makes-up-even-more-of-the-australian-cosmetics-market>>.

<sup>39</sup> The Reject Shop, *Company Information, Our Story*, <<https://www.rejectshop.com.au/about/company-information>>.

<sup>40</sup> The Reject Shop, *Brands*, <<https://www.rejectshop.com.au/brands>>.

<sup>41</sup> New.com.au, *Reject Shop offers lowest price guarantee on groceries to rival Woolworths, Coles, Aldi*, 2 October 2020,

<<https://www.news.com.au/finance/business/retail/reject-shop-offers-lowest-price-guarantee-on-groceries-to-rival-woolworths-coles-aldi/news-story/5c2fe22da47b31414ff65e22f9dde58c>>.

<sup>42</sup> See for example the ACCC's 2018 Dairy Inquiry, the ACCC's 2020 Perishable Goods Inquiry.

<sup>43</sup> See Final Report, ACCC Dairy Inquiry, 30 April 2018, p xxi.

<sup>44</sup> See Final Report, ACCC Perishable Goods Inquiry, 10 December 2020, p xiii.

As the ACCC has previously noted, the farmgate price for milk in Australia is heavily influenced by the large amount of dairy products that are exported. The volumes acquired by Coles only represent 5% of Australian dairy production.

### **(b) Meat model**

Like its dairy model, Coles has invested significantly in its meat procurement operations. Coles' livestock buyers, who are based in their respective geographic regions, have over 290 years collective experience in the market and its seasonal dynamics. In FY23, the Coles team sourced meat from close to 3,000 beef and lamb farms across Australia.

Comparisons are often drawn between price movements at saleyards in Australia, and Coles' retail prices. This is inappropriate, as in FY23 Coles purchased less than 2% of cattle and 12% of lamb from saleyards.

Saleyard prices reflect market conditions as at the particular day of auction, with the variation of stock available not always suitable for Coles requirements. The price Coles pays for a majority of our livestock is derived from contracts that are agreed in advance and that have specific requirements, such as for weight, definition and feed type where relevant. Coles also factors in consumer preferences, such as hormone-free beef. In relation to beef, around 75% of cattle purchased by Coles are under these contracts, which are typically agreed from 2 to 4 months in advance. Prices are based on market dynamics at that time but we also consider costs of production and the ongoing relationship with the farmer.

Agreeing contracts, including price in advance, provides security to our farmers on their returns, enabling them to invest in their businesses. Once a contract is agreed, the volume and price are locked in, regardless of subsequent movements in the market price. Coles will also then lock in kill space at abattoirs based on the contracted volume. This model has allowed Coles to create some very successful, long-term relationships with cattle producers.

It is a common misunderstanding that Coles is one of the primary buyers of meat in Australia, with the capacity to unilaterally impact market prices. This is not the case. According to Cattle Australia, around 75% of beef is exported. Coles only accounts for around 8% of the national kill in beef.

### **(c) Fresh produce model**

The procurement of fresh produce is more fragmented and complex than for milk and meat. This is largely due to the scale of production, seasonal growing region changes, and the number of different products and producers, which often means that Coles relies on intermediaries (aggregators or grower/aggregators) to acquire and consolidate sufficient volumes of products to meet Coles' requirements.

Coles contracts all of its volume requirements with its direct growers or intermediaries. For practical reasons, Coles cannot contract on an individual basis with each and every grower directly, if the fresh produce is sourced through one of these intermediaries.

Coles considers that the fresh produce model is capable of improvement. As the ACCC noted in its 2020 Perishable Goods Inquiry:<sup>45</sup>

*In the horticulture industry, producers have indicated they have no forward indication of prices, meaning they regularly grow crops without a guaranteed buyer or any sense of likely prices. While producers in other [perishable agricultural goods] industries may also not have visibility over the wholesale price, there are lower costs associated with bringing the horticultural produce to market, so the retail price should correlate more closely to their expected returns. There were also submissions that producers do not have visibility over the price that supermarkets pay wholesalers for produce... This occurs in situations where agents or wholesalers accept produce on consignment from producers, which they sell on the producers' behalf, after which the proceeds (less charges) are remitted to producers... It was submitted that some of these agreements with wholesalers do not give producers the right to know the price paid for their produce by supermarkets... which means they do not know what margin the wholesaler has taken.*

Coles has a number of observations about how this supply chain could be improved to assist growers (see further at section 5 below). Further information about Coles' fresh produce contracting activity is set out below.

#### **(i) Types of suppliers**

There are essentially three types of suppliers with which Coles contracts for fresh produce: (i) direct growers, (ii) aggregators (suppliers that do not grow any product, but consolidate volumes from various sources) and (iii) grower/aggregators (who both grow and also consolidate third party volumes). While as noted above some fresh produce lines can be 100% direct grower, others are a mix of the different suppliers. A downside to this model is that often when claims about poor supermarket treatment of a fresh produce grower are made public, Coles' investigations

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<sup>45</sup> Final Report, ACCC Perishable Goods Inquiry, 10 December 2020, p 57.

determine that Coles in fact has no direct relationship with the grower and the claimed conduct has occurred between the grower and the aggregator, without any knowledge or involvement by Coles.

## (ii) Terms of supply

Coles will usually seek to agree volumes in advance with suppliers (i.e. aggregators and direct growers) prior to the next seasonal growing period. Agreements are recorded in writing in Grocery Supply Agreements (**GSAs**) (a requirement of the Food and Grocery Code of Conduct). GSAs include an agreed volume variation (typically 15% up or down in volume), which provides flexibility for both Coles and the supplier (such as in the event of crop challenges or weather events that impact production, or sudden shifts in customer buying behaviour). Each party will use all reasonable endeavours to keep the other party updated on any circumstances that may impact the forecast or the ability to meet the forecast.

Many fresh produce products are priced on a weekly basis. For these products, every Monday, suppliers (whether they are growers, aggregators, or growers/aggregators) enter the price they want for their produce in the Coles Portal and the volume they can supply for the following week.

Coles bases the price it is willing to pay around the wholesale market price prevailing at the time. This is in-principle available to any person via Ausmarket data ([www.ausmarket.com.au](http://www.ausmarket.com.au)), a widely used subscription service that contains pricing data for produce sold in the central markets of Adelaide, Brisbane, Melbourne and Sydney.

Every Tuesday Coles negotiates the price with the supplier and provides an estimate of the weekly volume. Any changes in the price are to be amended in the Coles Portal by the supplier. Every Thursday, suppliers receive a set of Purchase Orders from Coles that set out the agreed price and volume for the following week (running from Tuesday to the following Monday). In a small number of cases, the supplier 'locks in' the Purchase Order at that time in which case the volume and price are firm and Coles does not change them. More commonly, the Purchase Order is not locked in at that point, including because the supplier might anticipate that the market price might move in its favour or that the ability to service those volumes may be impacted due to climatic factors. In that instance, if there are any changes to the Purchase Orders due to customer demand in that week (i.e. add on volumes required or cut-back requests), these are normally made the day prior to the lead time required for product to get into a distribution centre. In terms of Coles taking on additional volumes, Coles will also work with suppliers during the week if they experience 'flushes' in product on short notice by sometimes running late week promotions to help clear surplus volumes.

Complaints are sometimes raised about Coles unfairly rejecting fresh produce for not meeting required specifications despite the product supplied being acceptable quality, or Coles changing specifications with short notice. Coles has clearly defined and readily available specifications for fresh produce and suppliers have access to the specifications prior to delivery of the products. This includes sharing specifications with potential new suppliers to allow them to review. In reviewing the specifications, Coles often refers to Australian Industry Standards. Coles changes these specifications infrequently and at times based on extenuating circumstances and seasonal conditions where Coles and the grower may come to an agreement for a short-term variation to the specifications. Moreover, the overall rejection rate by Coles of fresh produce is very low. In FY23, Coles returned to vendor just 1.49% of the fresh produce cartons it received.

## 3.4 Scale of operations

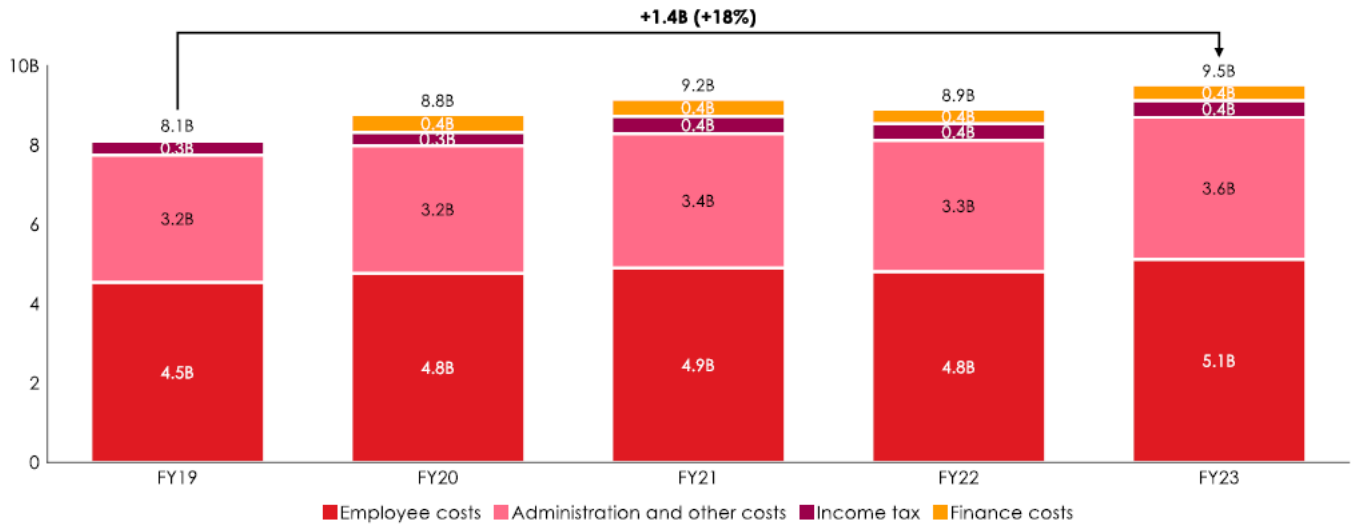
It is essential when considering competition in the Australian grocery industry to understand the importance of economies of scale to the operators of national grocery chains in what is one of the largest countries globally but one with a relatively small population of customers. It is the scale of Coles' operations – and its ability to fractionalise its costs over a large store and distribution network – that enables Coles to provide high quality grocery products on a timely and cost-effective basis to Australian consumers regardless of their location. For example, Coles introduced statewide uniform pricing in 2010 (excluding fresh produce and certain product lines in very remote stores) in which it committed to offer the same retail pricing within a state region. Such a policy drives strong price competition (for example, by ensuring that regional and metropolitan customers receive the same pricing offers regardless of location) and is only possible by virtue of Coles' national scale. It is also Coles' scale that enables it to set and meet ambitious targets in relation to energy and emissions, waste reduction, more sustainable packaging and responsible sourcing and farming.

Increasing sales volumes to fractionalise costs is a feature of many markets, but it is particularly important to Australia's national grocery operators. As noted in section 3.1 above, the total costs of a national operation consume the vast amount of operating revenue. With margins so low, reducing unit costs by achieving incremental increases in sales volumes is a critical component of profitability. One route to achieving sales growth is new store openings, provided these can be achieved in a cost-effective manner and provide an acceptable return on capital. However, given inevitable annual increases in the cost base of the underlying operations, including wages, rents and energy, it is essential to continue to drive volumes through the existing fleet to maintain profitability.

**Figure 7** below illustrates the significant cost increases that Coles has experienced from FY19 to FY23 in its operations through increases in its operating costs, which is critical to offset through sales growth or cost reductions. For example, Coles' employee costs have increased by almost \$600 million per annum, driven by wage increases (as well as additional team members). Payroll tax payments have increased by 19% from \$253 million in 2020 to \$301 million in 2023, due to increased tax rates and higher wages.

Figure 7: Coles Operating Cost Growth FY19 – FY23

**Coles operating cost**  
(FY19-23, AUD B)



Source: Coles Annual Reports FY19-FY23

In addition, as **Figure 1** above illustrates, the most substantial cost incurred by a national supermarket operator is COGS. Even small increases in COGS through suppliers negotiating price adjustments can therefore result in very substantial impacts to profitability which will often lead to increases in retail prices. It is for this reason that Coles has a detailed process for validating and, where appropriate, challenging cost price increase requests. It is also a reason that Coles has in recent years delivered operational cost savings of over \$1 billion through its Smarter Selling program, a program to deliver structural cost advantages through initiatives such as automated fresh produce ordering, demand based heating, ventilation and cooling, theft prevention, optimised store formats data and automated distribution centres. Coles is planning a further \$1 billion in savings over a four-year period through its current Simplify and Save to Invest program. This program requires Coles to do things differently to deliver change. Key initiatives in the first half of FY24 include optimising transport routes to deliver products through distribution centres and into stores, faster; using artificial intelligence and technology automation to continue to deliver customer call centre savings; improved store mapping to improve picking efficiency; and introducing store specific ranging for the meat department to reduce secondary handling of products to shelf.

In this way, the drive to achieve scale and thereby the associated operational economies that can be delivered is a pro-competitive force within the Australian market. The increase in the number of stores by the national operators since the 2008 ACCC inquiry is testament to this: Coles from 763 in 2009 to 849 today; Woolworths from 802 in 2009 to 1,114 today; and ALDI from 216 in 2009 to 593 today. This expansion in store numbers (especially by Coles and Woolworths) is often presented as a sign of a lack of competition in the Australian market. To the contrary, the manner in which the major Australian supermarket operators have invested, and continue to invest, substantial amounts of shareholder capital in growing scale in order to reduce costs should be regarded as a positive market feature.

### 3.5 Causes of recent grocery price increases

One of the primary reasons for the current Inquiry by the ACCC into the grocery sector is a concern that the major Australian supermarkets have caused or exacerbated food and grocery inflation by unjustified price increases. Coles acknowledges the impact that food price inflation has had on household budgets, and the need to find solutions to assist customers with cost of living challenges.

