



# Submission to Inquiry into food security in Victoria

26 July 2024

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## Executive Summary

At Coles, our purpose is 'Helping Australians eat and live better every day'. Coles knows Australian households and families are being challenged by cost of living pressures as they manage increasing mortgage and rental payments, and growing electricity, fuel and transport costs. Delivering on this purpose means providing choice and value to customers, while ensuring the long-term viability of our valued supplier partners.

Coles enjoys supplier partnerships that have endured more than 50 years in fresh produce, and in meat, dairy and grocery many of our partnerships extend for more than 20 years. These partnerships underpin our Australia First Sourcing Policy, where more than 96% of fresh produce by volume, is sourced from Australian suppliers. Last year, Coles paid \$32.3 billion to our more than 8,000 supplier and service partners.

A key driver of supermarket price increases has been cost price increase requests from our suppliers and farmers. Coles received an average of over 70 requests per week from suppliers and farmers in FY22 and FY23 (almost double the level of FY21 requests).

Coles is also impacted by the increased cost of doing business with increases in energy, labour, logistics, packaging, interest and tax costs.

Despite increased costs, Coles delivers on its commitment to provide value to customers through:

- Thousands of weekly specials;
- Coles Own Brand range which complements the proprietary brands in our stores to provide customers with a choice of products to suit their budget;
- \$1.5 billion investment in automation to deliver a better customer experience and lower cost base through state-of-the-art facilities; and
- Coles' internal cost reduction program enabling us to reinvest our cost savings back into the business to mitigate increasing costs.

Despite the impact of inflationary global and local events over that time, including a pandemic, the conflict in Ukraine, natural disasters and other supply chain disruptions, Coles Net Profit After Tax (NPAT) has remained largely stable over the last five years with minor variation year on year.

That is, while supermarket prices may have increased in our stores, this did not translate to greater NPAT in FY23.

# 1. Introduction

- **Coles is a longstanding supermarket of choice for Australians seeking quality and value.**
- **Coles is a central part of the community as a retailer, employer, supplier partner and local community partner.**

At Coles, our purpose is 'Helping Australians eat and live better every day'. We know that cost of living pressures are making that simple proposition more challenging for families and households. As one of Australia's largest supermarkets, we take seriously our core role in providing essential goods to Australians. We are always looking at ways to deliver value to our customers and are committed to helping lower the cost of living.

## Customers

Coles has been a contributor to the Australian economy and community for 110 years. From a single store in 1914 in Collingwood, Victoria, Coles has grown into one of Australia's largest and most enduring businesses that processes around 17 million customer transactions nationally each week across a network of more than 1,800 stores.

More than ever, customers are seeking value and Coles remains committed to providing immediate cost of living relief through our value campaigns, Flybuys discounts and our growing, award winning Coles Own Brand offering.

We continue to enhance our offer in response to changing consumer behaviour. This includes a move away from the once weekly grocery shop in a bricks and mortar store, and evolving needs such as the growing popularity of online shopping, packaged meals and convenience.

Coles is also investing in the future to sustain a lower cost base through state-of-the-art automation to underpin Coles' next stage of growth as we expand to service a growing population.

## Team Members

Coles employs around 120,000 team members. Our team members reflect the diverse communities in which we operate, and Coles spent \$5.1 billion on salaries, wages and benefits for our team members in FY23. During the same period, more than 39,000 team members worked in our stores and distribution centres in Victoria.

## Suppliers

Our spend on suppliers and services is our biggest operational cost, totaling \$32.3 billion in FY23 out of sales revenue of \$40.5 billion.

Long-term, mutually beneficial relationships are foundational to Coles' operations. We partner with more than 8,000 suppliers to deliver more than 40,000 product lines.

Across fresh, fresh convenience, frozen, dairy, bakery, poultry, lamb, beef, pork, deli, grocery, pantry, confectionary and health and home, Coles enjoys partnerships with suppliers that have endured for more than ten, and in many instances, more than 20 years. These partnerships endure across a spectrum of suppliers with annual contract values from the hundreds of thousands to the hundreds of millions of dollars.

We highly value these long-term partnerships, and it is our ambition to continue to build on these successes and contribute to the long-term sustainability of our valued suppliers.

