

**Assessment 2:**  
Case Study Presentation and Report.

Q. Examination of Coles, SBU of Wesfarmers. Discuss (6000 words).



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## EXECUTIVE SUMMARY

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This paper briefly highlights the history of Australian supermarket chain, Coles – a subsidiary of Wesfarmers. In order to undertake a concise, in-depth macro environmental analysis we identify all pertinent key criteria(s) pertaining to a PESTEL and Porter's 5 Force analysis. Consideration is taken for suburban, regional, and global cases. Worldwide trends, competitors, and population growth, are key factors that shape our strategic decision for potential re-positioning of Coles within the market place.

This paper covers some structural changes that the Coles division may implement by learning and adapting from observance to competitor supermarket chains, mainly Safeway & Woolworths, IGA, and Costco. A SWOT analysis is also developed to highlight all key areas of opportunities that Coles may indeed take advantage of.

Concepts for organization sustainability and expansion are covered by examining opportunities in developing nations such as China.

In examining all the aforementioned, and contrasting it to Coles' operations, we are able to deduct core competencies within the Coles retail sector and also develop system activity map for Coles – this proves to be a useful in order to understand just exactly how Wesfarmers' Coles division operates.

## INTRODUCTION

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The level and nature of competition in supermarket retailing in Australia has been hotly debated as a policy issue in recent times.

The two main and largest supermarket chains in Australia consist of Coles and Woolworths.

The creeping acquisitions of smaller groups by Coles and Woolworths have led to several investigations amid claims that consumers will be disadvantaged by the growth of the two big chains. Yet little convincing evidence has been found to support these assertions. Although on occasions the big two may have used their power vertically to squeeze suppliers, consumers have experienced highly competitive retail markets.

This was evident in recent times when it was revealed that total spending for Australians hasn't changed too much despite the negativity in the media, with the latest figures released at the beginning of June revealing that \$19.35 billion was spent in April following Kevin Rudd's stimulus payments.

In Part one of our assignment we intend to analyse and identify Coles from a Business strategy perspective, conducting a PESTEL framework analysis, assessing the macro environment which Coles is subjected too, identify the core competencies of Coles and the driving factors which underpins the reasons for Coles success.

Coles Myer is Australia's dominant retailing company, with an estimated market share of more than 20 percent of all retail sales in Australia.

Its major businesses include Australia's largest department store chain, largest grocery-supermarket chain, and the largest discount chains, Target and Kmart. In addition, it is a major player in food and liquor retailing, office supplies, and apparel.

Its 1999 sales were A\$ 22 billion, with profits over A\$ 400 million.

The company began business in 1914, operating variety stores with low-priced goods and a money-back guarantee of satisfaction. After incorporation in 1921 as G. J. Coles & Co. limited, it continued to operate variety stores until the end of the 1950s, when it branched into supermarket retailing.

In 1969, Coles introduced the discount store concept into Australia through the establishment of the Kmart chain.

In 1985, Coles acquired The Myer Emporium Limited, the largest department store operator in Australia, which also operated discount and specialty store chains.

In 1986, the company changed its name to Coles Myer Ltd.

From 1993, the company began to shift from a structure of largely independent retail operations to one retail company operating through a series of brands. The shared services concept was adopted widely across the business for administrative support and achieved many efficiencies and integration. The firm's e-business strategy developed rapidly.

## THE HISTORY OF COLES

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### WESFARMERS-THE OWNERS OF COLES

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Wesfarmers was founded in 1914 in WA and has since grown to become one of the largest Australian companies. In this paper we will be covering the strategic business unit (SBU) subdivision of ‘Coles’ in particular. Since Wesfarmers take-over of ‘Coles’ a primary objective was put into place to provide satisfactory return to its shareholders.

**Table 1: Course of Action (Wesfarmers, 2009)**

<b>STRATEGY OF WESFARMERS TO ACHIEVE OBJECTIVES</b>
Satisfying the needs of customers through the provision of goods and services on a competitive and professional basis;
Providing a safe and fulfilling working environment for employees, rewarding good performance and providing opportunities for advancement;
Contributing to the growth and prosperity of the countries in which it operates by conducting existing operations in an efficient manner and by seeking out opportunities for expansion;
Responding to the attitudes and expectations of the communities in which the company operates;
Placing a strong emphasis on protection of the environment; and
Acting with integrity and honesty in dealings both inside and outside the company.

Wesfarmers is included in the Dow Jones Sustainability World Index, and the company is also a member Western Australian Sustainable Energy Association (WA SEA).

## COLES

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Coles has had a history in Australia for over 90 years, with the founder travelling to the United States to study best practices in the retailing industry. The usage of crafty slogan's enabled 'Coles' to have a leading edge on customer's minds (i.e.: "Nothing over 2/6"). What should be noted is that its first supermarket was only opened in 1960 in North Balwyn, Victoria. By 1973 Coles already had a supermarket in every Australian capital city, and today it is now leader in food retailing with more than 11 million customer transactions a week and over 100,000 employees operating within. In 2007 Wesfarmers entered a sole bid in order to purchase Coles for \$22 billion (Carson, 2007).

Coles is comprised of over 750 stores and the supermarkets play key elements in local communities with additional support programs funded by Coles to help surrounding areas. Coles has a commitment to being loyal, remaining strong and also maintaining relationships with suppliers.

### LOCAL COMMUNITY SUPPORT PROGRAMS AND SERVICES

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Coles actively affiliates itself with local groups and clubs from sport related to schools. Support with raffles, fundraisers, community days and other activities – in fact, the Royal Perth Hospital appeal helped raise \$6.3 million to aid investment in research to improve the health of money.

#### **A CASE EXAMPLE: COLES NELSON BAY WALK-A-THON**

*"On 25 October 2008, team members from Coles Nelson Bay and Bilo Lisarow, along with family and friends, walked 8km from Coles Nelson Bay to Barry Park in Fingal Bay NSW to raise vital funds and awareness for the Cancer Council New South Wales.*

*The group carried a homemade banner, wore their own designed and printed t-shirts and rattled donation buckets. They managed to raise over \$700 from generous passers by along their trek. Together with donations and sponsorship, the group raised a total of \$4,145 for the Cancer Council NSW. What an amazing effort!" (Coles, 2009)*

For Coles' role with charity partners, and its involvement in the environment, please refer to the 'Appendix' section.

## MAJOR PRODUCTS/SERVICES

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Coles is predominantly known for its retail grocery side of the business. Coles retails mainly in food items from fresh produce to canned and preserved items and in some cases even hardware and homeware items.

Coles sources food from all over the world although they do predominantly claim to try to support Australian business as much as possible. A very interesting strategy that Coles is developing is their own home branded products which are starting to replace some of the more popular name brands that are available on the market. These own or home branded products are, they claim just as good in quality as the name brands but with a lower price tag. It is yet to be proven that this is the case but the interesting part of this push for home brand products is that they certainly hold much higher profit margins for Coles as a group.



## MACRO-ENVIRONMENT ANALYSIS

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Industry analysis is a basic core function to intelligent strategic planning and can be surmised as gathering and analysing information about the industry,(in our case Coles – retail industry),in which a business operates on both a domestic and global basis. For the purpose of this assignment, we will assess Coles from a global and national perspective. There are a number of factors to take into consideration. These include Economic, Social and Political trends, technological changes and enhancements and the rate of change itself.