It is important to recognise however that the last few years have seen the Australian grocery market (among other markets) affected by a series of concurrent (and in some cases unprecedented) cost drivers and supply shocks. This includes:



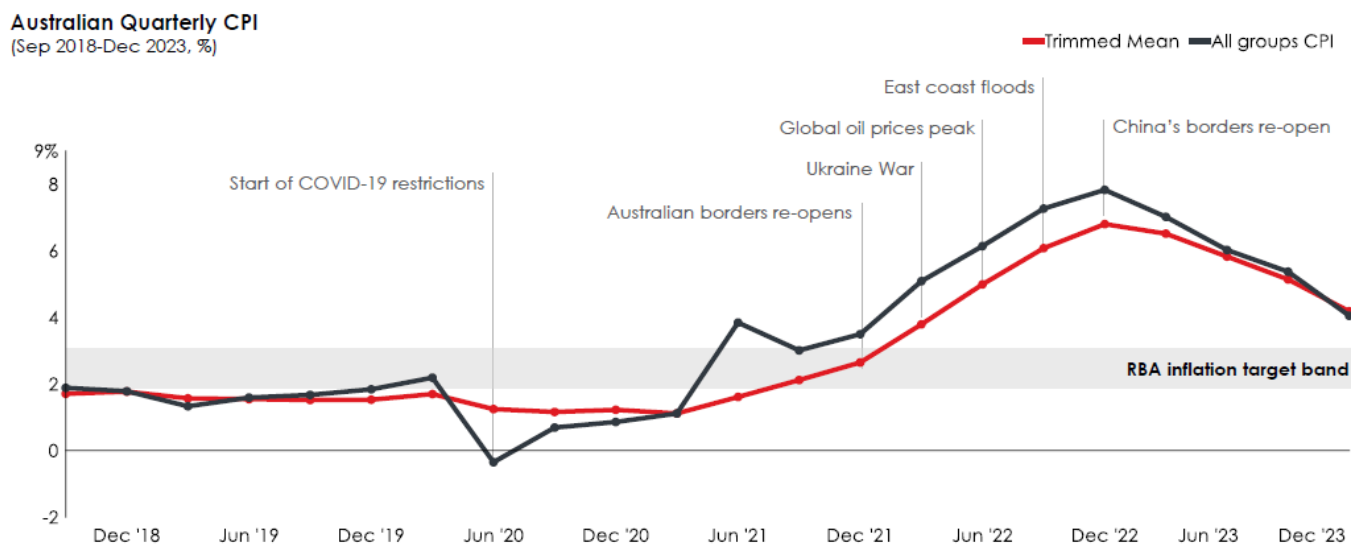
- A surge in global commodity prices,<sup>46</sup> shipping costs,<sup>47</sup> oil prices<sup>48</sup> and fertiliser prices<sup>49</sup> post COVID-19;
- Increasing incidents of seasonal variation and natural disasters due to climate change which leads to a reduction in the quality and quantity of some fresh produce; and
- Supply chain disruption due to conflict, natural disasters and labour shortage.

According to the Reserve Bank of Australia:

*High inflation outcomes in Australia reflect a range of developments, including: supply issues related to the war in Ukraine; other global supply disruptions resulting from the Covid-19 Pandemic; and domestic supply disruptions from poor weather.<sup>50</sup>*

See further **Figure 8** below which charts CPI increases in Australia between September 2018 to December 2023.

Figure 8: CPI over time (Annual % Growth) from September 2018 to December 2023



Source: ABS Consumer Price Index, 2018-23

These cost drivers and supply shocks directly affect Coles' own operating costs and overheads but also its suppliers' costs, which ultimately leads to substantial increases in the price Coles pays suppliers to acquire grocery products and in turn, the retail prices charged to Australian consumers. For example, increases in energy, labour, logistics and packaging (among other costs) drove a \$1.4 billion increase in Coles' operating costs between FY19 and FY23 and increases in annual employee costs totalled almost \$600 million. Similarly, as detailed in **Figure 9** below, cost price increase requests from suppliers more than doubled from FY21 to FY22. Among the key reasons provided by suppliers to support their requests were cost increases they had experienced in relation to packaging, freight, utilities, wheat, labour and international shipping.

<sup>46</sup> Wheat prices more than doubled from US\$219 in December 2019 to US\$491 in June 2022.

<sup>47</sup> Shipping costs increased more than ten-fold from January 2020 to September 2021.

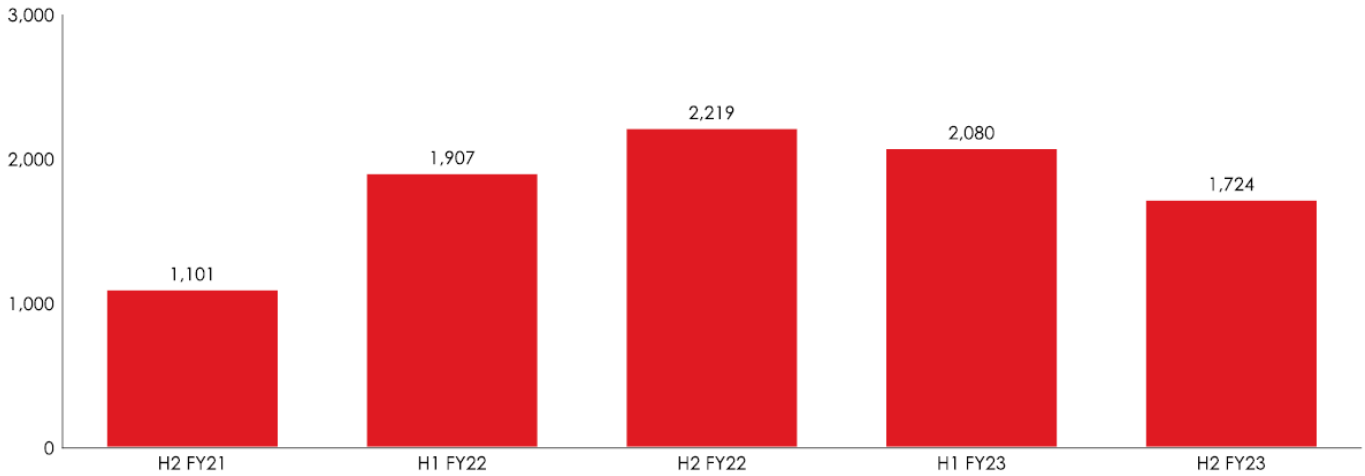
<sup>48</sup> Global oil prices increased from US\$63 in December 2019 to US\$113 in June 2022.

<sup>49</sup> Fertiliser prices more than tripled from US\$254 in December 2019 to US\$860 in June 2022.

<sup>50</sup> Reserve Bank of Australia, *Statement on Monetary Policy*, February 2023, <<https://www.rba.gov.au/publications/smp/2023/feb/pdf/statement-on-monetary-policy-2023-02.pdf>>.

Figure 9: Supermarket Supplier Price Increase Requests

**Number of supplier price increase requests**  
(FY 2021-23, #)



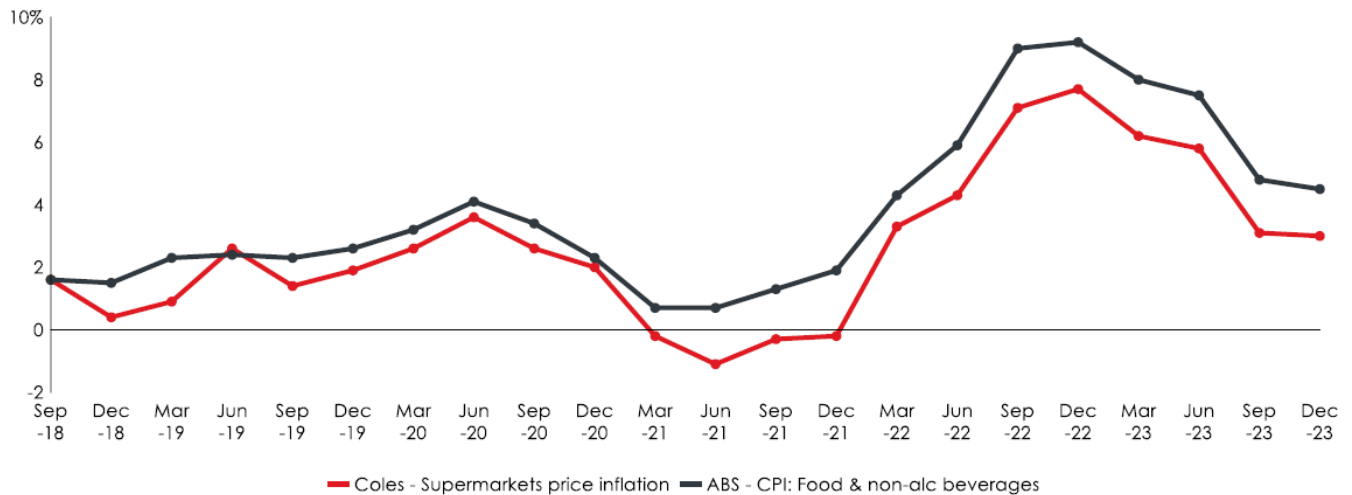
Source: Coles Arbitrator Reports FY21-FY23

Increases in retail grocery prices have been primarily driven by these cost drivers and supply shocks. However, a number of these cost drivers are short term and food price inflation moderated significantly throughout 2023 and continues to decline.<sup>51</sup> While the Inquiry must necessarily consider the impacts of these factors on retail pricing, it is important that the Inquiry, and any recommendations that flow from it, focus primarily on long term competitive dynamics.

Moreover, despite these inflationary pressures, through cost management, including carefully controlling COVID related expenses from 2020 – 2022, its Smarter Selling Program, validation of supplier CPI requests, further technological investments such as belted self-serve checkouts, and significant investments to reduce the incident of theft, Coles has kept overall price inflation in its supermarkets below the rate reported by the Australian Bureau of Statistics Consumer Price Index (CPI) for Food and Non-Alcoholic Drinks for the past 16 quarters. For the September quarter 2023, annual price inflation in Coles supermarkets declined to 3.1%, down from 5.8% in the previous quarter. See **Figure 10** below.

Figure 10: CPI over time (Annual % growth) from September 2018 to December 2023

**Coles CPI vs. Australian CPI (food and non-alcoholic beverages)**  
(Sep 2018-Dec 2023, %)



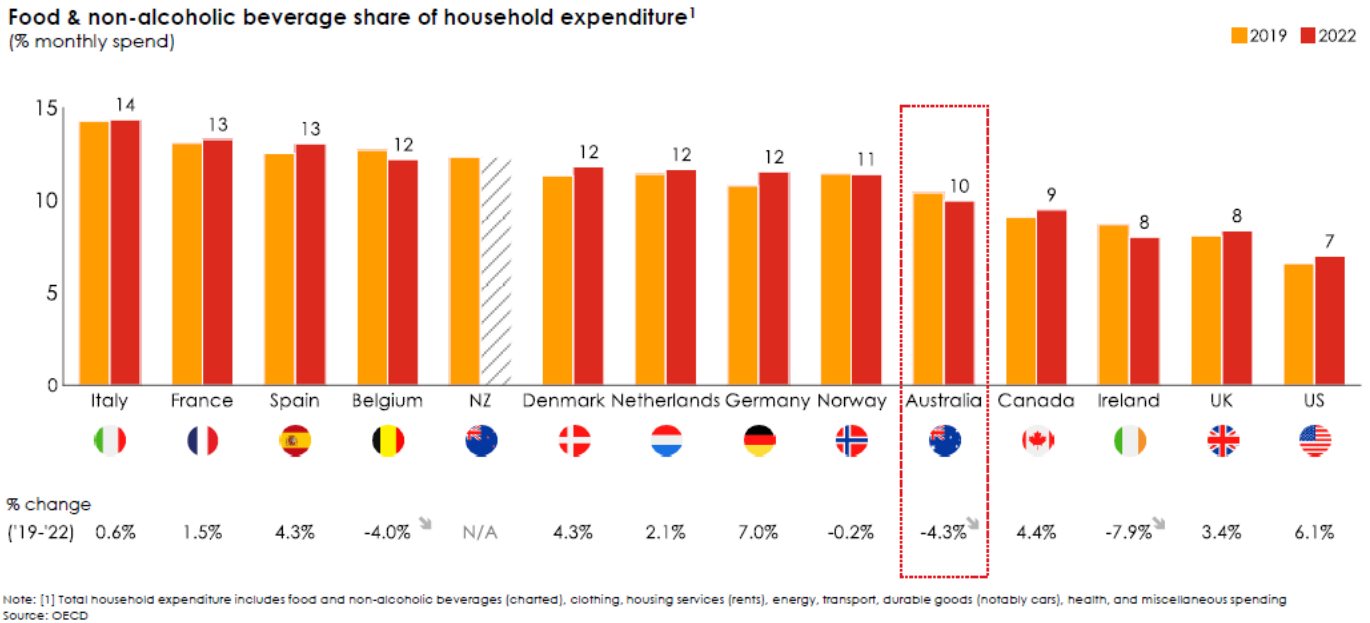
Source: ABS Consumer Price Index; Coles group results and presentations

<sup>51</sup> Australian Financial Review, *Falling grocery prices undercut Labor's grocery crackdown*, 1 February 2024 <https://www.afr.com/policy/economy/falling-grocery-prices-undercut-labor-s-grocery-crackdown-20240201-p5f1kv#:~:text=Annual%20food%20inflation%20eased%20to,per%20cent%20in%20December%202022.>

### 3.6 Household expenditure on groceries

According to ABS National Accounts data, Australians spend roughly 10% of household expenditure on groceries, which is lower than many other developed markets (see **Figure 11** below). While Australian consumers have been impacted by food and grocery inflation, they have been relatively less impacted than overseas consumers.