Coles has an Australia First Sourcing Policy, backing local producers and farmers, proudly supporting their employment and growth. More than 96% of fresh produce by volume, is sourced from Australian suppliers, and has been for many years.

Our suppliers are subject to the same cost pressures experienced across households, as well as the domestic and global economies. We work constructively with our suppliers on promotional campaigns to offer great value to customers and to limit or defer the impact of supplier cost price increases to keep costs low for customers.

## Community

At Coles we believe we have an important role to play in the communities in which we operate. During FY23 we provided more than \$40 million<sup>1</sup> in support to community partners such as Collingwood Magpie Nest, Guide Dogs, Fight MND, Hospitals United for Sick Kids, Little Athletics and Redkite, to name a few. Our contributions allow these important community organisations to increase the scope of their services and help even more Australians. In addition, we supplied the equivalent of 40.1 million meals of unsold, edible food to food rescue organisations such as SecondBite and Foodbank who support well over a thousand charities throughout local communities to feed individuals and families suffering food insecurity. In FY23 Coles supplied the equivalent of more than 5.9 million meals to SecondBite and Foodbank to support Victorian community groups.

During the COVID pandemic, Coles worked extensively with Governments, team members and the community to ensure households always maintained safe and ready access to the essentials they needed.

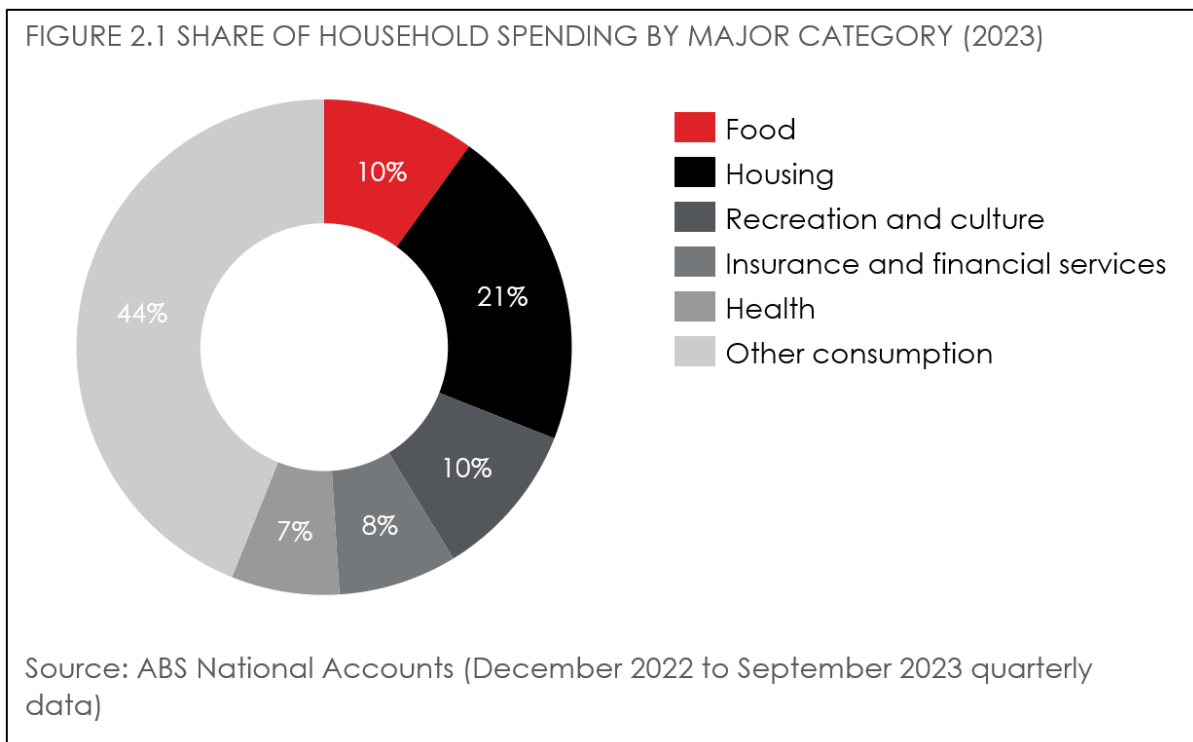
## 2. Customers

- **Coles understands its customers and responds to their needs.**
- **Spend on food is only a small part of a household's budget and has been declining over many years.**
- **Coles is committed to providing customers with choice and value.**

At Coles, our customers are at the centre of our pricing and ranging decisions. Customers have always had an eye on value, they tell us what they want and need and, more than ever, cost of living pressures are the greatest single concern for many households.