There are two particular models that are widely used for industry analysis, PESTEL and PORTERS FIVE FORCES.

Firstly PESTEL - it is an acronym for Political, Economic, Socio- Cultural, Technological, Environment and Legal. Trying to classify important factors into these categories are actually counterproductive and will always fail. For example, when we say we live in a free market economy, upon closer examination, there are few purely economic factors – most are affected by political decisions. Likewise with Technology .It will only have become a factor if the technological items/processes in question are socially accepted and permitted politically. When using the PESTEL analysis, it is important to understand the current situation and how it is likely to change/impact in the future.

Secondly PORTERS FIVE FORCES analysis. It is relevant when an organisation has at least 3 competitors. This form of analysis is designed to focus on the overall industry that the business unit operates within. Coles within the retail industry, and not the individual firms. It can be useful in highlighting the attractiveness of the industry. The five forces it considers are

- The nature of Rivalry
- The Bargaining Powers of the buyers
- The bargaining power of suppliers
- The threat of new entrants
- The threat from substitutes

Some analysts will include the analysis of competitors under the rivalry aspect but it is usually treated separately.

At times a sixth Force can come into play – Government. In many industries, Government and its policy making roles can affect the dynamics of the industry and could be even more powerful than the other five forces. A government can affect the industry in different ways by either developing new policies relating to trade, competition, consumer protection, industry specific regulation, taxation and ownership rules and R & D. (Management Accounting, 2005)

From the Coles perspective, there are many factors in the macro-environment that affect the decisions of their managers, these include issues such as; demographic and government policy change, tax changes, trade barriers, new laws.

The economic environment is one that plays a huge role in how the Macro Environment is studied, the current debates in the political arena about extended trading hours is one that would be causing a considerable amount of discussion amongst the management of the Wesfarmers group particularly in the Coles retail world. If retail trading hours are changed or increased as is being touted by the State government this would cause a change in strategy for the Coles group as they would be free to trade for longer hours and therefore they would be able to compete for a larger slice of market share that they previously would not have had access to. Some fear that this would lead to a Duopoly between Coles and Woolworths and this could lead to an unhealthy trading environment for competition in the Retail sector.

Conducting a PESTEL analysis will help to better identify these factors In order to analyse these factors categorization of them can take place using a PESTEL analysis. Before we undertake an analysis on the political, economic, social, technological, environmental, and legal factors we may wish to segregate each segment into; suburban, regional and global divisions – this in order to ascertain as whether Wesfarmers' SBU of Coles does indeed have potential to expand further.

Table 2: PESTEL first glimpse analysis

	SUBURBAN	REGIONAL	GLOBAL
<b>POLITICAL</b>	<ul style="list-style-type: none"> <li>▪ Local Shire approval</li> <li>▪ Competitive legislation consultation</li> </ul>	<ul style="list-style-type: none"> <li>▪ County mayor approval</li> <li>▪ Competitiveness vs. local produce</li> <li>▪ State consulting</li> </ul>	<ul style="list-style-type: none"> <li>▪ World trade agreements</li> <li>▪ Allocation of local workers</li> <li>▪ Trade barriers</li> </ul>
<b>ECONOMIC</b>	<ul style="list-style-type: none"> <li>▪ Local income</li> <li>▪ Optimization of distributive channels</li> </ul>	<ul style="list-style-type: none"> <li>▪ Cost-effectiveness analysis</li> <li>▪ Transport costs</li> </ul>	<ul style="list-style-type: none"> <li>▪ Usage of local products</li> <li>▪ Outsourcing</li> <li>▪ Interest rate</li> </ul>
<b>SOCIAL</b>	<ul style="list-style-type: none"> <li>▪ Strategic placement</li> <li>▪ Proximity to local schools &amp; community involvement</li> </ul>	<ul style="list-style-type: none"> <li>▪ Access to regional communities</li> <li>▪ Employ locals</li> <li>▪ Contribute to communities</li> </ul>	<ul style="list-style-type: none"> <li>▪ Consider usage of expatriates for top management</li> <li>▪ Breaking down language barrier</li> </ul>
<b>TECHNOLOGICAL</b>	<ul style="list-style-type: none"> <li>▪ Usage of local technologies</li> <li>▪ Logistics opt.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Transferring of technology to locale</li> </ul>	<ul style="list-style-type: none"> <li>▪ International breakthroughs</li> <li>▪ Polycentrism vs?</li> </ul>
<b>ENVIRONMENTAL</b>	<ul style="list-style-type: none"> <li>▪ Proximity to recycling centres</li> <li>▪ Proximity to supplier main depots</li> <li>▪ Population demographics</li> </ul>	<ul style="list-style-type: none"> <li>▪ Local waste and recycling issues</li> <li>▪ Proximity to the 'bush' ∞ contribution</li> </ul>	<ul style="list-style-type: none"> <li>▪ Global climate change</li> <li>▪ Local influence on environment policies</li> </ul>
<b>LEGAL</b>	<ul style="list-style-type: none"> <li>▪ City law for practices</li> <li>▪ License/planning bureaucracy</li> <li>▪ Advertising</li> </ul>	<ul style="list-style-type: none"> <li>▪ Legal concession to regionally made products</li> <li>▪ Buy Australian policy</li> <li>▪ Support from community</li> </ul>	<ul style="list-style-type: none"> <li>▪ International agreements on environmental policies and human rights</li> </ul>

In actual fact a PESTEL analysis is a lot harder to obtain correctly than the above table suggests. A proper analysis needs to take place which accounts for; consumer laws, employment laws, competition laws, and health and safety legislation as pertaining to each state, or country if operating abroad. What factors impede our analysis pertains to areas of expansion and growth, and most obviously, supply and demand. Coles consists of several hundred stores, and each store tries to appeal to the public in very much the same standardized way. Cole's community involvement stance attempts to target all stores when selling fundraising bags and gadgets, however, the investment of such accrued funds are donated into society to only those areas that see need. This may pose an impediment on the marketing strategy for one county as the participants are fully aware nothing will be given back to their community, but instead a school or cause many miles away. In general, customers are not that short-sighted, and indeed they contribute towards such fund raising events with the full knowledge that the funding will be utilized within Australia – hence, there is a great deal of Patriotism within Coles.

It is not quite clear if Coles, the trade name, could operate abroad without appealing to the local population. Observations of similar Multinational Conglomerates indicate this can be achieved with a great degree of success (Star-Mart, Safeway, Starbucks, Carrefour, and etc...).

## SUPERMARKET ISSUES

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Market saturation and intense competition are pushing supermarkets to discover and access new revenue streams throughout the world. Coles may, someday soon, find itself expanding their array of products through mass customization. Coles already develops private label lines and has embraced the internet and is already conducting home delivery services which are becoming increasing popular. There is an increase in focus of loyalty programs also.