Figure 11: Food and non-alcoholic beverage portion of household expenditure



In addition, as shown in **Figure 12** and **Figure 13** below, food price inflation in Australia since 2019, although extremely challenging for household budgets, has been significantly below many other OECD countries.

Figure 12: Food and non-alcoholic beverages CPI by geography: 2008 - 2023

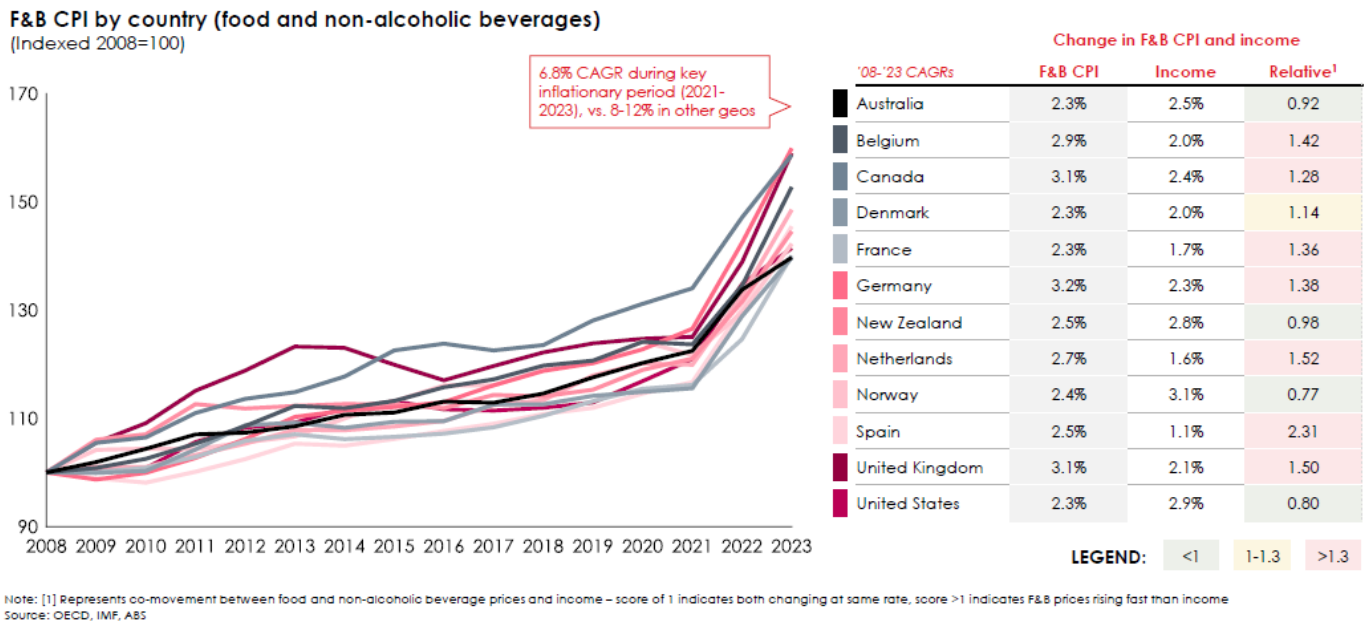
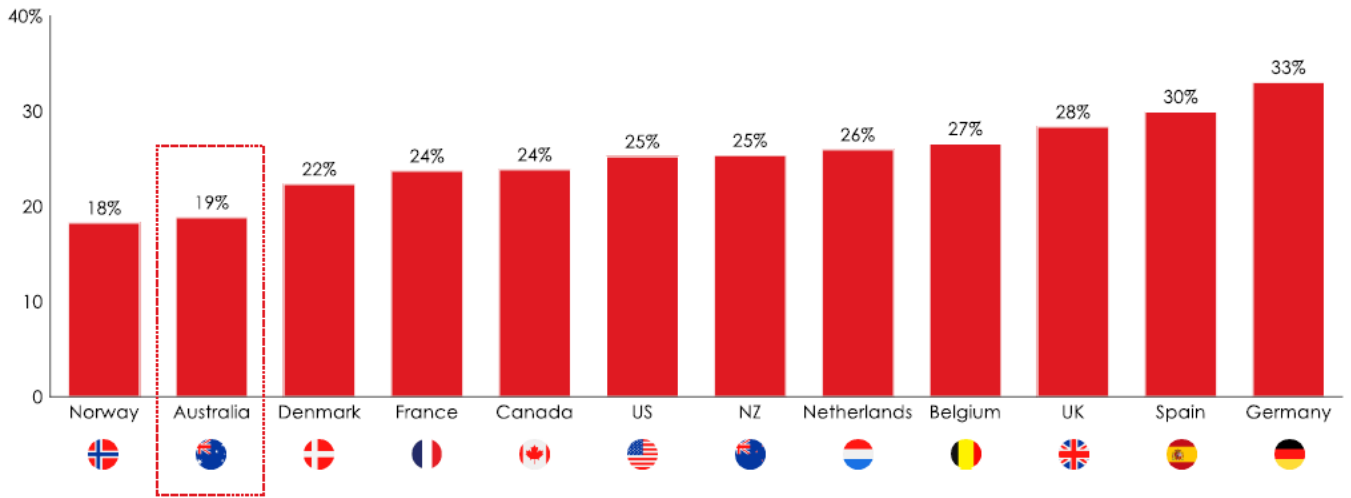


Figure 13: Food and non-alcoholic beverages CPI by geography: 2018 - 2023

**F&B CPI by country (food and non-alcoholic beverages)**  
(2019-2023, absolute change)

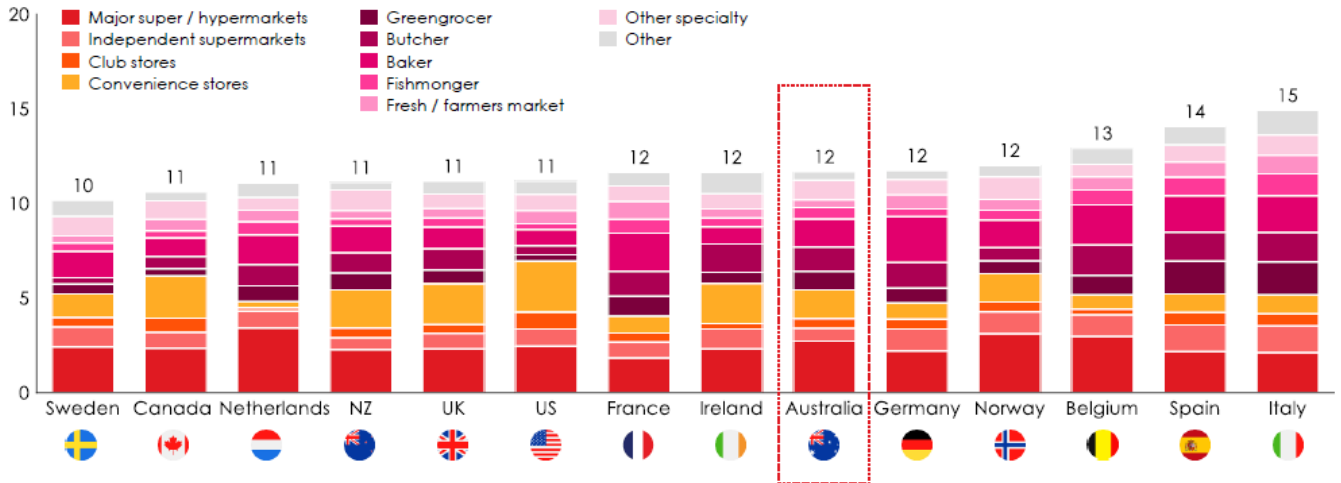


Source: OECD, IMF, ABS

Most Australian customers are also well serviced by supermarkets, with an average number of grocery stores within a 10 minute commute of customers' homes. This is comparable or better than many OECD countries, as shown in **Figure 14** below.

Figure 14: Store accessibility across geographies

**Q: How many grocery stores are within 10 minutes commute of your home**  
(Average # of grocery stores by type)



Note: Respondents were asked "How many of the following stores are within 10 minutes commute distance of your home?"; [1] E.g., healthfood, Asian grocery; [2] E.g., Butcher, baker, greengrocer  
Source: Consumer Survey 2024 (N=6000)

## 4 Changes in the competitive landscape since 2008

For the reasons outlined in this section, it is clear that competition in the Australian grocery market has continued to intensify since the 2008 inquiry. This section describes the substantial investments in supermarket supply chains, store operations and customer proposition (price, quality, service and location) which have occurred since 2008. These investments are consistent with competitive responses to both changing preferences on the part of customers and to innovations introduced by other, competing major grocery retailers. They are also consistent with grocery retailing being a highly dynamic industry, one that creates opportunities for new forms of competition between existing participants and from new participants.

### 4.1 Investment in store networks

#### (a) New Stores

The years since the 2008 inquiry have seen international players ALDI, Costco and Amazon successfully penetrate and expand in the Australian market. In contrast, the number of Coles stores has only modestly increased over the last ten years, with 89 stores added to its network across Australia and Coles focusing more on refurbishing its existing fleet over this time. Since FY19, of the Coles stores added, the vast majority were new store developments and only 5 were acquired from existing grocery competitors. Over the same period, 14 stores were opened by grocery competitors, including Aldi, Woolworths, Harris Farm, IGA, Foodland, Drakes and Farmer Jack's, in stores formerly occupied by Coles.

- **ALDI:** At the time of the 2008 inquiry, ALDI had been operating in Australia for seven years and had 166 stores across three regions along the Eastern seaboard.<sup>52</sup> ALDI expanded quickly; by early 2013, ALDI had more than 280 stores including some in Canberra, and three years later in 2016 expanded its geographic presence to include South Australia and Western Australia.<sup>53</sup> Today, it has a presence across all of mainland Australia with 592 stores spread across six states and territories and employs more than 13,500 people,<sup>54</sup> and there is now an ALDI store within a 10 minute drive of 75% of the Australian population.<sup>55</sup> Coles estimates that ALDI has rolled out stores in Australia at a much faster rate than in other recent international rollouts. ALDI has averaged around 30 new stores per year between 2012 to 2021 as compared to other new markets (such as Poland (13.5 per year) and Spain and Switzerland (9.1 per year)).<sup>56</sup> As the ACCC observed in a recent merger review, ALDI now has considerably greater brand awareness among consumers than it did in 2008, and its extensive store network has made it one of Australia's most well-known brands.<sup>57</sup>
- **Costco:** American retailer Costco opened its first member warehouse in Melbourne in 2009.<sup>58</sup> In July 2011, Costco expanded nationally opening a second location in Auburn, Sydney.<sup>59</sup> Costco has continued to grow, now operating 15 stores across Australia with more than 1.5 million paid members.<sup>60</sup> Costco plans to continue its expansion with plans to expand to 20 stores across the country over the next five years.<sup>61</sup>
- **Metcash/IGA:** Metcash is Australia's largest independent grocery wholesaler and distributor.<sup>62</sup> It supplies wholesale groceries to a national network of over 1,600 stores, including those under the IGA, Foodland and Friendly Grocer banners.<sup>63</sup> While stores in the Metcash network are independently owned and operated, they receive certain supports as part of a Metcash banner group. This includes the 'Diamond Store Accelerator' program that facilitates co-investment in store refurbishment between Metcash and store owners.<sup>64</sup>

<sup>52</sup> ALDI, *Public Submission to the ACCC Grocery Inquiry*, 11 March 2008, <[https://www.accc.gov.au/system/files/081%20\(revised\)%20-%20Aldi%20\(18%20pages\).pdf](https://www.accc.gov.au/system/files/081%20(revised)%20-%20Aldi%20(18%20pages).pdf)>, page 1.

<sup>53</sup> ABC News, *The rise of ALDI: two decades that changed supermarket shopping in Australia*, 22 January 2024, <<https://www.abc.net.au/news/2021-01-22/aldi-changed-supermarket-shopping-in-australia-in-two-decades/13079180>>.

<sup>54</sup> ALDI, *ALDI Locations*, <<https://store.aldi.com.au>>; ALDI, *About ALDI*, <<https://corporate.aldi.com.au/about-aldi/>>.

<sup>55</sup> Coles estimates.

<sup>56</sup> Coles estimates.

<sup>57</sup> ACCC, *Statement of Issues – Woolworths Limited proposed acquisition of the Karabar SUPA IGA supermarket*, 8 December 2022, <<https://www.accc.gov.au/system/files/public-registers/documents/Woolworths%20Karabar%20-%20Statement%20of%20Issues%20%28%20-%20-%20December%202022.pdf?ref=0&download=y>>, page 9.

<sup>58</sup> <<https://costco-business-report-courtneyt.weebly.com/costco-in-australia.html#:~:text=17%20August%202009%3A,location%20in%20Auburn%2C%20Sydney%27s%20West.>>, viewed on 9 April 2024.

<sup>59</sup> <<https://costco-business-report-courtneyt.weebly.com/costco-in-australia.html#:~:text=17%20August%202009%3A,location%20in%20Auburn%2C%20Sydney%27s%20West.>>, viewed on 9 April 2024.

<sup>60</sup> Costco, *2023 Annual Report*, December 2023, <[https://s201.q4cdn.com/287523651/files/doc\\_financials/2023/ar/cost-annual-report-final-pdf-from-dfin.pdf](https://s201.q4cdn.com/287523651/files/doc_financials/2023/ar/cost-annual-report-final-pdf-from-dfin.pdf)>; See also, *The Australian, Costco sales in Australia hit \$4.4bn*, 1 January 2024, <<https://www.theaustralian.com.au/business/retail/costco-a-new-retail-force-as-australian-sales-race-towards-5bn/news-story/8b4b6f83f501104643d6a335db52628a>> 'Costco a new retail force as Australian sales race towards \$5bn'.

<sup>61</sup> New Idea, *Costco reveals huge expansion plans for Australia*, 6 July 2023, <<https://www.newidea.com.au/costco-expansion-australia>>.