Customers are becoming more value conscious with many concerned about their ability to cover living costs. We know increasing mortgage and rental payments, growing electricity and fuel prices and the rising cost of education, medical care, and insurance are putting pressure on household budgets. Whilst we are not able to influence these escalating costs, we can support Australian families by providing great value and choice across our stores.

In 2023, the average Australian household spent around 10% of its income on food and groceries.



According to the Australian Bureau of Statistics (ABS), the proportion of household spending on groceries has been trending downward over decades as consumers have apportioned spending across various discretionary and non-discretionary expenses. Coles is committed to providing value to cost-conscious households to continue this trend.

We note that the food share of spending spiked up during COVID restriction periods in 2020 and 2021 when many cafes and restaurants were not able to operate and stay at home orders were in place in some states. Food spending has since normalised to its longer run trend share of household spending.

Through our customer insights work, customers have shared they are increasingly eating and entertaining at home, seeking out loyalty points and bonus offers, and looking for more affordable alternatives as they seek more value in response to cost of living pressures.

In seeking more value, the Coles Own Brand range has become increasingly important in delivering trusted value to customers. Changing customer trends have seen growth in the Coles Own Brand range, as well as shopping in bulk to make their dollar go further.

We continue to invest in providing value through everyday trusted pricing, weekly specials, Flybuys and our Own Brand portfolio.

### 3. Supplier Partnerships

- **Our spend on suppliers and services is our biggest operational cost, totaling \$32.3 billion in FY23 out of sales revenue of \$40.5 billion.**
- **Coles values long-term partnerships with suppliers and enjoys decades long, positive relationships with many suppliers.**
- **Operational costs remain high including transport, processing, packaging, and labour.**

#### Long-term, sustainable partnerships

Long-term, mutually beneficial relationships are foundational to Coles' operations. Coles is committed to a sustainable Australian farming and food and grocery manufacturing sector. Our spend on suppliers and services is our biggest operational cost, totaling \$32.3 billion in FY23 out of sales revenue of \$40.5 billion.

We partner with more than 8,000 suppliers to deliver more than 40,000 product lines. Where possible, we seek to offer longer-term tenure with our suppliers to provide them greater certainty of demand, which gives them the confidence to invest in their own businesses.

Across fresh, fresh convenience, frozen, dairy, bakery, poultry, lamb, beef, pork, deli, grocery, pantry, confectionary and health and home, Coles enjoys partnerships with suppliers that have endured for more than ten, and in many instances, more than 20 years. These partnerships endure across a spectrum of suppliers with annual contract values from the hundreds of thousands to the hundreds of millions of dollars.

We highly value these long-term partnerships, and it is our ambition to continue to build on these successes and contribute to the long-term sustainability of our valued suppliers.

Our customers prefer Australian grown and made products and seek to buy local produce where possible. Coles has an Australia First Sourcing Policy, backing local producers and farmers and supporting their employment and growth; proudly, more than 96% of fresh produce by volume, is sourced from Australian suppliers. All of Coles Own Brand fresh pork, chicken, turkey, duck, beef, lamb, milk, and eggs are Australian grown.

#### Partner of choice

Coles represents around 5% of the market for the agricultural sector, and we are proud of our relationships with suppliers, and that Coles remains a partner of choice in a large market with many alternatives.

Coles is a partner of choice not only due to its scale and network, but because Coles invests in the long-term viability of its supplier partners. It is not in the interests of Coles, our suppliers or the community for Coles to have fragile or disrupted supply from our partners. Our suppliers are subject to the same cost pressures experienced across households, as well as domestic and global economies, and we work with them to adjust to challenges and help them grow and prosper.