There are three major business issues that may play an active part in strategic value within the distribution and retailing of supermarkets worldwide, these are:

- “To respond to market and operational challenges, supermarket chains around the globe are implementing efficient consumer response (ECR) standards to increase efficiency and reduce costs throughout the supermarket supply chain.
- ECR implementation is becoming central to shaping logistical trends in the supermarket industry.
- Diverse markets in the supermarket industry create a need to customize various operating strategies.” (Kumar, 2008)

By examining worldwide trends (i.e. Canada, Denmark, France, Germany, UK, and USA) we are able to postulate about patterns that may emerge within Australia’s Coles division supermarket franchise. It has only been in recent years that the clientele throughout the world has been stabilizing or reducing in numbers – demographics have also shifted considerably. There has also been worldwide decline in population growth across the globe over the last 30 years alongside child mortality rates (World Development Indicator, 2007).

Because population is growing more slowly many citizens are becoming wealthier, more educated, more diverse, and hence older through better health and self-care. This is all affecting tastes and expectations which directly affect the spending on food in supermarkets. Kumar (2009) dictates that as people become more educated they demand healthier food choices like vegetables, fish, and fruits. As income increases world-wide, consumers expect improved quality and convenience as well as more community involvement from the supermarkets they buy food from. The world economy is also struggling, and GDP growth rates for the second quarter of 2007 were 3.8% which at least signifies a positive growth, nevertheless, for the Australian economy.

Within Australia the supermarket industry is saturated as a result of urbanization and development of many compacted supermarkets in residential neighbourhoods. However, supermarkets in Australia are primarily of the conventional or limited variety – this as the sheer wealth within the country has not yet generated demand for superstores, and super-centres, as prevalent in the United States. See appendix,

‘Differences and commonalities within the supermarket industry in various economies’.

Extreme competition, shifts in demographics, market saturation all together teamed up with the recent economic recession has restricted organizations and players within the supermarket/retail industry to a limited market growth. Supermarket retailers are being forced to adapt various operating strategies, and customise them, in an attempt to deal with the diverse markets (this being the first major business issue). Coles is expanding the array of services and products by utilizing the loyalty of profitable customers (this through ‘flybuys’) and generating profits through creation of their own brands (i.e. Farmland & Coles brand) and by introducing internet shopping and home delivery.

When analysing a PESTEL analysis in more depth (this for Coles) various measures should also be taken into account, such as:

- Growth strategies
- Inventory turnover
- Location and market position
- Merchandise and store presentation
- Sales per store or sales per sq. foot
- Stock outs

Measurement of the above criteria’s ought to be qualitative, with the exception for the ‘sales per store’ or ‘inventory turnover’ which ought to be quantitative in nature.

A growing challenge to be overcome by Coles, if it is to succeed over its main rival, Safeway/Woolworths, is that the stores have to expand the products they offer whilst at the same time catering to varied consumer tastes within categories. As is obvious, customer loyalty is of uttermost importance and Coles makes good use of this through the usage of the flybuys program. Private label strategies are also of vital importance because they create brand recognition and promote consumer loyalty.

**“Customer loyalty programmes are usually found among companies who operate in markets with very little product/service differentiation...Australian consumers are members of at least one loyalty programme and 69 per cent try to use a loyalty scheme as often as possible.” (Miranda and Kónya, 2008, p. 43)**

The e-commerce craze is also gaining world wide acceptance but lamentably for Coles, it has not taken full effect within Australia yet. Coles does provide online access to lengthy virtual catalogues, but asides from a good image it is very limited as to what products can actually be bought through means of the internet. As such, internet grocery shopping has not yet flourished within Australia.

**“The development of e-commerce is related to a country’s progression from survival values to self-expression.” (Berthon, 2007, p. 709)**

Supermarkets must increase customer focus in order to respond to operational and market challenges (the second major business issues). To achieve a profit, in this process, logistic and operations managers must significantly improve logistics, efficiency, procurement and cost control. The complexities of logistic systems can be examined by viewing the latest concept used abroad, that is, ‘Metro Konzept’, which provides flexibility for branches and suppliers.

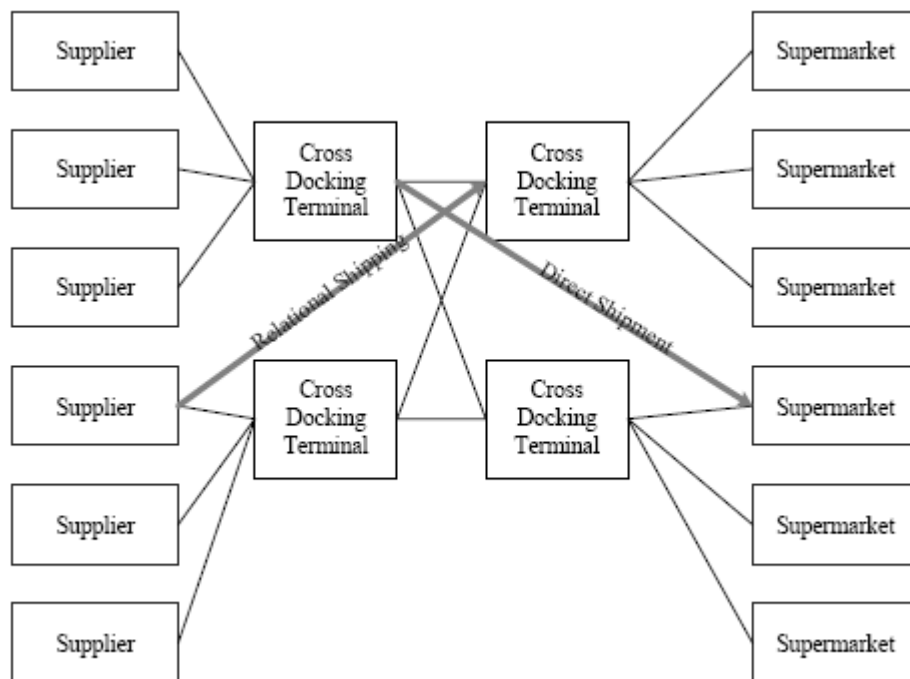


Figure 1: Metro Konzept (Kumar, 2008)

Your complete understanding of it is not required, however, it must be highlighted is that structural changes, combined with use of technology, should improve efficiency in consumer response (ECR) performance. The ‘Metro Konzept’ offers three

distribution scenarios regarding full/partial shipments, direct loading cases, whilst retaining a dual transportation solution.

## OVERALL IMPACT

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### What commercial advantages do supermarkets have?

Table 3: Summary of competition issues (Europe Economics, 2005)

Possible advantage	Distorts competition between existing players?	Creates barrier to entry?	Gives rise to consumer benefits?	Raises competition concerns?
Superior management	✗	✗	✓	✗
Economies of scale	✗	✓	✓	?
Vertical economies of scope	✗	✓	✓	?
Brand value	?	✓	?	?
Buyer power	✓	✓	?	✓
Below-cost selling	✓	✓	?	✓

Supermarkets are also able to avoid the ‘waterbed’ effect due to their scale of operations. The ‘waterbed’ effect is a process in which suppliers leave the markets and non-supermarket buyers have to in turn pay more for the same good as prices re-stabilize for vendors operating outside economies of scale.