<sup>62</sup> Metcash, *About Us*, <https://www.metcash.com/about-us/>.

<sup>63</sup> Metcash, *Food*, <<https://www.metcash.com/our-businesses/food/>>.

<sup>64</sup> Metcash, *Annual Report 2023*, June 2023, <[https://mars-metcash-com.global.ssl.fastly.net/content/uploads/sites/101/2023/08/14161944/20837\\_Metcash\\_AR23\\_00\\_FULL\\_Web\\_V1.pdf](https://mars-metcash-com.global.ssl.fastly.net/content/uploads/sites/101/2023/08/14161944/20837_Metcash_AR23_00_FULL_Web_V1.pdf)>, page 14.

While Metcash store numbers initially declined in the years following the 2008 inquiry, renewal and investment in the Metcash business from around 2015 has seen a reinvigorated IGA store network, with the business posting record annual sales and earnings in the most recent financial year and projecting strong continued growth.<sup>65</sup> Over the last three years, IGA has seen sales growth of 21.4%.<sup>66</sup> In FY23, the IGA network added a record number of 39 new stores (with more store openings planned for this financial year), and reported sales growth of 21.4% over the previous three year period.<sup>67</sup>

- **Other independents:** One of the concerns raised by market participants during the ACCC Inquiry was the long-term ability of independent supermarket operators and smaller retailers (such as butchers, bakeries and greengrocers) to compete with major supermarket chains.<sup>68</sup> These concerns have not come to fruition. To the contrary, the last sixteen years have seen independent and specialty retailers not just survive, but continue to grow and provide a competitive value offering to consumers. As the ACCC has recently acknowledged, independent supermarkets offer a differentiated product and service offering with different discount and promotional activity that generates competitive tension with larger chains.<sup>69</sup> Since 2008, independent supermarket chains such as Harris Farm (27 stores nationally)<sup>70</sup> and Drakes (60 stores nationally)<sup>71</sup> have also grown substantially and flagged their growth aspirations.<sup>72</sup>

While concerns have been raised about barriers to entry in the grocery industry, the significant expansion outlined above demonstrates that the Australian grocery market is dynamic and the expenditure of such significant amounts of capital into grocery stores indicates that the industry remains an attractive investment option not only for local owners and shareholders, but also for global chains.

In terms of issues that have been raised regarding 'land banking' in the industry, Coles notes that the vast majority (99%) of its stores are leased. In some instances, Coles is unable to secure locations from third party landlords and looks to secure freehold land for its stores. Coles has a property development arm that buys land, constructs shopping centres or stand-alone supermarkets or liquor outlets and then sells these completed sites back into the market. Reasons for acquisition of land vary, but often relate to sites that bring development or financial risk of a level unacceptable to many developers. Examples of these include:

- Sites which are complicated to develop – for example where rezoning is required, development or planning approvals are complicated or there are access or easement issues that require resolution.
- Sites in undeveloped urban regions or growth corridors where development is not required until population growth is at a level to sustain a supermarket.
- Parcels of land which are too small to develop and require acquisition of contiguous sites and eventually amalgamation of two or more lots.

Due to regulatory and other requirements such as re-zoning and development approvals, revisions to commercial plans or competing capital priorities, it can take several years or sometimes longer between purchasing land and beginning construction. Once the store is operational, we generally sell the site to a landlord to allow us to invest in building new stores.

## (b) Format improvements

Supermarkets have also sought to respond to increasing competition and changes in consumer preferences with changes to store format that maximise convenience for customers. For example, the convenience food ranges described in section 4.2 below are available in Coles supermarkets in a dedicated front of store convenience space that allows consumers to quickly pick up 'food for now' and 'food for later'. Woolworths, ALDI and many IGA stores feature a similar designated area close to the front of the store and/or the registers which allows customers to quickly purchase a range of ready-to-eat or easy-to-cook meals.

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<sup>65</sup> Metcash, ASX Announcement – Metcash Limited FY23 Full Year Results, 26 June 2023, <<https://mars-metcdn-com.global.ssl.fastly.net/content/uploads/sites/101/2023/06/26085458/FY23-Metcash-ASX-release.pdf>>.

<sup>66</sup> Metcash, Annual Report 2023, June 2023, <[https://mars-metcdn-com.global.ssl.fastly.net/content/uploads/sites/101/2023/08/14161944/20837\\_Metcash\\_AR23\\_00\\_FULL\\_Web\\_V1.pdf](https://mars-metcdn-com.global.ssl.fastly.net/content/uploads/sites/101/2023/08/14161944/20837_Metcash_AR23_00_FULL_Web_V1.pdf)>, page 13.

<sup>67</sup> Metcash, Annual Report 2023, June 2023, <[https://mars-metcdn-com.global.ssl.fastly.net/content/uploads/sites/101/2023/08/14161944/20837\\_Metcash\\_AR23\\_00\\_FULL\\_Web\\_V1.pdf](https://mars-metcdn-com.global.ssl.fastly.net/content/uploads/sites/101/2023/08/14161944/20837_Metcash_AR23_00_FULL_Web_V1.pdf)>, page 20; Metcash, ASX Announcement – Metcash Limited FY23 Full Year Results, 26 June 2023, <<https://mars-metcdn-com.global.ssl.fastly.net/content/uploads/sites/101/2023/06/26085458/FY23-Metcash-ASX-release.pdf>>, page 3.

<sup>68</sup> ACCC, Report of the ACCC inquiry into the competitiveness of retail prices for standard groceries, July 2008, <<https://www.accc.gov.au/system/files/Grocery%20inquiry%20report%20-%20July%202008.pdf>>, page xiii.

<sup>69</sup> ACCC, Media Release – ACCC opposes Woolworths' acquisition of SUPA IGA Karabar, 26 May 2023, <<https://www.accc.gov.au/media-release/accc-opposes-woolworths-acquisition-of-supa-iga-karabar>>.

<sup>70</sup> Harris Farm, Our Story, <<https://www.harrisfarm.com.au/pages/our-story>>.

<sup>71</sup> Drakes, Store Locator, <<https://drakes.com.au/stores/>>.

<sup>72</sup> See, e.g. Drakes, Celebrating 50 Years Press Release, February 2024 <<https://drakes.com.au/wp-content/uploads/2024/02/Drakes-Supermarkets-50th-Year-PRESS-RELEASE-1.pdf>>.

Relatedly, the increased importance placed on convenience has seen an increase in demand for local and express store formats that are conveniently located and cater to local preferences. For example, the small-format Coles Local offering was launched in 2018 and has since expanded to 21 stores. Coles Local stores have a smaller range of standard grocery items at the same price as a normal Coles store, but also offer a premium and gourmet goods range tailored to the local area. Woolworths launched its smaller format Woolworths Metro stores in Sydney in 2013 and now has over 90 Woolworths Metro stores across Australia.<sup>73</sup>

## 4.2 Investments in the customer proposition

### (a) The Coles turnaround 2007 - 2017

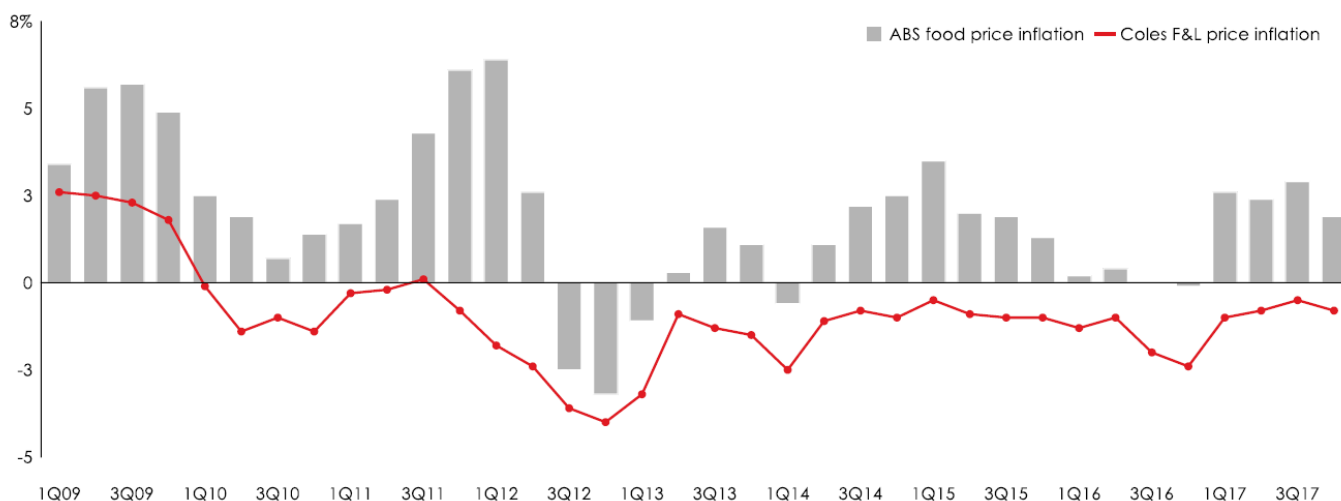
At the time of the 2008 ACCC inquiry, Wesfarmers had just acquired Coles. Around the time of the Wesfarmers acquisition, Coles was losing market share to Woolworths and the independent supermarkets.<sup>74</sup> It was expected that Woolworths and independents would continue to take significant market share from Coles unless changes were made. Analysts had commented that a successful turnaround was 'unlikely' and would be a 'hard slog'.<sup>75</sup> However, the years immediately following this saw a dramatic turnaround of the Coles business. Three key components in a revitalised customer offer were:

- The **Truly Better Value campaign**, a series of programs to offer customers substantially better value. This included creating fewer, deeper promotions through a substantial investment in value pricing (in particular through the 'Down Down' campaign) and a move towards everyday low prices. By 2011, Coles had invested over \$800 million into customer savings and reduced the price of more than 6,000 products in that year alone.
- A significant focus on **Coles Own Brand**, and improving the quality and range of Coles Own Brand products, so that they offered a quality value alternative to branded products, and positioned Coles to better compete against non-branded offerings by ALDI.
- A series of initiatives to improve the quality of **Coles' fresh offering** (particularly fresh fruit and vegetables), including the introduction of Coles' Australia First sourcing policy, enhanced quality assurance checks of fresh produce, working more collaboratively with produce suppliers, increasing direct purchases of fresh produce and implementing ethical sourcing policies such as cage-free eggs, No Added Hormone Beef, responsibly sourced fish, chicken raised on RSPCA approved farms and sow stall-free pork. By 2014, Coles' Australia First sourcing policy meant that 100% of fresh meat and 96% of fresh fruit and vegetables sold by Coles were grown in Australia.

As **Figure 15** below illustrates, Coles was a leader in terms of driving deflation in food prices for a sustained period.

Figure 15: ABS food price inflation vs. Coles food price inflation 2009 – 2017

**F&B CPI and Coles prices over time**  
(FY 2009-17, %)



Source: Wesfarmers Limited full year reports 2009 - 2017

<sup>73</sup> News.com.au, Woolworths plans to convert more stores to Metro format, 30 August 2023, <<https://www.news.com.au/finance/business/retail/woolworths-plans-to-convert-more-stores-to-metro-format/news-story/c360f4220bfd2d8ee4aa73a7adbdd4f>>.

<sup>74</sup> Woolies' dominance set to continue, <https://www.abc.net.au/news/2007-10-24/woolies-dominance-set-to-continue/707598>, viewed on 10 April 2024.

<sup>75</sup> Ian McLeod, The Coles Turnaround Story – A Reputation Management Case Study, Institute of Public Relations, 6 September 2013.

The Coles turnaround reinvigorated the Coles business and reversed years of declining customer sales growth which in turn generated substantial competitive responses from Coles' major competitors. For example, Woolworths installed a new management team in 2015 and invested more than \$1 billion into reducing prices from 2015 to 2016.<sup>76</sup> Metcash also embarked on a major turnaround of its own in 2015 (see below).

### **(b) The Metcash/IGA turnaround 2015 – 2020**

In 2015, Metcash announced a major transformation plan.<sup>77</sup> The key components of this were a Diamond Store program (see section 4.1 above), a Price Match program and a private label program.<sup>78</sup>

In terms of a reinvigorated customer offer, the Price Match program was a substantial investment in seeking to achieve price parity across up to 2,200 products against Coles and Woolworths,<sup>79</sup> to change customer perceptions that IGA stores have higher prices or are not suitable for larger shopping trips. This investment was made immediately and within a year, Metcash reported that its price match program had gone live in 960 stores.<sup>80</sup>

Metcash's private label offering was progressively expanded, including ready to eat meals in 2018.<sup>81</sup>

### **(c) More recent competitive responses by supermarkets**

As cost of living pressures intensify, consumers are becoming more cost conscious whilst expecting that great quality should be affordable. At the same time, consumers are increasingly time poor and looking for grocery options that cater to their lifestyle and dietary needs. A competitive value offering – comprising of affordable prices, high quality products, and a range that is responsive to customer needs – is essential to attract and retain customers.

#### **(i) Customers are cost-conscious and looking to maximise value**

In the years since the 2008 inquiry, there has been a notable trend towards consumers doing more frequent smaller shops, across more stores, in an effort to find cheaper prices, better quality and better selection. The entry and expansion of competitors, coupled with the rise of online shopping, have facilitated this trend by significantly expanding the grocery options available to Australian consumers.