This includes a process for suppliers to submit cost price increase requests for their products when their costs are impacted by inflation and other factors. We also support our suppliers through grants and payments including:

#### Coles Nurture Fund (CNF)

The Coles Nurture Fund was launched in 2015 to support small and medium Australian businesses. Australian businesses can apply for a grant of up to \$500,000 to help them develop market leading products, technologies and processes. Since commencing the fund in 2015 over \$36 million in financial support has been provided to 108 businesses including more than \$11 million to 36 Victorian businesses.

#### Coles Sustainable Dairy Development Group (CSDDG)

In 2019 Coles began to source Own Brand milk directly from Australian dairy farmers. At the same time, we established the CSDDG where we invest in farm sustainability projects in consultation with our dairy farmers. To date we've invested almost \$4 million in a range of projects.

#### Dairy Farm Sustainability Accelerator Fund

We have also launched the Dairy Farm Sustainability Accelerator Fund. More than \$1.5 million will be allocated in FY24 and FY25 for Coles dairy farmers so they can apply for funding between \$7,500 and \$50,000 to accelerate sustainability initiatives.

#### Disaster recovery support

A number of our suppliers have been affected by severe weather events and we have worked with them to support their recovery and enable them to continue to operate.

### Seasonal variation and natural disasters

Natural disasters and seasonal variations can significantly impact the price of fresh produce. We have seen firsthand the damage caused by recent cyclones and floods. When these events occur, they can lead to a reduction in the quality and quantity of fresh produce.

The recent Cyclone Jasper delivered excessive amounts of rain which impacted crop size and yields and led to product shortages and subsequently higher prices for consumers in December. Conversely a favourable season can lead to an oversupply causing prices to drop.

As has been illustrated already multiple times in 2024, natural disasters and seasonal variations sometimes create an unpredictable environment for farmers, supermarkets, and consumers.

### Supply chain disruption

Global supply chain pressures have also significantly impacted Coles and its suppliers. The Global Supply Chain Pressure Index (GSCPI) has been used by the US Federal Reserve as a key indicator of supply chain stress. The index peaked in December 2021 at a level nearly three times higher than the peak seen in the prior two decades, such as the supply chain stress resulting from COVID restrictions.

From the start of 2020 to late 2021 shipping costs increased by over 10 times. Oil prices increased by 79% over pre COVID levels by June 2022.

Analysis by the RBA during the peak inflationary period of 2022 suggests that a significant proportion of price growth was emanating from supply factors. The RBA's Statement on Monetary Policy February 2023 included an analysis on drivers of inflation, concluding that:

*Supply shocks have accounted for at least half of the increase in inflation ...*

*Similar to the experience of other advanced economies, model-based estimates suggest that supply-side factors have been the biggest driver of the increase in inflation in Australia over the past year. These supply-side factors have been persistent, leading to an extended period of inflation.*

Domestically, the disruption to national supply chains caused by natural disasters and labour shortages have resulted in increased costs to Coles and its suppliers.

## State Based Pricing

Coles employs a state-based pricing model where prices are largely consistent across metropolitan and regional stores, particularly across key packaged staples. A customer can purchase the same product in Benalla for the same price as it retails for in Broadmeadows.

Coles is able to offer its customers this level of confidence due to the investment in our supply chain including positioning our distribution centres close to population centres which enables freight to be used more efficiently.

There are a small minority of remote stores (10-15 nationally), none of which are in Victoria, where a freight weighting is applied due to the high cost to transport. This is heavily subsidised and even in these remote locations there are still key items where Coles is able to maintain consistent national pricing.

## 4. Measures to Lower Grocery Prices

- **Coles delivers value to customers every day and remains committed to providing immediate cost of living relief through our specials, promotional campaigns and Flybuys loyalty discounts.**
- **Investing in and growing Coles Own Brand delivers value and quality products to cost-conscious customers.**
- **Investing in automation delivers operational efficiencies that enable Coles to scale and respond to Australia's growing population with a lower cost base that underpins our value proposition for customers.**

At Coles we are always looking at ways to deliver value to our customers and we are committed to helping lower the cost of living for Australian households.