### STRENGTHS

- Reputable “brand” people have come to trust
- Offering of vast range of products for most demographics
- Locations
- Competitive pricing
- Stock holding is generally quite well

### WEAKNESSES

- Not seen as a local business
- Can sometimes be perceived to be greedy
- Need a large footprint to achieve their business model



## **OPPORTUNITIES**

The following lists outline some ideas that may bolster efficiency and productivity within Coles:

- Opening outlet stores where excess inventory is sold.
- Dealing directly with overseas providers.
- Buying directly from a manufacturer thus bypassing distribution channels and lowering costs.
- Selling on the web on a grander scale and thus serve clients of the retail industry.
- Warehouse approach selling direct to the customer

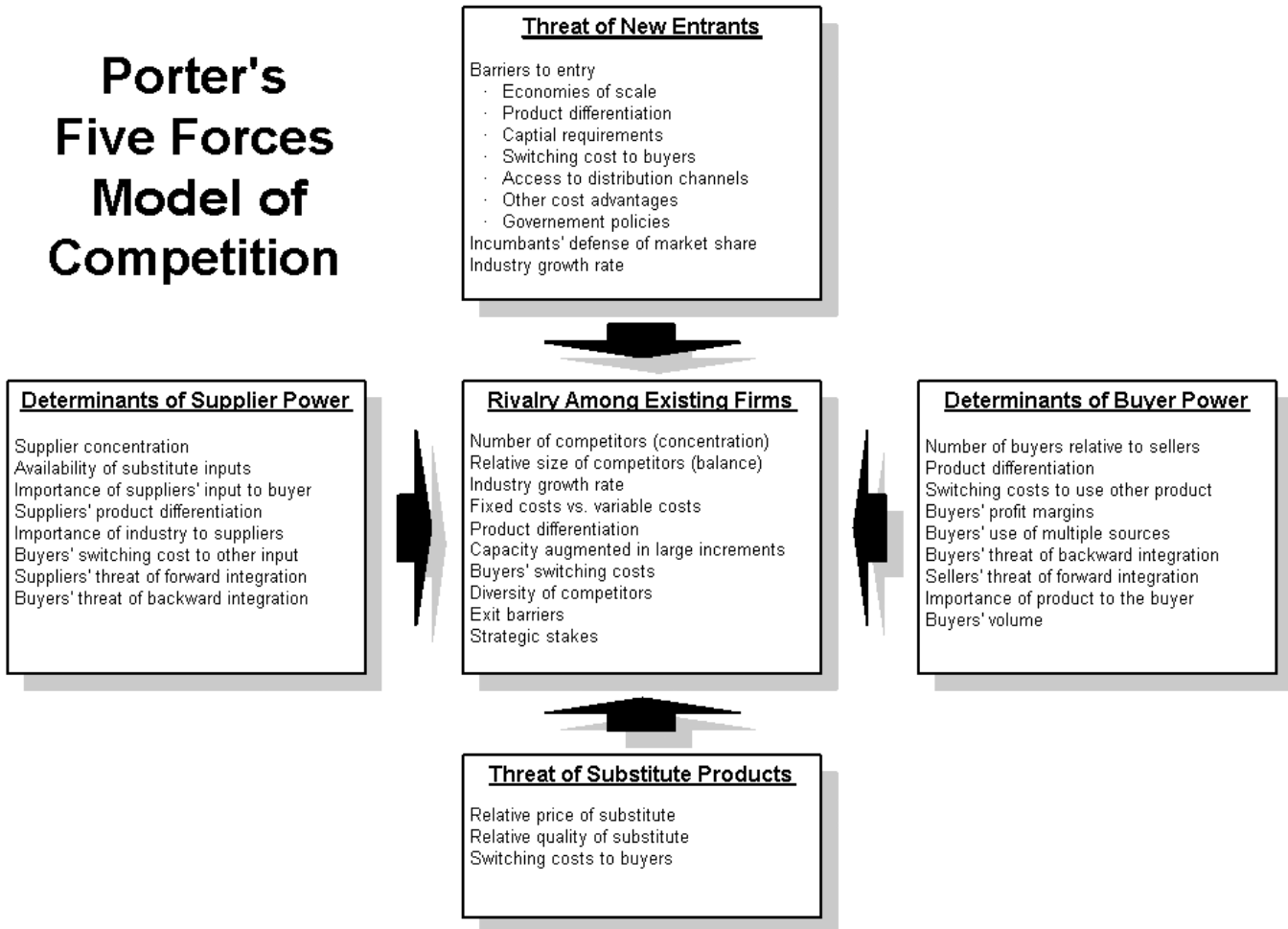
## **THREATS**

The following lists outline some threats that may hinder Coles' performance and profits:

- Warehouse issues with; duplicate freight, errors in logistics, resulting in lower or excess inventory thus affecting customer satisfaction.
- Misplacing inventory of which in turn may not be sold.
- Excess inventory which carries additional cost and may affect line of credit.
- E-commerce can also result in business disruptions.
- Non automation of warehouse results in erroneous shipping and excess inventory.
- Not being updated with latest logistics software can result in errors and non optimum efficiency.
- The arrival of competition to the market place that will be very aggressive in trying to obtain market share from Coles. E.g. Costco
- Poor local weather conditions that may affect the quality of local produce.

**COMPETITIVE ANALYSIS**

**Porter's  
Five Forces  
Model of  
Competition**



(Kumar, 2008)

Porter’s five forces framework can be used to identify attractiveness of different industries. The structure above is useful in analysing value for most organizations. It can be used as a starting point in most strategic analysis in order to set out agenda for different facets for the industry to identify. A definition from Gillespie (Oxford university press) can be found in the appendix under ‘Porter’s five forces definition’. Indeed, a thorough analysis of the above points can lead to a very lengthy and tedious affair – we shall then highlight key facets of importance that are directly related to Coles’ position in the competitive arena it is located in.

## PERTINENT ISSUES

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### *Create sustainable advantages*

Companies typically enjoy the fastest sustained growth versus competitors through adding sales-expanding benefits without raising prices, adjusting prices to encourage more purchases, or lowering their operating costs, or those of customers and end users, that hold back growth. Naturally, it is even better when changes can be made in all three dimensions as some companies have done. These actions work best when they cannot be duplicated by competitors, as these examples of companies that have prospered with breakthrough business model innovations in each of these dimensions show.

When a company provides new benefits at the same or a lower price, few customers are likely to complain. Customers who can use more of the product or service will buy more. Potential customers who value those new benefits are especially likely to be attracted. Market share gains follow. Business model innovators often find ways to provide these new benefits at lower cost, enhancing circumstances for themselves while providing more for their customers.