Increasing cost of living pressures have made value front of mind for consumers; 60% of customers report being worried or deeply worried about their ability to cover the cost of groceries, but 40% are concerned about taking the risk of buying less quality products.<sup>82</sup> At the same time, 87% of customers say they have made choices and changes to minimise the cost of groceries over the last 12 months.<sup>83</sup> As recently noted by the ACCC, no supermarket has lower prices than its competitors on every item and differences in the frequency and types of promotions run by different retailers create competitive tension.<sup>84</sup> Against this backdrop, it is unsurprising that the vast majority of Australian consumers (81%) spread their monthly grocery shopping across multiple supermarket brands, as doing so is largely perceived by consumers as a way to maximise value.<sup>85</sup>

While consumers are increasingly likely to spread their grocery shop across multiple stores, a willingness to do so is not new. In the 2008 inquiry, the ACCC found that supermarkets had a lower share of sales in fresh groceries than packaged groceries which was the result of competitive pressure exerted by specialty stores in the fresh categories.<sup>86</sup> Where a supermarket was co-located with specialty retailers, consumers would frequent specialty retailers in conjunction with their supermarket shop (for example, buying bread from a bakery and meat from a butcher in the same shopping centre as a

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<sup>76</sup> Woolworths, *2015 Annual Report*, <[https://www.woolworthsgroup.com.au/content/dam/www/investors/agm/2015/182381\\_Annual\\_Report\\_2015.pdf](https://www.woolworthsgroup.com.au/content/dam/www/investors/agm/2015/182381_Annual_Report_2015.pdf)>, page 2; News.com.au, *Inside Woolies' fancy new stores*, 26 August 2016 <https://www.news.com.au/finance/business/retail/inside-woolies-fancy-new-stores/news-story/048f6c6f7944da3f3c0af61a8f8507ed>.

<sup>77</sup> Metcash, 2015 AGM Chairman's Address, 27 August 2015, <https://mars-metcdn-com.global.ssl.fastly.net/content/uploads/sites/101/2017/04/18105135/2015-August-27-Metcash-2015-Annual-General-Meeting.pdf>.

<sup>78</sup> Metcash 2015 AGM presentation, 27 August 2015, <<https://mars-metcdn-com.global.ssl.fastly.net/content/uploads/sites/101/2017/04/18105135/2015-August-27-Metcash-2015-Annual-General-Meeting.pdf>>, slide 17.

<sup>79</sup> Metcash, *2015 Annual Report*, page 7.

<sup>80</sup> Metcash AGM presentation 2016, <<https://mars-metcdn-com.global.ssl.fastly.net/content/uploads/sites/101/2017/04/18105542/2016-August-30-Metcash-2016-Annual-General-Meeting.pdf>>, slide 9.

<sup>81</sup> Metcash AGM presentation 2018, <<https://mars-metcdn-com.global.ssl.fastly.net/content/uploads/sites/101/2018/08/29142710/METCASH-LIMITED-2018-ANNUAL-GENERAL-MEETING-AND-GROUP-OUTLOOK.pdf>>, slide 12. See also: Sydney Morning Herald, 'We're not naive': The plan to fix IGA's 'price perception', 4 December 2023, <<https://www.smh.com.au/business/companies/we-re-not-naive-the-plan-to-fix-iga-s-price-perception-20231204-p5e0r4.html>>.

<sup>82</sup> Coles Customer Insights.

<sup>83</sup> Coles Customer Insights.

<sup>84</sup> ACCC, *Statement of Issues – Woolworths Limited proposed acquisition of the Karabar SUPA IGA supermarket*, 8 December 2022, <<https://www.accc.gov.au/system/files/public-registers/documents/Woolworths%20Karabar%20-%20Statement%20of%20Issues%20%28%29%20-%202022.pdf?ref=0&download=y>>, page 10; ACCC, *Media Release – ACCC opposes Woolworths' acquisition of SUPA IGA Karabar*, 26 May 2023, <<https://www.accc.gov.au/media-release/accc-opposes-woolworths-acquisition-of-sup-a-iga-karabar>>.

<sup>85</sup> Coles Customer Insights.

<sup>86</sup> ACCC, *Report of the ACCC inquiry into the competitiveness of retail prices for standard groceries*, July 2008, <<https://www.accc.gov.au/system/files/Grocery%20inquiry%20report%20-%20July%202008.pdf>>, page 176.



supermarket where they purchase other grocery items).<sup>87</sup> Today, online shopping has meant that physical 'co-location' of stores is no longer a pre-requisite for a convenient cross-basket shopping experience.

## (ii) Supermarkets are responding with competitive value offerings

As consumers have become increasingly willing to shop around, it has become more important than ever for supermarkets to compete on price and value. ALDI recently reported that rising cost of living pressures had driven a customer increase of approximately 4% in 2023.<sup>88</sup> This followed a targeted 'Shop ALDI First' brand campaign that was based on the premise that customers shop around at multiple stores to maximise value and encouraged them to visit ALDI first when doing so.<sup>89</sup>

Metcash has continued to position IGA stores to compete with larger supermarkets such as Coles and Woolworths by focusing on the full range of factors that influence customer perceptions of 'value', including range, store quality, brand standards and price.<sup>90</sup> Price has continued to be a particular focus, with a significantly expanded 'IGA Price Match Promise' policy in place today. Under this policy, participating IGA stores automatically match the lowest regular shelf price of Coles and Woolworths on up to 1,400 items and signal this price match to customers with blue 'price match' tickets in-store.<sup>91</sup> At their recent 2024 investor day, Metcash stated that IGA was 'more competitive than ever'.<sup>92</sup>

Costco has stated that its differentiated bulk-buying offering and focus on savings and value has been an increasingly attractive proposition to consumers concerned about rising cost-of-living pressures in recent times.<sup>93</sup>

In this context, it has been important for Coles to continue to find ways to deliver value at the checkout despite rising costs of doing business. Some of the most important ways that Coles does this include:

- **Specials and Promotions:** Coles has a long standing practice of offering value to customers in the form of specials and promotions. This includes weekly specials, extended promotional campaigns (consistent value through a low price over an extended period, such as 'Down, Down' and 'Dropped & Locked') and event-specific promotions (such as for Easter, Christmas or school holidays).
- **Coles Own Brand:** Coles has invested in expanding its own-brand offering to provide quality and innovative products at an affordable price (typically between 10%-40% cheaper for consumers than similar proprietary brands), which complements proprietary brands to provide customers with a wide choice of products to suit their budget. Coles' development teams work with internal and external insights resources to understand the particular problems facing customers and provide products that meet customer expectations around value, quality and sustainability. This has been particularly important following the rapid growth of ALDI (with its focus on low-cost private brands) since the 2008 inquiry. For example, in 2023 Coles launched Coles Simply own-brand products designed to help customers find low cost basic product offers across the store to help them balance their weekly budget such as Coles Simply Classic Tomato Pasta Sauce.
- **Flybuys:** Another way in which Coles competes in the grocery (and broader retail) industry is through the quality and relevance of its loyalty program. Since the demerger from Wesfarmers in 2018, Coles has continued to make significant investments through its joint venture interest in Flybuys to deliver additional value to households. Flybuys helps customers to save money through individual offers, earning rewards on every dollar they spend in our supermarkets and by collecting points through our network of partners. In 2024, Flybuys was awarded Canstar's Most Satisfied Customer Award. Coles was pleased to announce at its FY24 H1 results that there had been a 9.5% active membership growth with 818,000 new active members. This was driven by new value campaigns for Flybuys members, including the introduction of a popular \$10 off payment redemption at POS, bonus points for acceleration of point accumulation, and other further discounts including fuel at Viva owned service stations.

## (iii) Customers value convenience and health

Modern-day busy lifestyles mean that an increasing proportion of customers are time-poor and regard convenience highly in the value equation. At the same time, health makes up a large and fast-growing part of the Australian grocery market and supermarkets must deliver healthier, better tasting and better value options for customers that cater to a

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<sup>87</sup> ACCC, *Report of the ACCC inquiry into the competitiveness of retail prices for standard groceries*, July 2008, <<https://www.accc.gov.au/system/files/Grocery%20inquiry%20report%20-%20July%202008.pdf>>, page 176.

<sup>88</sup> ALDI, *ALDI Stores Australia (ALDI) submission to the Senate Select Committee on Supermarket Prices*, 2 February 2024, <[https://www.aph.gov.au/Parliamentary\\_Business/Committees/Senate/Supermarket\\_Prices/SupermarketPrices/Submissions](https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Supermarket_Prices/SupermarketPrices/Submissions)>

<sup>89</sup> Branding in Asia, *It's OK to Have Relationships With Other Supermarkets Says ALDI in Funny New Campaign*, 20 February 2023, <<https://www.brandinginasia.com/its-ok-to-have-relationships-with-other-supermarkets-says-aldi-in-funny-new-campaign/#:~:text=ALDI%20has%20launched%20its%202023,with%20the%20rainy%20grocery%20store>>.

<sup>90</sup> Metcash, *ASX Announcement – Metcash Limited FY23 Full Year Results*, 26 June 2023, <<https://mars-metcdn-com.global.ssl.fastly.net/content/uploads/sites/101/2023/06/26085458/FY23-Metcash-ASX-release.pdf>>, page 2-3.

<sup>91</sup> IGA, *IGA Price Match Promise*, <<https://www.iga.com.au/price-match/>>.

<sup>92</sup> Metcash 2024 investor day, <<https://mars-metcdn-com.global.ssl.fastly.net/content/uploads/sites/101/2024/03/12095501/Investor-Day-2024-presentation-FINAL.pdf>>, slide 22.

<sup>93</sup> Realcommercial.com.au, *Several new Costco warehouses planned across Australia*, 12 July 2022, <<https://www.realcommercial.com.au/news/several-new-costco-warehouses-planned-across-australia>>.

range of health and dietary needs (such as food suitable for allergies or intolerances, meal solutions that are suitable for vegetarian, vegan, low carb, high protein or low calorie diets, or food that is certified organic).

Consumer demand for grocery solutions that are both convenient and healthy is well-evidenced by the recent success of online meal delivery services, which have grown significantly since the pandemic:

- **Meal kit delivery services:** The meal kit delivery model competes directly with grocery retail providing an alternative for weeknight dinner missions and reducing trips to store. These services provide a box of recipes and pre-portioned ingredients for customers to prepare themselves, with providers typically emphasising their food's premium quality and healthiness.<sup>94</sup> These services usually operate on a no lock-in subscription basis which allow customers to tailor their menu to particular dietary preferences, and flexibly adjust the number of meals they receive and the frequency of their order using a website or an app. HelloFresh, a Frankfurt-listed \$1.7 billion company and the first large meal kit provider in Australia, entered the market in 2012 and has grown significantly since.<sup>95</sup> The popularity of HelloFresh (and its lower-priced brand 'EveryPlate') have seen a wave of similar companies enter in recent years, including Marley Spoon (and its own lower price meal kit brand 'Dinnerly'),<sup>96</sup> Pepper Leaf<sup>97</sup>, QuiteLike<sup>98</sup> (a Coles offering), Make-Out Meals<sup>99</sup> and Home Chef<sup>100</sup>.
- **Pre-prepared meal delivery services:** these services provide pre-prepared meals that are refrigerated or frozen and simply require re-heating, often with a health focus (for example, high protein, low carb, low calorie or plant based). One of the largest pre-prepared meal providers in Australia is YouFoodz, which was acquired by HelloFresh in 2021, allowing HelloFresh to offer YouFoodz meals as add-ons to HelloFresh meal kit customers.<sup>101</sup> Other significant standalone pre-prepared meal providers in Australia include Lite'n'Easy,<sup>102</sup> MyMuscleChef,<sup>103</sup> ChefGood,<sup>104</sup> Soulara,<sup>105</sup> and The Dinner Ladies<sup>106</sup>. While some of these brands do sell individual meals through supermarkets, consumers can purchase directly from suppliers through a subscription model that allows for menu tailoring and home delivery.

These online meal delivery services offer a growing range of grocery 'add-ons' that customers can opt-in to alongside their meal kit. These include products such as fresh fruit boxes, snacks, desserts, breakfasts, and meals for children.<sup>107</sup>

The popularity of convenience and health focused meal solutions has resulted in supermarkets responding with similar offerings in-store. For Coles, this has included significant work by Coles' development and insight teams to identify global consumer trends and develop possible responses such as:

- The launch of **Coles Nature's Kitchen** in 2019 which provides plant products underpinned by vegan recipes.
- The launch of the **Coles Kitchen** range in 2020, which provides chilled convenience ready-meals and meets the recommendations of the federal government's Healthy Food Partnership.
- The re-launch of the **Coles Finest** range, also in 2020, that provides premium, restaurant-quality products and ready-meals including Coles Finest Certified Carbon Neutral Beef range, which contains no added hormones and only the highest grades of meat.
- The launch of the **Coles PerForm** range in 2021, which includes refrigerated and frozen meals that are sports dietitian approved with tailored macronutrients and designed to assist customers in enhancing their sporting performance and health and wellbeing. This range has recently expanded to also include a variety of protein powders and protein bars.

Coles has also responded to customer demand for groceries that satisfy particular health and dietary requirements outside of the convenience space, stocking a growing range of specialty health products. This includes both proprietary brand

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<sup>94</sup> IBISWorld, OD5527 – Online Grocery Sales in Australia, <<https://my.ibisworld.com/au/en/industry-specialized/od5527/performance>>.

<sup>95</sup> Australian Financial Review, *HelloFresh delivers first Australian profit, 6 years after launching here*, 23 May 2018, <<https://www.afr.com/technology/hellofresh-delivers-first-australian-profit-6-years-after-launching-here-20180521-h10czk>>. See also Australian Financial Review, *HelloFresh expands as meal kit orders soar*, 30 September 2020, <<https://www.afr.com/companies/retail/hellofresh-expands-as-meal-kit-orders-soar-20200930-p560mh>>.

<sup>96</sup> Marley Spoon, *Receipe & Meal Box Delivery in Australia*, <<https://marleyspoon.com.au>>; Dinnerly, *Australia's Most Affordable Meal Kit*, <<https://dinnerly.com.au/>>. See also The Sydney Morning Herald, *'A myth': Meal kits aren't pricier than grocery trips, says Marley Spoon boss*, 1 May 2023 <<https://www.smh.com.au/business/companies/a-myth-meal-kits-aren-t-pricier-than-grocery-trips-says-marley-spoon-boss-20230428-p5d407.html>>.