### Value at the check out

We know customers are looking for great value every day and Coles' pricing seeks to provide everyday low pricing on the products we retail. Offering value to our customers in the form of specials and promotions has been a long-standing practice at Coles, recent and current examples include:

- Thousands of weekly specials offering short term discounts of up to 50% on high volume lines critical to the customer basket such as popular proprietary lines of dairy, fruit and vegetables, meat and seafood, bread, eggs and frozen food among many others;
- Promotional campaigns such as 'Great Value Hands Down', 'Down, Down' and 'Dropped & Locked' to offer customers strong, consistent value through promising a great price that will remain low for an extended specified period;
- Markdowns to reduce wastage; and
- Only for Christmas/Only for Easter promotions to lower the cost of celebrating key events with family and friends, such as Coles lowering the price of Christmas hams in October 2023 to \$8 per kilo, the lowest price in four years.

In January 2024, we announced red meat promotions that were planned over many months and saw Coles Australian Lamb Loin Chops at their lowest price in four years, saving customers more than 25% and savings on Coles Beef Sizzle Steak of 15%, Coles Beef Rump Steak of 21%, Coles Beef Porterhouse Steak of 22% and Coles Beef Scotch Steak Fillet of 20%.

This is in addition to further savings for our customers by lowering the price of more than 300 products in our stores and online. We know the school holidays and back to school period can be an expensive time of year for many families, that is why Coles lowered the price on a variety of essentials and products that are popular with customers.

This follows another significant price reduction investment made in September 2023, where we dropped the price of 500 products by an average of 19.7%, in support of our commitment to provide 'Great Value Hands Down'.

Prior to that, we locked the price of 1,100 products for five months in August 2022, and dropped and locked the prices of 150 items in October 2022, 300 items in January 2023 and 480 items in June 2023.

## Coles Own Brand

Globally, retailer private labels have continued to evolve from being a low-specification and cheap alternative to proprietary brands, to becoming a strategic differentiator with more sophisticated offers. Coles Own Brand has grown in line with this trend to play an important role for customers.

Our Own Brand range complements the proprietary brands in our stores to provide customers with a choice of products to suit their budget and the needs of their family. Our Own Brand range delivers value through competitively priced products, being typically 10-40% cheaper for consumers than similar proprietary brands, while still providing equivalent high quality, with sustainability, health, and convenience credentials and attributes.

## Flybuys

Approximately 17 million transactions take place across our store and digital platforms each week and our Flybuys loyalty program reaches the majority of Australian households.

Flybuys helps our 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.

We have made it easier for customers to unlock the value they received from Flybuys at Coles by rolling out instant redemptions across parts of our network.

Members can choose from hundreds of reward options when redeeming their points, including using Flybuys dollars to pay for their shopping.

## Simplify and Save to Invest

Our internal cost reduction program, Simplify and Save to Invest, has enabled us to reinvest our cost savings back into the business to mitigate the increasing cost of doing business which has largely been driven by higher input prices faced by many of our suppliers, combined with the escalating cost of fuel, labour, freight, and energy.

Our Smarter Selling program achieved its target of \$1 billion in cumulative benefits over four years from 2019-2023. We carried forward this initiative and have launched our Simplify and Save to Invest program which is designed to deliver more than \$1 billion of cumulative savings over the next four years.

## Investing in automation

Coles invests in the future and customer experience. Since 2018, Coles has been working with international logistics technology firms Witron and Ocado to deliver automated distribution centres in our supply chain network and in support of our Online delivery business.

The four Witron and Ocado sites are major, long-term investments that underscore the critical role technology plays in our future in building speed and efficiency in our operations and enhancing customer experience with better availability, selection and convenience.

The first of these sites was opened in April 2023, at Redbank in Queensland, improving network efficiency in South East Queensland. Coles was proud to have the Premier and Prime Minister open the facility. The Prime Minister commented at the time:

*It is a great example of investment in new technology and investment in Australia, a billion dollars [from] Coles in this investment and at Kemps Creek in Western Sydney, in order to boost productivity, boost efficiency, lower costs, therefore lower prices and make a difference for people going forward.*

Over coming months and years, the completion of the remaining three sites, one of which will be in Victoria, will deliver long-term structural cost advantage in our supply chain through automation, data and technology.

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