**“Add complementary products and services that build on what you already provide.” (Mitchell, 2004)**

If Coles is ever to establish firm foundations, with sturdy growth, it must divest its markets abroad. This may limit the intake of new entrants into the local Australian market because Coles would be building on extra pressure onto its overseas competitors who in turn would try to establish security on their home ground before seeking aggressive expansionary policies in Australia. Supplier power may also be minimized if established abroad (i.e. China) due to a wider choice of provider of retail goods around the Asiatic continent. Given establishment and linkages with suppliers back in Australia there is the potential that a Coles branch operating in Asia may also secure cheaper products (i.e. wheat) to be provided from its home country of which will guarantee an unparalleled advantage to products that may not easily be substituted and may in fact appeal to a certain proportion of customers abroad. Buyer power may

be prevalent in this case, but there is also leeway to create great impact upon establishment of operations abroad primarily due to the sheer novelty of a new retailer providing goods. In order to prepare for such a situation a correct, and proper, macro-environment analysis and survey would have to take place to understand what exactly is desired in markets abroad. To facilitate this comparison let's make an initial analysis of competing forces in China (of course, this would differ from country to country and we list this here to clarify the complexity of the question).

When supermarkets were first introduced into China (in 1981) supermarkets were mainly serving overseas visitors. After a bolstered economic boom, China shifted its usage of supermarkets into the local community. Supermarkets have very much been considered a blessing in less developed economies such as China – this because food expenditures generally account for more than half of total household expenses. Coles, in turn, has great potential to increase the efficiency of the supermarket retail in China due to industry expertise – this acts as a bonus and a focused strength within the company.

Right now China is in a state of expansion (1992 – present) and in particular;

In June 1992, after Deng Xiaoping's visit to the south of China, the State Council promulgated its 'Decision to Accelerate Development of the Tertiary Sector'. Encouraging all provinces, municipalities, and autonomous regions to implement bold measures in utilizing foreign investment in introducing management expertise and developing distribution channels. In addition, relevant departments had also announced measures of promoting group operation and establishing national and regional service enterprise groups, as well as opening up the service sector to foreign investors. (Lo, Lau and Lin, 2001, p. 68)

What does this mean? Well, it essentially means that Coles would experience very little competition in terms to all five factors stated within Porter's analysis. It should be noted that at first supermarkets opened successfully, and survived, primarily because they were opened in centres of population that was convenient to the more educated market. However, that is not to say that supermarket activity could not occur to the less educated, on the contrary, the growth in GDP in China has been more

than it has been for most of its wide history, people are rational beings and if something has the potential to save them money, and time, it becomes logical to conclude that supermarket growth will continue until saturation. The main impediments to expanding abroad to China would be in relations to:

- a) Lack of skills in pre-packaging process
- b) Electrical problems
- c) Shoplifting
- d) Lack of economies of scale

All of the above mentioned are matters that can be easily solved through the uses of expertise, better equipment, back-up generators, surveillance cameras, security staff, and proper management in infrastructure and operations.

**“The potential for supermarkets in China would be unlimited” (Lo et al, 2001)**

A downside to entry into China pertains to the fact that by 1996 there were already 13 supermarket chains operating with annual sales more than RMB 100 million. However, locally, Coles has almost reached a peak in economic growth, and lest it is to take over its rivals it can be foreseen that mayhap Coles is to see a decline in expansionary growth over this next decade.

On a different note, locally, Wesfarmers (SBU being Coles), has to deal with a lot of imitation of its strategies by its various competitors. In terms of Porter’s 5 forces, rivalry plays an important aspect and overcoming such impediments sometimes can only be achieved through sheer advocating of the company’s reputation to the masses. On a recent article, by Tortola (2009), it is made mention that IGA Australia recently earned accolades as one of the top 30 fundraising organizations in the country. In specific, IGA experienced an overall sales increase in excess of 10 percent last year alone! IGA’s fundraising activities are comprised of 5 main areas, in particular:

- Food 4 Life
- Little Athletics
- National Pensioner Program
- Local Heroes
- IGA Community Chest

These programs are not exactly in conflict with the programs stated on the 'Background' chapter, but what should be noted is that they appeal to different segments in society that Coles does not.

Coles also needs to be weary regarding a recent new competitor to the retail industry, particularly the supermarket market segment, COSTCO.

This new player offers retail shopping with a difference. Its style is based on a Bulk buying-Maximum 'savings' approach. It operates more of a bulk warehouse shopping experience, in which there are no fancy shelves or marketing tactics but rather bulk quantities of the one product. The more you buy of the particular product, the more you save.

Effectively Costco is a membership warehouse club, which is dedicated to bringing its members the best possible prices on quality brand-name merchandise. Costco provide a wide selection of merchandise, plus the convenience of specialty departments and exclusive member services, which is designed to make the customers shopping experience a pleasurable one.

Costco have recently opened Australia's first warehouse in Melbourne's Harbour Town Docklands. This in itself was a strategic move on Costco's part as it has set it self up in a demographic environment known for its "Value for Money / Discounted approach". This means that Costco does not have to promote its existence as it has located itself in area which is continually exposed to bargain hunters. The fact that Costco sells food together with other merchandise enables it to target the traditional Coles & Woolworths market segment

According to Jim Sinegal, the Company's President and Chief Executive Officer, "Costco is able to offer lower prices and better values by eliminating virtually all the frills and costs historically associated with conventional wholesalers and retailers, including salespeople, fancy buildings, delivery, billing and accounts receivable. We run a tight operation with extremely low overhead which enables us to pass on dramatic savings to our members."

Based on the following Key information, COSTCO is a threat that Coles should not take lightly

Number of warehouses: 554 (as of 11/04/09)

Areas of operation:

407 locations in 40 U.S. States & Puerto Rico;

76 locations in nine Canadian provinces;

21 locations in the United Kingdom;

5 locations in Taiwan;

6 locations in Korea;

8 locations in Japan;

31 locations in 18 Mexican states

Membership Data (as of 15/02/09):

54.5 million cardholders

29.8 million households

20.7 million Gold Star

5.7 million Business

3.4 million Business add ons

Warehouse sizes:

6,500 to 19,000 square meters (average 13,100 square meters)

Annual revenues

(FY08 - Ended 31/08/08): \$72.5 billion

Fiscal year end: Sunday closest to August 31

Number of employees (worldwide): 142,000 full and part-time

(Source: [www.costco.com.au](http://www.costco.com.au))

Apart from Costco there are very few businesses that could come into the Australian Retail grocery market and compete with Coles. Perhaps one of the only reasons that Costco can compete is due to the fact that it has already established itself worldwide and the business already has a strong framework on which to build and run.

Apart from Costco it is hard to see anyone entering the same market as Coles and become a true competitor. There are a significant number of barriers to entry into the market, “these are factors that need to be overcome by new entrants if they are to compete successfully” (Johnson, Scholes, and Whittington, 2008, p. 60). One of the tools that Coles may have is the fact that they can trade on the brand equity that they

have built up over the years and by playing on the fact that they are an Australian owned company.

Some methods that Coles may use as barriers could be engaging in a price war so as to discourage new competitors by making it too costly to do business.

Coles may even use its extreme wait of numbers (those being shopfronts) as a way to discourage new competition, Coles already have a huge framework of stores set up and competitors would find this very hard to compete with.

The threat of substitution is one that Coles must consider very carefully, even though they are in an extremely strong position in the Australian market they must understand that a great deal of their competition comes from the independent grocers federation as these are direct competitors to a big organisation like Coles but just on a smaller scale. These guys work on the premise that you pay lower prices but get more of a family style of service. The other benefit that retailers of this nature have is that they are able to open for longer periods in states like Western Australia due to different trading laws and therefore are able to take hold of the convenience side of the market.