<sup>97</sup> Pepper Leaf, *Pepper Leaf – Meal Kits – Online Meal Delivery Sydney*, <<https://www.pepperleaf.com.au/>>.

<sup>98</sup> QuiteLike, *Meal Kit & Recipe Box Delivery in Australia*, <<https://www.quitelike.com>>.

<sup>99</sup> Make-Out Meals, *Home*, <<https://makeoutmeals.com.au/>>.

<sup>100</sup> Home Chef, *Meal Delivery Service – Fresh Weekly Meal Kit Delivery*, <<https://www.homechef.com/>>.

<sup>101</sup> Australian Financial Review, *HelloFresh gobbles up ready-meals maker Youfoodz*, 13 July 2021, <<https://www.afr.com/companies/retail/hellofresh-gobbles-up-ready-meals-maker-youfoodz-20210713-p5894x>>.

<sup>102</sup> Lite'n'Easy, <<https://www.liteneasy.com.au/>>.

<sup>103</sup> My Muscle Chef, *Healthy Prepared Meals | Ready-made Meal Delivery*, <<https://www.mymusclechef.com/>>.

<sup>104</sup> Chefgood, *Healthy Ready Meals Delivered Now From \$9.95*, <<https://chefgood.com.au/>>.

<sup>105</sup> Soulara, *Healthy Plant-Based Meals Delivered Australia Wide*, <<https://soulara.com.au/>>.

<sup>106</sup> The Dinner Ladies, *Meal Delivery | Online Food Delivery*, <<https://www.dinnerladies.com.au/>>.

<sup>107</sup> See, e.g., Market by Marley Spoon <<https://marleyspoon.com.au/blog/market-by-marley-spoon>>.

products as well as a number of Coles' Own Brand ranges specifically designed to meet consumers' changing dietary needs:

- **'I'm Free From' ranges:** Launched in 2019, the 'I'm Free From' range clearly state on the front of the packaging whether they are free from common allergens such as wheat, dairy, eggs and nuts.
- **Organics range:** In 2022, Coles re-launched its Organics range with a new look and consistent design across organic food packaging. Coles Organic products are rigorously tested and audited to ensure they are non-GMO, pasture fed and grown without the use of synthetic pesticides, herbicides, hormones and antibiotics.
- **Plant based foods:** A plant-based range of grocery items under the 'Nature's Kitchen' label which was launched in 2019 and offers a wide variety of vegan-friendly meal options (including ready-meals, fresh protein options and bakery items).
- **Specialty health food basics:** A range of health food staples under the 'Wellness Road' label that was launched in 2018 and includes products such as organic cacao powder, almond flour and quinoa.
- **Artisan-style products:** In April 2018, Coles signed a 10-year agreement with Laurent to provide Coles supermarkets with a range of artisan-style stone-baked sourdough bread, which better position Coles to compete against specialty bakers like Bakers Delight.

Coles is also implementing a 'Health in Every Aisle' initiative. This is set to move mainstream health products out of health food aisles in store and into their respective parent category. For example, to move gluten free pasta into the pasta aisle. This change will be rolled out in new stores and as part of store renewals and reflects the normalisation and importance of health foods to customers.

### 4.3 Investments in supply chain modernisation

#### (a) Coles

A key component of the Coles turnaround from 2007 onwards was a program to modernise and simplify its supply chain in order to increase productivity, reduce the costs of logistics per carton (and reinvest savings into lower retail prices) and enhance in-store availability of products. These supply chain programs included reducing the number of distribution centres from 43 to 23, and the investment of several hundred million dollars into supply chain management and ordering systems.

Since its demerger from Wesfarmers in 2018, Coles has continued to invest significantly in supply chain transformation that relies on automation, data analytics and artificial intelligence to increase supply chain efficiencies and lower costs while improving the customer experience. In 2018, Coles announced the largest single investment in its history, with a \$1 billion commitment to the construction of two ambient Automated Distribution Centres (ADCs) in Brisbane and Sydney, in partnership with Witron, a global leader in the supply of dynamic warehouse and ordering picking systems. At approximately 70,000 square metres each, these facilities are amongst the biggest of their kind in Australia. They are replacing 5 ageing, higher cost manual DCs.

These facilities were constructed over a 6-year period, creating a significant number of construction jobs with the QLD facility opening in 2023 and the NSW facility to open in mid-2024. The facilities offer a highly efficient automated end-to-end solution for the receipt, storage and despatch of grocery pallets. The facilities are capable of processing around 4 million cartons per week, compared to around 2 million at a traditional DC, resulting in a substantial operational efficiency gain of double the capacity at two-thirds the operating cost. The ADCs will supply a full range of ambient grocery lines to 248 Coles supermarkets in New South Wales and 184 supermarkets in Queensland. These long-term investments are designed to deliver structural cost advantages to Coles' supply chain, enabling Coles to offset rising cost pressures and continue to offer value to customers into the future.

Coles has also partnered with global on-line solutions expert Ocado Group plc, in the construction of two major online CFCs in Sydney and Melbourne. These CFCs involve the picking of certain online orders by robots, rather than the current back of house or dark-store arrangements. It is expected that these CFCs will fulfil Next Day Home Delivery orders. Total capital expenditure is now expected to be approximately \$400 million of which 55% has been incurred to the end of FY23, with the balance expected to be incurred in FY24 and FY25.

## (b) Amazon

Amazon has built 7 large CFCs<sup>108</sup> in under 8 years and a further CFC is under construction.<sup>109</sup> The CFC currently under construction (due to be operational in 2025) will be Amazon's largest in Australia and its second that uses robotics to fulfil customer orders.<sup>110</sup> Amazon's first robotics CFC is in Kemps Creek in Western Sydney, from which 80% of the Australian population can be reached within a 12 hour drive.<sup>111</sup> Amazon's Kemps Creek robotics site, launched in 2022, was a \$500 million investment.<sup>112</sup>

In recent years, Amazon has also continued its investment supply chain modernisation across the country, with, for example, an opening of its second fulfilment centre in Moorebank, South West Sydney in 2018,<sup>113</sup> its purpose-built \$70 million fulfilment centre in Perth in 2023,<sup>114</sup> and a new logistics site in Geelong, Victoria in 2023.<sup>115</sup>

In addition, Amazon recently announced its plans to invest \$490 million into Western Sydney by opening two new fulfilment centres in Horsley Park by early 2026.<sup>116</sup>

## (c) Woolworths

In recent years, Woolworths has invested in strengthening its supply chain resilience with new and expanded distribution centres and building a better online shopping experience with new customer fulfilment centres. In late 2021, Woolworths commenced building its first automated customer fulfilment centre to serve the online grocery needs of customers in Western Sydney.<sup>117</sup> That centre is set to open this year. In 2023, Woolworths opened CFCs in NSW and Queensland, bringing the total number of its Australian CFCs to seven.<sup>118</sup>

## (d) Metcash

Metcash opened a major new distribution centre in Adelaide in 2020.<sup>119</sup>

Metcash is continuing to invest in distribution centres and supply chain systems, seen in the upgrade of its Western Australia distribution centre and the construction of its new Truganina distribution centre in Melbourne.<sup>120</sup> Once complete, Metcash has indicated that the new Truganina site 'will be the size of 16 football fields, span almost 115,000 square metres, and incorporate new automation technology and sustainability features'.<sup>121</sup>

## 4.4 Investments in immediacy and home delivery

Since the 2008 inquiry, grocery retailers have significantly invested in their online grocery offering, which is also a lower margin business than traditional bricks and mortar stores due to the extra labour component in e-commerce fulfilment. At the time of the 2008 inquiry, Coles Online was limited to a small range of products available for delivery in Melbourne and Sydney metropolitan areas only. Products were picked at warehouses dedicated to the Coles Online offering and the

<sup>108</sup> Dedicated fulfilment centres for online orders.

<sup>109</sup> WA today, *Amazon builds new mega warehouse as shoppers seek out larger items*, 10 April 2024

[https://www.watoday.com.au/business/companies/amazon-builds-new-mega-warehouse-as-shoppers-seek-out-larger-items-20240408-p5fi7j.html?ref=rss&utm\\_medium=rss&utm\\_source=rss\\_feed](https://www.watoday.com.au/business/companies/amazon-builds-new-mega-warehouse-as-shoppers-seek-out-larger-items-20240408-p5fi7j.html?ref=rss&utm_medium=rss&utm_source=rss_feed); Amazon, *Take a behind the scenes look at Amazon Australia's robotics fulfilment centre in Western Sydney*, 25 July 2023 <<https://www.aboutamazon.com.au/news/workplace/take-a-behind-the-scenes-look-at-amazon-australias-robotics-fulfilment-centre-in-western-sydney>>.

<sup>110</sup> Amazon, *Construction has begun in Melbourne as Amazon Australia announces second robotics fulfilment centre*, 9 August 2023, <<https://www.aboutamazon.com.au/news/workplace/construction-has-begun-in-melbourne-as-amazon-australia-announces-second-robotics-fulfilment-centre>>.

<sup>111</sup> Amazon Australia, *Amazon Australia's First Robotics Fulfilment Centre in Western Sydney Now Open*, 6 April 2022, <<https://amazonau.gcs-web.com/news-releases/news-release-details/amazon-australias-first-robotics-fulfilment-centre-western>>.

<sup>112</sup> See Transcript dated 29 August 2023, Standing Committee On Economics Inquiry into Promoting Dynamism, Competition and Business Formation at ParInfo - Standing Committee on Economics : 29/08/2023 : Inquiry into promoting economic dynamism, competition and business formation (aph.gov.au).

<sup>113</sup> Amazon Australia, *Amazon Announces New Sydney Fulfilment Centre Opens Its Doors*, 15 August 2018, <<https://amazonau.gcs-web.com/news-releases/news-release-details/amazon-announces-new-sydney-fulfilment-centre-opens-its-doors>>.

<sup>114</sup> Amazon Australia, *Amazon Australia's Purpose-Built Fulfilment Centre In Perth Opens In Time For The Holidays*, 3 November 2023, <<https://amazonau.gcs-web.com/news-releases/news-release-details/amazon-australias-purpose-built-fulfilment-centre-perth-opens>>.

<sup>115</sup> Amazon Australia, *Amazon Opens New Logistics Site In Geelong*, 26 September 2023 <<https://amazonau.gcs-web.com/news-releases/news-release-details/amazon-opens-new-logistics-site-geelong>>.

<sup>116</sup> Amazon Australia, *Learn about Amazon Australia's plans to invest in two new Western Sydney fulfilment centres, creating 1,000 jobs*, 9 April 2024, <<https://www.aboutamazon.com.au/news/economic-impact/learn-about-amazon-australias-plans-to-invest-in-two-new-western-sydney-fulfilment-centres-creating-1-000-jobs#:~:text=Since%20opening%20its%20first%20Sydney,current%20local%20jobs%20being%20created.>>>.

<sup>117</sup> Woolworths Group starts construction on first automated online fulfilment center in heart of Western Sydney, <https://www.woolworthsgroup.com.au/au/en/media/latest-news/2021/woolworths-group-starts-construction-on-first-automated-online-fulfilment-centre-in-the-heart-of-western-sydney.html>, viewed on 10 April 2024.

<sup>118</sup> Woolworths, *2023 Annual Report*, August 2023, <<https://www.woolworthsgroup.com.au/content/dam/wvg/investors/reports/2023/f23-full-year/Woolworths%20Group%202023%20Annual%20Report.pdf>>, page 15.

<sup>119</sup> Metcash Full Year Results Presentation 2020, slide 10.

<sup>120</sup> Metcash, *Annual Report 2023*, <[https://mars-metcdn-com.global.ssl.fastly.net/content/uploads/sites/101/2023/08/14161944/20837\\_Metcash\\_AR23\\_00\\_FULL\\_Web\\_V1.pdf](https://mars-metcdn-com.global.ssl.fastly.net/content/uploads/sites/101/2023/08/14161944/20837_Metcash_AR23_00_FULL_Web_V1.pdf)>, page 20.

<sup>121</sup> Metcash, *Annual Report 2023*, <[https://mars-metcdn-com.global.ssl.fastly.net/content/uploads/sites/101/2023/08/14161944/20837\\_Metcash\\_AR23\\_00\\_FULL\\_Web\\_V1.pdf](https://mars-metcdn-com.global.ssl.fastly.net/content/uploads/sites/101/2023/08/14161944/20837_Metcash_AR23_00_FULL_Web_V1.pdf)>, page 20.

products sold on Coles Online were also priced higher than their in-store equivalents (reflecting the higher cost at that time of online shopping). Several years later, the Coles Online model moved to in-store picking and pricing generally at parity with in-store purchases. Pricing parity between stores and online remains Coles' approach today, with only limited exceptions (for example, where Coles Online offer reduced 'online only' specials on certain items or where a bricks and mortar store has initiated an in-store markdown or price adjustment such as where fresh products are approaching their expiry).

The uptake of online grocery delivery and click and collect saw an increase in popularity during the COVID-19 pandemic.<sup>122</sup> This trend was seen across the sector and has largely remained since 2020 as time-poor and convenience-driven Australians are increasingly moving their grocery shop online.<sup>123</sup> Coles Online sales increased from 4% of overall sales in FY20 to 5.8% in FY21, to 8% in FY22 and up to 9.1% in the first half of FY24.

Service improvements, such as increased delivery time slots and direct-to-boot and contactless click and collect models, are attracting greater interest in online shopping from consumers for both pantry and fresh produce items.<sup>124</sup> The popularity of mobile devices has seen grocery retailers develop sophisticated online shopping platforms for use with smartphones and tablets, providing consumers with an online shopping experience that focuses on convenience and ease of use.<sup>125</sup> Coles Online sales are continuing to increase at 9.1% of overall sales.