For Coles the buyers are the ultimate link in the chain it is who Coles are trying to satisfy the most. It is proven in most cases that customers will vote with their feet and simply not visit certain locations if they don't fit all of their collective needs as a buyer. Coles places itself in the market as an organisation that can provide all of your grocery needs in one location, providing the best price, service and convenient locations. It is very important that Coles retains a reputation for integrity and honesty and value otherwise they will eventually lose their place in the market as buyers look elsewhere to fulfil their needs.

Suppliers play a very interesting part in this whole analysis as they are the ones that have the brands that the consumers want therefore it is important that Coles has the right brands on their shopfloor. Coles also has a very strong position due to the fact that they are a destination for millions of people around the country to buy these products. The move by Coles to head towards its own name brand products is one that would be providing quite a deal of angst for quite a lot of suppliers on the market as



they are being replaced by these home brands which in most cases are more profitable for Coles. The challenge for suppliers is to maintain the interest for consumers to buy their products as opposed to the home branded products and therefore force the hand of Coles by making them continue to supply their goods.

The main competitive rival for Coles is Woolworths; this is another iconic brand in Australia with a very similar market share to Coles. They sell very similar products to each other and provide a very similar end result to the consumer. They will both have their own very loyal customer base and these loyalties will be determined by a perceived better value by one over the other, better or more convenient store locations or sometimes just by the fact as to whether they are Australian owned or not. In the Australian market these 2 companies will continue to compete and in most likelihood it will remain that way for quite a long time until a serious competitor can make a move on the market dominance of these 2 strong companies.

Overall Coles is extremely well placed in the Australian market and strategically they have placed themselves in a very strong position to continue their strong presence. The interesting thing will be to see if they are able to continue their dominance in the event that another competitor will try to impose themselves on the Australian market.

Competitive forces are driven by environmental change – and to that aspect, environmental change must be accounted for in all aspects of Porter’s framework (Potential entrants, suppliers, substitutes, buyers and competitive rivalry). If Coles exposed itself to a change of environment it must immediately determine how the process of change impacts the choice of strategy.

***DID YOU KNOW?***

*The Produce and Grocery Industry Code of Conduct (PAGI code) has the objective of improving trading behaviour in the produce and grocery sector and provides an alternative dispute resolution scheme (with an independent Ombudsman) to help guide good business practices within Coles...includes commercial relationships...in different stages of production or distribution...plays a significant role within the supermarket sector due to its broad industry coverage... (Coles, 2007)*

Coles can alter its strategy in a bid to change the bias of any prominent Porter’s force imbalance by simply changing its scope, synergies, competitive advantages, and

resource deployment so that they align more suitably to the changed environment in order to maintain its objectives. Coles' competitive stance against major retail outlets such as IGA, and Safeway/Woolworths, means that Coles needs to be quick in determining its market segmentation niche that will allow it to put itself on a position that puts it in advantage over the others. Quality, price, technology or scale and scope economies dictate enterprise advantage within the retail industry, but so do sustainability issues and community involvement (Walsh, 2006).

Links and interconnectedness between aspects of competitive forces and macro-environment can be found by a proper scenario development of which necessitates the usage of an array of information that is near impossible for the public to obtain without statistical data archived by the company (in this case Coles). The following steps pretty much sum up the development of scenarios:

- 1) "identification of future actionable issues or drivers of change;
- 2) creation of framework for conceptualizing data pertaining to issues or drivers;
- 3) development and testing of a large number of scenarios (seven to nine);
- 4) reduction of initial scenarios to smaller number of ultimate scenarios (two to four);
- 5) construction of the scenarios; and
- 6) examination of scenarios and identification of issues arising from them."

(Walsh, 2006)

By utilizing internal resource analysis, PESTEL analysis and the use of scenarios, as initially indicated by a Porter five force framework, the performance of Coles can be understood so as to create a useful investigation of strategic decisions that may benefit or hinder the organization.

## PROBLEMS, PROSPECT AND IMPACT

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For Coles Australia to be remaining a strong competitor in the retail industry, it cannot rest on its laurels and must keep abreast of its competition and of new products on the market that will appeal to their consumer demographics. Other factors it needs to take into consideration include the overall Australian economy with such factors as the employment rate and capital expenditure. With these factors as a good indicator of

the overall economic conditions of the country, it will and can impact on the retail industry immensely. It can result in the fact that Coles would have to cut costs, add new products and possibly increase advertising. Should confidence fall, then overall sales will fall as would profitability. (ARA Australian Retailers Index, March 2009)

## CRITICAL ANALYSIS & DISCUSSION

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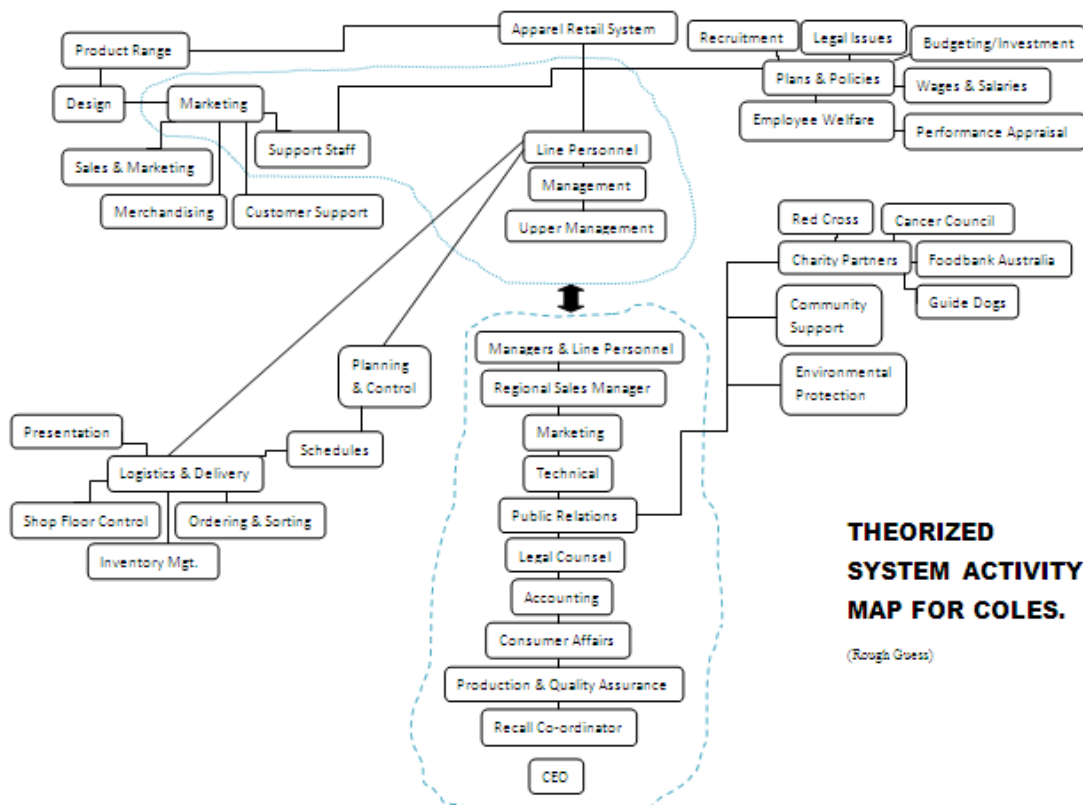
PESTEL analysis allowed us to briefly examine key facets that Coles may face when faced in suburban, regional, and global environments. It is apparent that trade name also plays a lot in adapting to new market ventures. Competitors often resort to imitation in order to secure their market niche, and Coles is likely to do the same if a rival innovates in one particular facet. E-commerce holds a lot of potential for exploitation, and there is much that can be learnt from overseas markets.

Porter's 5 force model allows companies to systematically analyse all key factors directly affecting competition – a proper evaluation of the 5 forces requires quantitative and qualitative information of which may pertain to factors affecting all stakeholders and rivals. From examining overseas opportunities we can postulate that the Wesfarmers/Coles group can stand to gain considerable profits by investing in developing nations such as China. The number of buyers, relative to sellers, would still favour economic development in China despite the many other rivals currently operating. Coles has first class expertise in developing state of the art supermarkets in order to appeal to local demands – this human capital in expertise can be put through better use abroad by also consulting the home country citizens of potential markets.

CORE COMPETENCIES

We may highlight the core competencies of Coles by also examining using a systems activity mapping technique (located below). From activity mapping we can highlight that Coles stands at an advantage in logistics operation, delivery, and marketing. However, in contrast larger companies in the United States may in fact be at an advantage when dealing with larger operations. Australian markets, and culture, has yet not seen fit to operate so-called ‘supercentres’ but there is potential for change yet. Coles has also a well established system of recruitment, of which most takes place electronically via the internet. Selected candidates are interviewed personally and when it comes to selection personality does count a great deal of the time. As such, Coles also places a great deal of consideration in employee welfare, and when required flexible work hours may be provided to the employee.

Coles has taken a lead in offering charity programs, community support, and has been proactive about environment protection. This, in turn, raises the standard of living for Australia’s communities and is in fact beneficial in the long run to society as a whole and in the eyes of shareholders.



**THEORIZED SYSTEM ACTIVITY MAP FOR COLES.**

(Rough Guess)

## CONCLUSION AND RECOMMENDATIONS

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As this assessment forms part 1 of a 2 part assignment, we have elected to reserve our conclusion and recommendations to part 2 of this assignment, being Assessment 3.

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## APPENDIX

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### CHARITY PARTNERS

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Coles works with a variety of national charity partners across Australia so that funds may be raised for some of the worthiest causes – this is deemed to be essential community involvement. National partners of Coles are:

- Australian Red Cross
- Foodbank Australia
- Cancer Council Australia
- Guide Dogs Australia

Coles has been a Red Cross National Humanity Partner since 2006 – Red Cross by itself helps supply relief in times of crisis to many. The ‘Good Start Breakfast Club’ is a key initiative by Coles which aims to provide a healthy breakfast to school children Australia wide. Proper nutrition education is seen as vital in the eyes of the community.

Proper nutrition is so important for growing children and nutritionists agree that breakfast is the most important meal of the day. Hunger effects behaviour and children who miss breakfast tend to be more irritable, fidgety and moody – and that goes for the adults too.

*“Prior to the breakfast club, we often had children that came to school without any food and sometimes without having dinner the night before. Kids were often reluctant to speak up and ask for food, as they were embarrassed. By having the Breakfast Club, those children who aren’t getting fed have an opportunity to get food in their stomachs without embarrassment.”*

**Gillian Harris**, Assistant Principal at Heatherhill Primary, Victoria (Coles, 2009)

Coles raises funds through in-store activities and a range of promotions and more than \$1 million has been raised to support Breakfast Clubs throughout Australia.

In 2009, Coles showed great initiative following the Victorian bushfires by donating food and aiding Red Cross.

Coles has also been an official partner in the Cancer Council since 1996 through usage of sponsorship and support of the ‘Daffodil Campaign’ by moreover contributing funds from profits from every bottle of Coles sunscreen sold.

‘Daffodil Day’ can account for some of the biggest fundraising events on the Cancer Council as well as the Coles group. It is a contributively event, by Coles, of which all proceedings go towards maintaining the Cancer Council Helpline so that it remains a free service.

Coles also sponsors the ‘Cancer Council Outreach service’ which is a mobile information truck to connect cancer afflicted people and aide where aide is needed.

Foodbank Australia is another fund supported by the Coles group – it is a non-profit organization that distributes food to over 2,000 welfare agencies. In 2008 Coles donated over 1 million kilos of food and groceries making Coles the 3<sup>rd</sup> highest donor.

*"I was really frightened about the future and what would happen. Talking to someone on the Helpline gave me the chance to talk with somebody who really understood".*  
Cancer Council Helpline caller. (Coles, 2009)

Coles also upholds the ‘Workplace Giving Program’ of which entitles people to easily donate to their favourite charities directly from their pay. These charities can support health, wildlife, research, emergency services and other major causes.

The charities supported through Coles Workplace Giving are:

- Assistance Dogs Australia
- Asthma Foundations of Australia
- Australian Conservation Foundation
- Australian Red Cross
- AWC Fund
- Breast Cancer Network Australia
- Camp Quality
- Australia Cancer Society
- Children's Hospitals Australia
- Diabetes Australia
- Foundation for Young Australians
- Inspire Foundation
- The Jean Hailes Foundation
- BoysTown
- MS Society
- Open Family (Australia)
- Prostate Cancer Foundation
- Royal Flying Doctor Service

- RSPCA
- Surf Lifesaving
- The Salvation Army (Victoria)
- The Smith Family
- United Way Geelong
- Vision Australia
- World Vision of Australia Overseas Aid
- Youngcare (Coles, 2009)

On a final note, another major service provided by Coles is Daffodil Day, it in turn is one of the biggest fundraising events to support all touched by Cancer within Australia.

## ENVIRONMENT

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Coles is ever-so cautious about any effect it may have on the environment and thus, Coles seeks to reduce any impact on the environment to comfort the lives of others and clear themselves from any potential lawsuit whilst looking good to all stakeholders/shareholders.

As one of Australia's largest retailers, Coles recognises the effect it may have on the environment and therefore we're committed to finding ways to reduce any negative impact and enhance the environment we live in. The following initiatives are put into place for environmental protection:

- Landcare Australia
- Coles Turns Plastic Into Plants
- Coles Green Bags
- Coles School Garden Grants
- Indigenous Bush Tucker Gardens
- Phillio Island Salinity and Soils
- Bulimba Creek Catchment Restoration
- Western Sydney Waterwise Garden (Coles, 2009)

Coles seeks to fund sustainable projects across Australia in order to rehabilitate the natural resources and teaching newer generations how to care for the environment. Coles has also led the way in providing alternative (environmentally friendly) bag options as well as suitable plastic-recycling bins – funding from such activities helps school garden projects. 5 cents from every green grocery bag sold go to Landcare Australia to help fund school gardens.

Coles is also proactively responsible for giving grants to help establish gardens in communities – students are usually encouraged to prepare the soil and harvest their garden's crop all as an educational experience.