The increased demand for home delivery has required significant investments by Coles and since 2020, Coles has invested heavily in expanding the capacity of delivery and the availability of click and collect services. In particular, customers increasingly demand immediacy in their delivery, and in 2021, Coles launched same-day home delivery at more than 300 supermarkets. In 2023 the Click & Collect Rapid offering that allows customers to collect orders 90 minutes after they are placed was expanded to more than 600 stores and same day home delivery was expanded to more than 480 stores.

Apart from last-mile logistics, a critical aspect of competition in home delivery are the digital platforms of retailers. A large number of online customers engage in what is known as ROBI (Research Online, Buy In-store) and the functionality of their digital interface with Coles is crucial in helping convert their browsing into a sale. Coles has significantly invested in improving its digital offering by making its consumer facing app fully e-commerce enabled and consolidating its website (previously 2 domains) into a unified shopping experience. For example, enhancements have been made to deliver a shoppable app and functionality that can be used in-store (55% of Coles App users utilise in-store mode), to introduce the capability to opt-in to substitutions at check out in the website, to introduce the ability to apply a range of filters (e.g. dietary, brand), and to integrate Flybuys offers into the app.

As at the end of FY23, Coles' home delivery network was as set out in **Table 1** below. Since 2018, Coles has heavily expanded both the number of stores offering click and collect services and Next Day delivery, and the range of home delivery and click and collect services it offers in its store network.

Table 1 - Coles' home delivery network

Service type	Store count FY18	Store count end of FY23
Home Delivery Rapid delivery (Partner)	Service not available in 2018	480
Same Day delivery (Partner)	Service not available in 2018	562
Next Day delivery (Own fleet)	107	214
Click & Collect C&C Rapid	Service not available in 2018	607
Direct to Boot	361	646
Drive Thru	Service not available in 2018	74
Direct to Boot & Lockers	Service not available in 2018	5
Service Desk	Service not available in 2018	35
Lockers	Service not available in 2018	15

<sup>122</sup> IBISWorld, OD5527 – Online Grocery Sales in Australia, <<https://my.ibisworld.com/au/en/industry-specialized/od5527/performance>>.

<sup>123</sup> IBISWorld, OD5527 – Online Grocery Sales in Australia, <<https://my.ibisworld.com/au/en/industry-specialized/od5527/performance>>.

<sup>124</sup> IBISWorld, OD5527 – Online Grocery Sales in Australia, <<https://my.ibisworld.com/au/en/industry-specialized/od5527/performance>>.

<sup>125</sup> IBISWorld, OD5527 – Online Grocery Sales in Australia, <<https://my.ibisworld.com/au/en/industry-specialized/od5527/performance>>.

Like Coles, most major retailers now offer some form of delivery or 'click and collect' option, with some accelerating their rollout of digital offerings. For example:

- **Woolworths** online offers delivery (including same day options), direct to boot or click and collect services,<sup>126</sup> with direct to boot available at 708 sites.<sup>127</sup> Woolworths Group also powers MILKRUN – a grocery delivery app where users can shop 'a 10,000 strong range of Woolworths grocery items'<sup>128</sup> including 'roast chicken, sushi, flowers, snacks, fruit & vegetables, baby essentials and at least 9,994 more. All are available for same day grocery delivery.'<sup>129</sup>
- **IGA** network stores offer IGA Shop Online which allows customers to order from their local store and have their order delivered or choose click and collect. Certain stores also offer same day delivery.<sup>130</sup> A significant number of IGA stores also offer 'IGA Shop Online', an online delivery and click-and-collect offering that directly competes with similar services provided by major supermarket chains.<sup>131</sup>
- **Metcash** is enabling online deliveries across IGA stores through partnerships with Uber Eats and DoorDash.<sup>132</sup> Metcash also notes that it has 'expanded' its IGA Shop Online offering which is 'live in over 330 stores, with further expansion in FY24'.<sup>133</sup>
- **Harris Farm Markets** and **Drakes** both offer home delivery and click and collect.<sup>134</sup>

Retailers are also responding to consumer demands for 'Q-commerce' and deliveries in as fast as 10 minutes. Many retailers now offer some form of express local delivery by partnering with online food ordering and delivery platforms such as UberEats and DoorDash. UberEats now also includes a standalone 'Grocery' tab in the app that allows customers to see all the available local delivery options in their area.<sup>135</sup> This also allows smaller independent stores to offer same day delivery and click and collect.<sup>136</sup> Coles now has around 700 stores on Uber and DoorDash. In 2021, immediate delivery was estimated to represent 15% of online grocery sales in London and up to 6-7% of UK sales.<sup>137</sup> Coles expects growth in Q-commerce to continue. The convenience and ease of online shopping is an attractive proposition to varied types of consumers. Younger consumers are inclined to use online alternatives and those between the ages of 35 to 55, typically with younger families, who have the most constraints on time.<sup>138</sup> This group of consumers is also more likely to consider alternative online grocery options such as the meal delivery services discussed above.<sup>139</sup>

The uptake in online ordering of grocery items has contributed to the successful growth of Amazon in Australia. Amazon's compelling delivery proposition is due in part to its expansive network of CFCs, including its innovative use of automation with its robotic centres. In order to provide a competitive online offering, both Coles and Woolworths have been developing their own CFC networks dedicated solely to online orders.

## 4.5 Investments in service

A key aspect of the Coles turnaround plan from 2007 was an improvement in customer service. A customer's perception of the friendliness, availability and helpfulness of team members is an important aspect of customer Net Promoter Scores (**NPS**) in the grocery industry. It is therefore a feature of the competitive environment, and Coles invests a significant amount of time and resources in training its team. This is reflected in the fact that NPS is one of the key metrics by which the Coles Managing Director and other Coles Key Management Personnel's performance is measured and reported.

Some of the ways that Coles competes in terms of its customer service standards and the improvements in this area since 2008 are:

- Investments in improved rostering tools. Coles made a major investment in a store based rostering system in 2015 and has continued to build on this platform since, to ensure the right rosters are built for the shape of the day in store, particularly at the front of house service areas and for online operations including Click and Collect, given changes over time in customer shopping habits.

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<sup>126</sup> Woolworths, *Shop the way it works for you*, <https://www.woolworths.com.au/shop/discover/shopping-online>.

<sup>127</sup> Woolworths, *2023 Annual Report*, page 3 <<https://www.woolworthsgroup.com.au/content/dam/wwg/investors/reports/2023/f23-full-year/Woolworths%20Group%202023%20Annual%20Report.pdf>>.

<sup>128</sup> MILKRUN.com, *MILKRUN*, <<https://www.milkrun.com/>>.

<sup>129</sup> MILKRUN.com, *MILKRUN*, <<https://www.milkrun.com/>>.

<sup>130</sup> IGA, *IGA Shop Online*, <<https://www.igashop.com.au/about>>

<sup>131</sup> <<https://www.iga.com.au/shop-online/>>, viewed on 10 April 2024.

<sup>132</sup> Metcash, *2023 Annual Report*, page 14.

<sup>133</sup> Metcash, *2023 Annual Report*, page 24.

<sup>134</sup> Harris Farm Markets, *Delivery Info*, <<https://www.harrisfarm.com.au/pages/delivery>>; Drakes, *Online Shopping*, <<https://online.drakes.com.au/>>

<sup>135</sup> Uber Eats for Merchants, *Grow your retail delivery business*, <<https://merchants.ubereats.com/au/en/who-we-serve/retail/overview/>>

<sup>136</sup> See, e.g. Harris Farm Markets, *Same Day Grocery Delivery*, <<https://www.harrisfarm.com.au/pages/same-day-grocery-delivery>>

<sup>137</sup> Geolytix, *Immediate Delivery Review London*, September 2021.

<sup>138</sup> IBISWorld, *OD5527 – Online Grocery Sales in Australia*, <<https://my.ibisworld.com/au/en/industry-specialized/od5527/performance>>.

<sup>139</sup> IBISWorld, *OD5527 – Online Grocery Sales in Australia*, <<https://my.ibisworld.com/au/en/industry-specialized/od5527/performance>>.

- Training in customer service and quality and presentation standards, especially for fresh products. With an in-store workforce of over 100,000 team members, and a substantial annual turnover in staff due to the transient nature of the retail industry, this involves a significant and ongoing investment of time and resources by Coles.
- Investing in Coles Services, the business division responsible for store cleaning and trolley collection. Store cleanliness is an important factor in NPS, as is trolley availability. Coles Services also play an essential role keeping Coles stores safe such as removing spills.

## 4.6 Investments in suppliers

It is important that Coles is able to offer customers an extensive range of high quality products, at the right price. This requires Coles to attract a large number of suppliers across a broad range of product segments and to do so, Coles has made significant investments in the trading relationship and environment with its suppliers. There has been a significant amount of focus on allegations of misconduct by supermarkets towards suppliers, which has unfortunately masked the dedication and progress that Coles has shown towards improving its supplier relationships.

Coles launched its own Supplier Code in 2014 and voluntarily became a signatory to the Grocery Code in 2015. Australian Modern Slavery laws were enacted in 2018<sup>140</sup> and Coles has made significant investments in its Ethical Sourcing policy and program, which involves an extensive supplier audit and engagement program.

While these initiatives might be regarded as business as usual requirements from an ESG perspective, Coles seeks to be regarded as a leader in this space. Being a market leader is important in terms of Coles' corporate social responsibility, shareholder perceptions and the ability to attract capital which is increasingly focussed on ethical investment options. Customer perceptions of Coles as a company that treats suppliers fairly is highly valued by Coles and customer sentiment regarding suppliers is also reinforced by the regular reporting in the media of the findings of the Grocery Code Independent Reviewer as well as well-known supplier sentiment surveys like the annual Advantage Survey. This illustrates how supplier relations is an important aspect of the competitive dynamic in the grocery industry.

For example, in FY22, Coles invested \$1.5 million in paying for audits for a range of primarily smaller suppliers as part of helping them meet Coles' Ethical Sourcing requirement. Coles' efforts in this area resulted in the World Benchmarking Alliance (WBA) ranking Coles number 5 among 61 food retailers globally in WBA's Food & Agriculture Benchmark, with Sainsbury's, Tesco, Charoen Pokphand Group and Woolworths Group in the top 4 spots.<sup>141</sup>

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<sup>140</sup> *Modern Slavery Act 2018* (Cth).

<sup>141</sup> World Benchmarking Alliance, Food Retailers, <https://www.worldbenchmarkingalliance.org/publication/food-agriculture/rankings/segment/food-retailers/>, viewed on 10 April 2024.

## 5 Areas where competition and consumer outcomes could be enhanced

Coles welcomes an open discussion about areas for improvement in the grocery industry. Coles has identified a number of possible areas for consideration by the ACCC and looks forward to discussing these in further detail.

### 5.1 Fresh produce model – transparency of volumes and prices

As noted in section 3.3(c) above, the number of different growers and produce types, seasonality of production, and the impact of climate change and severe weather events on volumes, makes the fresh produce supply chain highly complex.

These factors make it more difficult to replicate the kind of successful direct-to-farmer contracting model that has been used by Coles in relation to milk or meat, noting that Coles does have multiple direct grower relationships in its fresh produce business and continues to investigate a direct sourcing model for some fruit and vegetable types.

Coles acknowledges the concerns that growers raise in this area. Coles believes that these largely stem from information asymmetries and a lack of transparency at various points in the supply chain, particularly where growers sell via wholesalers and aggregators. Coles would welcome a discussion on potential areas for improvement. Having a more informed and transparent market could enhance competition and the ability of growers to make more informed decisions, and could help lower barriers to entry and expansion for emerging supermarkets.

#### Transparency of prices

Coles understands that some growers are concerned about a lack of pricing transparency, including indicators prior to harvest about the prices they may receive for a crop. As noted in section 3.3(c) above, fresh produce prices in Australia are heavily influenced by the wholesale market price in major metropolitan centres. Coles accesses these prices through Ausmarket data ([www.ausmarket.com.au](http://www.ausmarket.com.au)), a widely used subscription service, but not all growers have access to this.

Coles believes that greater transparency in pricing could potentially be achieved by this type of market data becoming easier for growers to access (e.g. prior to harvest, and to help them predict what the post-harvest price might be). Coles notes that in the beef industry, for example, pricing information such as saleyard reports and indicator reports are available free of charge through Meat & Livestock Australia.

#### Transparency of specifications

Concerns have also been raised as to a lack of transparency regarding fresh produce specifications. As noted in section 3.3 above, Coles' specifications are freely available to the parties with whom it contracts through the Coles Supplier Portal. Coles is mindful of regulations regarding competitors signalling information to each other, and to date has not made these specifications publicly available. However, if it is considered that this would be helpful to market participants, to enable greater certainty regarding whether a crop will be accepted by Coles, then Coles would be happy to discuss an appropriate mechanism for this to occur.

#### Greater transparency on volumes

A key issue facing growers of fresh produce is the rapid fluctuation in market volumes that can arise, such as from extreme weather events or (in good seasons) when markets are in 'flush'. The fact that fresh produce prices rise and fall in accordance with seasonal conditions and production is an unavoidable market feature. The difficulty for growers is that there can be large movements in wholesale prices if a major producer places a significant volume onto the market at a point in time, just as the grower's own volumes are being priced. This can result in price expectations failing to be realised.

Coles would be happy to consider options by which its own volume requirements might be made more transparent, noting however the concern (above) of avoiding allegations of signalling to other retail competitors.

#### Identity of ultimate buyer

Some produce growers are unaware who the ultimate buyer of their product will be. For example, Coles has investigated various claims by growers about issues such as inappropriate rejection of goods or unfair pricing, only to determine that Coles did not have a commercial relationship with the grower, either directly or indirectly (via an aggregator).

Where produce is acquired from a grower by an aggregator, there will be instances where the aggregator knows - at the time of acquisition - that the products will be supplied to Coles, but there will also be instances where that will not be known until sometime in the future (for example, because Coles increases its order volumes within a week, and the produce will be directed by the aggregator towards that unanticipated order fluctuation).