**I.E. STIRLING SCHOOL NATIVE TREE PLANTING PROJECT – NT (Coles, 2009)**

*Stirling School in Alice Springs received a grant to help fund saplings, fertiliser and a watering system for their native tree-planting project. Amongst other things, the project aims to raise awareness of sustainability, biodiversity and water management and also to assist with dust reduction caused by frequent dust storms. The school is looking to incorporate the project into its curriculum as part of their indigenous language and cultural studies.*

Indigenous Bush Tucker Gardens are also Coles encouraged initiatives that helps maintain the Australian heritage amongst all the students. Preserving Australian values is a key agenda within Coles.

The Phillip Island Salinity and Soils Project involved the plantation of 3,000 native trees as well as fencing of salt marsh areas and measurements for salinity. Similarly, the Bulimba Creek Catchment Restoration project involved the plantation of 11,500 native plants across the wetlands and spread a few thousand square metres of mulch to help plants grow. As can be seen so far, Coles devotes a lot of resources into helping sustain the environment and as a market strategy this may indeed appeal to the wider populace...

Other major services contributed by Coles mainly entail the management of proper water use and the involvement of community to do its part in a proactive fun atmosphere.

## PESTEL DEFINITION (Gillespie, 2007)

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**Political factors.** These refer to government policy such as the degree of intervention in the economy. What goods and services does a government want to provide? To what extent does it believe in subsidising firms? What are its priorities in terms of business support? Political decisions can impact on many vital areas for business such as the education of the workforce, the health of the nation and the quality of the infrastructure of the economy such as the road and rail system.

**Economic factors.** These include interest rates, taxation changes, economic growth, inflation and exchange rates. As you will see throughout the "Foundations of Economics" book economic change can have a major impact on a firm's behaviour. For example:

- higher interest rates may deter investment because it costs more to borrow
- a strong currency may make exporting more difficult because it may raise the price in terms of foreign currency
- inflation may provoke higher wage demands from employees and raise costs
- higher national income growth may boost demand for a firm's products

**Social factors.** Changes in social trends can impact on the demand for a firm's products and the availability and willingness of individuals to work. In the UK, for example, the population has been ageing. This has increased the costs for firms who are committed to pension payments for their employees because their staff are living longer. It also means some firms such as Asda have started to recruit older employees to tap into this growing labour pool. The ageing population also has impact on demand: for example, demand for sheltered accommodation and medicines has increased whereas demand for toys is falling.

**Technological factors:** new technologies create new products and new processes. MP3 players, computer games, online gambling and high definition TVs are all new markets created by technological advances. Online shopping, bar coding and computer aided design are all improvements to the way we do business as a result of better technology. Technology can reduce costs, improve quality and lead to innovation. These developments can benefit consumers as well as the organisations providing the products.

**Environmental factors:** environmental factors include the weather and climate change. Changes in temperature can impact on many industries including farming, tourism and insurance. With major climate changes occurring due to global warming and with greater environmental awareness this external factor is becoming a significant issue for firms to consider. The growing desire to protect the environment is having an impact on many industries such as the travel and transportation industries (for example, more taxes being placed on air travel and the success of hybrid cars) and the general move towards more environmentally friendly products and processes is affecting demand patterns and creating business opportunities.

**Legal factors:** these are related to the legal environment in which firms operate. In recent years in the UK there have been many significant legal changes that have affected firms' behaviour. The introduction of age discrimination and disability discrimination legislation, an increase in the minimum wage and greater requirements for firms to recycle are examples of relatively recent laws that affect an organisation's actions. Legal changes can affect a firm's costs (e.g. if new systems and procedures have to be developed) and demand (e.g. if the law affects the likelihood of customers buying the good or using the service).

DIFFERENCES AND COMMONALITIES WITHIN THE SUPERMARKET INDUSTRY  
IN VARIOUS ECONOMIES (Kumar, 2008)

Country	Market value (billion)	Growth in 2006 (percent)	Largest sector of grocery retail (percent)	Customer focus on value, variety and convenience, better shopping experience	Highly developed infrastructure	Highly mature market	Growing market	Customer loyalty programs and private labeling	Online retail shopping – an opportunity	"E-tanic boom" – an opportunity	High real estate costs – a threat	Economic slowdown posing a threat	Online retail shopping – an opportunity	Changing consumer tastes a threat	Consumers equate price with quality
USA	678.2	2.5	Super-markets 55.8	✓	✓	✓	✓	✓	✓	✓			✓	✓	
Canada	62	2.1	Super-markets 47.6	✓	✓	✓	✓	✓	✓	✓			✓	✓	
Europe	1,102.3	3.7	Super-markets 40.3	✓	✓	✓	✓	✓	✓	✓			✓	✓	
Japan	380.7	1.1	Super-markets 36.6	✓	✓	✓	✓								✓
India	164.5	6.2	Neighborhood stores 28.8 percent	✓			✓								

Sources: Food Retail Industry Profile United States (2006); Food Retail Industry Profile Canada (2006); Food Retail Industry Profile Europe (2006); Food Retail Industry Profile Japan (2006); Food Retail Industry Profile India (2006) and current issues in Indian Retailing, March 2000; Majumdar (2006)



## PORTER'S FIVE FORCES DEFINITION (Gillespie, 2007)

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The competitive structure of an industry can be analysed using Porter's five forces.

This model attempts to analyse the attractiveness of an industry by considering five forces within a market.

According to Porter (1980) the likelihood of firms making profits in a given industry depends on five factors:

1. The likelihood of new entry
2. The power of buyers
3. The power of suppliers
4. The degree of rivalry
5. The substitute threat

The implication of Porter's analysis for managers is that they should examine these five factors before choosing an industry to move into. They should also consider ways of changing the five factors to make them more favourable.

For example:

- If firms merge together this can reduce the degree of rivalry . This has happened a great deal in industries such as automobiles, pharmaceuticals and banking where firms have joined together to remove competitors
- if firms buy up distributors (this is called forward vertical integration) they can gain more control over buyers
- if firms differentiate their product perhaps by trying to generate some form of Unique Selling Proposition (USP) that makes it stand out from the competition. This lies at the heart of many marketing and brand building activities. Coca Cola, for example, has fought hard to promote itself as "the real thing"; everything else is just imitation!
- if they react aggressively to a firm that enters its market this may deter potential entrants in the future

The five forces will change over time as market conditions alter. For example, more information is available nowadays to enable customers to compare offerings and prices; this gives buyers more power. The opening up of world markets (for example through the efforts of the World Trade Organisation to reduce protectionist measures that limit trade and the expansion of the European Union enabling free trade between more countries) has led to much more rivalry in markets in recent years. In North America, for example, the sales of Japanese firms such as Toyota have gradually been reducing the market share of American producers such as General Motors as consumers have more choice. Meanwhile, the success of the internet has made it easier for producers to enter many markets such as finance, book retailing and clothes retailing; the ability to start selling online has reduced a major barrier to entry which was the investment required to set up a network of shops. As ever the business world is not static and the conditions in any industry will always be changing. As this happens the various elements of the five forces are always shifting requiring established firms and potential entrants to review their strategies.