Coles is happy to be part of a discussion about how greater transparency can be provided to growers about who the ultimate purchaser of their fresh produce is. At the moment, any person is able to utilise Coles' whistleblower complaints line, and lodge complaints about inappropriate conduct by Coles or anyone with whom Coles deals. Notwithstanding this, Coles is often unaware of grower concerns until they are aired in the media. If growers knew with greater certainty



whether Coles was acquiring their produce this would facilitate them being able to report any concerns to Coles (anonymously if desired), which would allow Coles to promptly investigate those matters.

## 5.2 ACCC guidance on pricing and discount claims

The ACCC has published general guidance on avoiding misleading representations in respect of pricing and other claims such as 'was/now' pricing or percentage or dollar savings.<sup>142</sup> Those guidelines suggest that when determining whether a represented saving will be achieved, a critical issue is whether relevant consumers would have paid the 'was' or 'strike through' price to purchase that item for a 'reasonable period' before the sale commenced. The guidelines do not provide any detailed guidance on what a reasonable period is and much of the case law in this area relates to occasional purchases such as furniture and jewellery, which have limited relevance in the grocery sector which involves fast moving consumer goods.

Coles submits that both competition and consumer outcomes in grocery could be enhanced by the ACCC publishing more detailed guidance in this area. At present, grocery retailers formulate their own internal compliance guardrails regarding how often products can be promoted and how long the higher shelf price must be established before the price can drop and a discount be claimed. Compliance guardrails of this kind must necessarily strike a balance between facilitating and restricting competitive pricing – the longer that the regular shelf price is established, the lower the risk that a discount claim will be regarded as non-genuine and therefore misleading, but equally, the less often the product will be discounted, therefore reducing price competition in the market.

## 5.3 Fragility of key transport infrastructure – investments in core transport corridors

Coles' supermarket supply chain involves the transportation of chilled and ambient grocery products over some of the longest distances of any major supermarket chain in the world. The geographic scale over which these products are required to be transported, combined with the relatively small volumes and the inefficiencies of under-utilised long distance backhaul operations, all contribute towards high-cost operations. There are also usually limited options in terms of transport suppliers capable of meeting Coles' operational requirements. For example, Coles services its stores in Western Australia<sup>143</sup>, the Northern Territory and Far North Queensland primarily by rail transport. These networks involve monopoly below rail infrastructure and single above rail providers.

The increasing number of severe natural events in Australia is exposing the acute vulnerability (and in many cases, the underinvestment in climate resilience) of these vital supply chains. In Coles' experience the east-west rail link between Adelaide and Perth, the rail line between Adelaide and Darwin, and the rail line between Brisbane and Far North Queensland have proved particularly exposed to disruption.

**Table 2** below lists a number of major events since 2021 which have caused sufficient disruption in the Coles network for the Coles Business Continuity team to be activated. As is evident, Western Australia and Queensland have been particularly affected by rail outages due to flooding. The increasing frequency with which key transportation corridors to these major metropolitan regions are effectively out of action for multiple weeks at a time is concerning. These events all required immediate responses to facilitate alternative means of transporting grocery products to affected areas, usually through short-term contracts for road transportation. These solutions inevitably come at a much higher cost to Coles and its suppliers, and can cover only a proportion of the volume that would have been transported by rail, leading to a reduction in availability (and therefore competition) at shelf edge.

### Case study: March 2024 WA rail outage

The March 2024 outage of the WA rail corridor between Kalgoorlie and Rawlinna has resulted in transport costs from the East Coast to Perth more than quadrupling as transport shifted from rail to road (approximately \$8,000 for a container by rail to approximately \$32,500 for a container by road). This outage lasted 3 weeks, and resulted in major shelf impacts in ambient grocery products in Western Australia.

Coles Collect transport, which accounts for around 30% of inbound volume into WA, incurred incremental costs of approximately \$3.9 million in the first few weeks due to increased transport costs alone. Due to the integrated nature of the road and rail networks, increases in costs and congestion in one corridor flow through to other corridors as trucks shift west, creating national impacts.

As a result, the response effort for these incidents impacts the entire business and takes more than 50 team members away from their day jobs as orders are re-directed and reprioritised, layouts and promotions are amended, suppliers are supported to access alternative transport and stock is redirected to ensure availability of key goods.

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<sup>142</sup> Advertising and selling guide. A guide for business (accc.gov.au).

<sup>143</sup> In particular in terms of ambient products.

Outages in this rail corridor have impacted Coles on at least 5 occasions since 2021 with significant costs on each occasion. In 2022, a failure of the same rail corridor in South Australia for 24 days resulted in approximately \$20 million of additional costs being absorbed by Coles, less than half of which was recoverable by insurance.

Table 2 - major business continuity incidents

Date	Event
Jan-21	FNQ - Cyclone Kimi
Feb-21	WA – Floods
Mar-21	NSW – Floods
Mar-21	WA – Floods and road transport impacts
Apr-21	WA - Cyclone Seroja
Apr-21	VIC - Rail outage
Jun-21	VIC – Floods
Jun-21	WA - Rail outage
Sep-21	VIC – Earthquake
Oct-21	VIC - Storms and power outage
Nov-21	FNQ - Rail outage
Nov-21	WA - Rail outage
Nov-21	National - Pallet shortage
Jan-22	VIC – Floods
Jan-22	QLD - FNQ rail and road outage
Jan-22	NT/WA - Rail outage
Mar-22	QLD / NSW - Floods, road and rail outage
Mar-22	TAS - Statewide internet outage
Apr-22	NSW – Floods
Oct/Nov 22	VIC / NSW – Floods
Oct-22	REDcycle collapse
Nov-22	WA – Rail outage
Jan-23	WA – Floods
Jan-23	QLD – Floods
Mar-23	Scott's Refrigerated Logistics insolvency
Mar-23	WA/NT – Floods
Nov-23	WA - Fires, NSW – Floods

Date	Event
Nov-23	NSW – Floods
Dec-23	FNQ - Cyclone Jasper
Dec-23	SEQ – Storms and power outage
Jan-24	VIC – Floods
Jan-24	FNQ - Cyclone Kirrily
Jan-24	NT – Floods
Feb-24	VIC – Storms and power outages
Mar-24	Armguard service issues
Mar-24	WA - Rail outage

As demonstrated by **Figure 16** below, the major rail outages and other major events in Western Australia directly correlate with periods when availability of packaged goods at Coles' Kewdale (Perth) distribution centre have reduced. For example, availability reduced during the flooding and rail outages in June 2021 and during rail outages in January 2022, November 2022 and March 2024.

Figure 16 – Percentage of packaged goods delivered in full and on time from supplier into Kewdale distribution centre (WA)

**Supplier to DC - Inbound DIFOT Performance, by week**  
(Jan-21 to Mar-24, %)



Note: Includes domestically supplied, "Pick and Pack" items only; excludes items that are purchased by Coles directly from Overseas Suppliers; excludes Fresh Produce  
Source: Kewdale Pick DIFOT data 2019-2024

As noted in section 4.6 above, to help mitigate against the cost impacts of transportation costs and disruptions and make its operations more competitive, Coles has invested significantly in supply chain improvements in the area it can most directly control, being its distribution centre operations. This includes the \$1 billion incurred in construction of the two Witron ADCs in Brisbane and Sydney. These investments will mean that pallets are configured as efficiently as possible, requiring less space in rail or road vehicles (particularly important when space is at a premium such as during a natural disaster) and fewer forklift movements at railheads or regional DCs.

Coles considers that competition in the supermarket industry could be enhanced by more investment in the critical transport network assets that are used to move grocery products, in particular to Western Australia and Northern Queensland. This is a competition issue because more availability of products will in itself create more competition and better prices for customers. For example, the transportation outages and supply impacts in these areas means that Coles is sometimes unable to offer the same promotions as in other areas due to concerns around bait advertising and in an

effort to avoid letting customers down through out-of-stock situations. Improved infrastructure will also help avoid the sometimes significant costs that supermarkets incur in developing work around solutions to transport goods to these regions, as well as the environmental and safety issues that arise when substantial volumes of goods need to be transported by road rather than rail.

## 5.5 Greater collaboration in response to business continuity incidents and sustainability

### Business continuity incidents

The Security of Critical Infrastructure Act 2018 (**SOCI Act**) regulates critical infrastructure assets in the food and grocery industry. Coles has for many years had a detailed business continuity and crisis response program and, under the SOCI Act, Coles has continued to invest in this area and to develop its Critical Infrastructure Risk Management Plan.

When there are incidents which have the potential to have a severe impact on the supply of groceries, Coles has on previous occasions sought and obtained ACCC authorisation to enable collaboration with competitors to mitigate the impact of these events.<sup>144</sup> Coles acknowledges and commends the timely manner in which the ACCC has acted to grant authorisation in those cases.

Coles remains concerned, however, that there may be a situation where the authorisation framework is incapable of meeting the timelines required for industry collaboration (either in the supermarket industry or some other sector which impacts the supermarkets). The authorisation process may prove too cumbersome in a future event where decisions need to be made in minutes and hours, and where an approval process that took even 24 hours could be far too long. Of particular concern is the potential for a significant weather event impacting a major city which could occur with no warning and require an immediate industry wide response.

Accordingly, Coles submits that an appropriate mechanism be granted to the ACCC – either in the Competition and Consumer Act (**CCA**) or the SOCI Act – to enable it to facilitate or approve communications between competitors in crisis events subject to similar conditions on conduct as those generally included in an authorisation, but without the procedural requirements in the current authorisation process. For example, discussions between participants in an industry response forum that is convened to deal with an extreme event (such as the National Co-ordination Mechanism convened by the National Emergency Management Agency), and at which the ACCC or its delegate was required to participate, could potentially be immunised from the scope of the provisions in the CCA that might otherwise impact those discussions.

### Sustainability

Another area in which greater collaboration between participants in the grocery supply chain could create efficiencies and savings is in terms of sustainability initiatives and ESG governance and compliance. For example:

- Increasing sustainability reporting requirements on listed companies<sup>145</sup> mean that grocery retailers such as Coles need to work with and obtain greater amounts of data from suppliers, such as in relation to Scope 3 emissions. The timing, scope and format of the data requested from suppliers will often vary between reporting entity, and suppliers have given feedback to Coles that they would strongly prefer for the collation of this information to occur in a more effective and less time-consuming manner. Coles considers that greater coordination between relevant participants in the grocery supply chain in this area, such as in the area of data standards, would ease regulatory burdens on all participants, but especially smaller suppliers.

For example, in the United Kingdom, the Waste and Resources Action Programme (WRAP) has partnered with the UK division of the World Wildlife Fund (WWF) to launch the Retailer Net Zero Collaboration Action Programme (CAP). Tesco and Sainsbury's, the UK's two largest supermarket chains, are among the project's initial supporters. They are joined by Morrisons, Waitrose, Lidl, Aldi, Co-Op and Marks & Spencer. The Net Zero Retailer CAP comes in support of the WWF's Retailers' Commitment for Nature and WRAP's target of halving the emissions associated with the UK's food and drink products by 2030. In its initial phase, the programme will build on WRAP's existing protocols to develop a consistent framework for the measurement and reporting of the retailer's Scope 3 emissions.<sup>146</sup>

- A lack of transparency across the end-to-end lifecycle of packaging manufacture to recycling can also create inefficiencies in planning and managing capacity and demand at different stages of the value chain. For example, it was not until the collapse of the REDcycle soft plastics recycling operation that the limited nature of the downstream offtake arrangements and processing facilities and their vulnerability to disruption became well understood.
- The small scale of many recycling options in Australia can also create issues which could benefit from greater industry consultation and collaboration. For example:

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<sup>144</sup> For example the authorisations granted in relation to COVID and the collapse of REDcycle.

<sup>145</sup> For example, the Australian Sustainability Reporting Standards (ASRS) released by the Australian Accounting Standards Board in October 2023.

<sup>146</sup> <https://wrap.org.uk/taking-action/food-drink/initiatives/courtould-commitment/scope-3-GHG-Emissions/retailer-net-zero-collaboration-action-programme>.

- o responding to the financial or operational distress of a key provider, such as the collapse of REDcycle;
- o enabling common investment or contracting decisions that would facilitate a more viable new entrant to enter the market in a shorter period of time, rather than multiple sub-scale operators whose cost structure might be sub-optimal or non-viable in the longer term.

Coles recognises that these areas are less time sensitive and more amenable to an authorisation application to overcome any potential legal risks arising from collaboration. However, based on Coles' experience in obtaining prior authorisations and in particular its observations on the willingness of a (sometimes large) number of parties to agree to the cost and potential adverse commentary that can result from the public submission process, Coles considers that authorisation is often viewed as an option of last resort. This can mean that some collaborative opportunities are not pursued. Coles recognises that the ACCC is currently working on guidelines in this area which it anticipates will help businesses to understand the type of collaborative activity that will not raise competition issues or require authorisation.

## 6. Conclusion

In its mission to help Australians eat and live better every day, Coles understands that customers need access to quality and healthy food that fits their household budgets. Coles recognises the impacts that food price inflation (together with other rising costs) have had on Australian households in recent years, an impact that must be acknowledged and for which solutions are very important.

Many of the cost drivers and supply shocks which affected grocery and other consumer prices in Australia have also impacted prices globally, and Australian food price inflation has been lower than that experienced overseas. More importantly for consumers, food and grocery inflation has continued to ease in the last two quarters. Moreover, through cost management and ongoing investment in retail prices, Coles has kept overall price inflation in its supermarkets below the rate reported by the ABS CPI for the last 16 quarters.

Coles submits that competition in grocery retailing has intensified since 2008 and is *growing*, as evidenced by the substantial investments in store networks, supply chain and customer proposition by a broad range of grocery retailers, including not only the major supermarkets but Aldi, Costco, the independent trade, online retailers such as Amazon and Catch and other department stores and discount retailers.

Coles looks forward to working constructively with the ACCC and other stakeholders on this Inquiry. Coles welcomes a fact-based discussion on competition in grocery retailing and how competition and consumer outcomes can be enhanced in this vital sector.