Bankwest Future of Business: Focus on Supermarkets

2019 release
Contents

Key insights 4
Focus on supermarkets 5
Industry overview 6
What’s driving industry growth? 7
Spotlight on Australia 8
Spotlight on Western Australia 9
What does the future hold? 10
What challenges does the industry face? 11
Where do the opportunities lie? 12
Forecasted industry growth 13
Understanding factors impacting your industry, and how other businesses in your industry are performing, can be a great gauge for how your business is tracking.

The Bankwest Future of Business: Focus on Supermarkets Report is designed to give you a snapshot of the current and expected future state of your industry, which could help you plan and spark ideas. The report covers Australia’s supermarkets and grocery stores, providing insight on grocery and specialised food retailers, summarising trends based on statistics from IBIS World, the Australian Bureau of Statistics and other reputable sources.

The supermarkets and grocery stores sector remains highly competitive and price-driven. Online supermarkets are a rapidly growing part of the industry, with this segment forecasted to grow by 75.9% over the next five years.

Western Australians are among Australia’s biggest spenders on online groceries, due to the state’s more restrictive trading hours.

Despite increased competition from large international stores arriving in Australia, specialised stores are thriving. Specialised food stores grew by 2.1% in the year to June 2017.

Smaller format, specialty grocery stores that focus on fresh, local and sustainable products are being introduced by the supermarket giants to capitalise on this trend.

The product range offered by Australia’s industry giants has evolved during the last five years, with the expansion of private food label goods, organic food and healthy options. There has also been an increased focus on convenience which fuels the demand for ready-to-eat meals, pre-cooked packaged meals and meal-kits. Meat and seafood are the products Australians would most consider buying as a premium offering.

The size of the Australian supermarkets and grocery store market is projected to grow 2.0% each year to June 2024. Like other industries, change is likely to occur from the products and services offered by the sector. Online grocery delivery sales are forecast to grow six times faster than the overall industry, growing by 12.0% annually to June 2024.
Focus on supermarkets

Supermarkets and grocery stores across Australia continue to compete heavily on price for a share of the $100bn market. The recent growth of private-label brands and online grocery shopping has altered the industry’s operating landscape significantly.

The online groceries sector includes Woolworths Group, Coles Group and ‘other’, which along with Aussie Farmers Direct and some IGA retailers includes Hello Fresh, Marley Spoon and Pepper Leaf, all of whom offer meal kit boxes appealing to Australians’ desire for convenience.

### Supermarkets

<table>
<thead>
<tr>
<th>Revenue</th>
<th>1-Year change</th>
<th>Number of businesses</th>
<th>Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>$103.4bn</td>
<td>0.0%</td>
<td>1,966</td>
<td>348,766</td>
</tr>
</tbody>
</table>

### Online

<table>
<thead>
<tr>
<th>Revenue</th>
<th>1-Year change</th>
<th>Number of businesses</th>
<th>Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>$3.1bn</td>
<td>11.6%</td>
<td>243</td>
<td>9,582</td>
</tr>
</tbody>
</table>

Establishments (2018-2019)³

- Australia: 6,668
- WA: 553

³IBIS 2018
Product evolution
The product range offered by Australia's industry giants has evolved during the last five years, with the expansion of private food label goods, organic food and healthy options. There has also been an increased focus on convenience which fuels demand for ready-to-eat meals, pre-cooked packaged meals and meal-kits.

Industry overview
Online supermarkets and grocery stores are a rapidly growing part of the industry with forecasted growth of 75.9% over the next five years. Western Australians are among Australia's biggest spenders on online groceries, accounting for 11.2% of total revenue from online grocery sales and boasting the second largest amount spent per person for online groceries behind the ACT, at $132.07.

Relative difference between online groceries revenue and state population, 2018

[Map showing relative differences between online groceries revenue and state population, 2018]
What’s driving industry growth?

The rise of private-label products has allowed Australians to enjoy luxury products, such as gourmet foods and deli items, without paying significantly more. At the same time, real household disposable income and population are both expected to continue increasing, providing opportunities for growth. In Western Australia, disposable household income has increased by 0.7% in the last year and is 10.9% above the national average, while the population has grown by 4.4% in the last five years.

Gross disposable household income per capita, 2003 - 2018

Source: ABS 5220, ABS 3101

How are industry players competing?

- Woolworths sold its fuel business to British retailer EG Group for $1.7 billion, focusing efforts on the food division
- Coles ran the "Little Shop" promotion, which saw a surge in sales growth of 6.8% in eight weeks, compared to the average of 2.0% before the campaign
- Targeting growth in private-label products to keep profit margins high

Three trends shaking up the retail grocery market

- Local and sustainable
  Specialty stores promoting local produce with a strong focus on sustainability

- Premium
  Australians are willing to pay a premium for organic products and those with perceived health benefits or of superior quality

- Smaller stores
  The supermarket giants are opening small format stores in metro areas, competing with convenience stores
Market share of Australia's supermarkets and grocery stores

Spotlight on Australia

The fierce competition between supermarkets continues to put downwards pressure on prices. With higher margins on private-label products, supermarkets are pushing home brands to maintain profitability. In 2017, the national average of household spend allocated to private-label was 24.1%, its growth outpacing branded products.

<table>
<thead>
<tr>
<th>Private label</th>
<th>Branded products</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$17.7bn</td>
</tr>
<tr>
<td>Revenue growth</td>
<td>$662m</td>
</tr>
<tr>
<td>Value growth</td>
<td>3.9%</td>
</tr>
<tr>
<td>Unit growth</td>
<td>4.8%</td>
</tr>
</tbody>
</table>

Revenue growth Value growth Unit growth

<table>
<thead>
<tr>
<th>Meat/seafood</th>
<th>30%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coffee &amp; tea</td>
<td>28%</td>
</tr>
<tr>
<td>Dairy products</td>
<td>23%</td>
</tr>
</tbody>
</table>

Source: Nielson 2018

However, Australians are willing to pay a premium for quality. Smaller format, specialty grocery stores that focus on fresh, local and sustainable products are being introduced by the supermarket giants to capitalise on this trend. In late 2018, Coles opened its first Coles Local in Melbourne and Woolworths opened The Kitchen in Sydney. The opening of these stores, which mimic the look and feel of a local specialist grocery store, allows the supermarkets to compete with local convenience stores and grocers for different types of customers.

Meat and seafood are the products Australians would most consider buying as a premium offering. Premium offerings and greater service are ensuring smaller specialised food retailers can thrive.

Source: IBIS 2018
Perth has experienced the lowest CPI growth of any capital city in the last five years. Despite experiencing a 1.4% increase on the previous year, over the last five years (3.5% increase) food and beverage prices have risen by twice as much in Sydney and Melbourne (7.8% and 6.4%).

In Perth, fruit and vegetable prices saw the largest increase of 4.3% in the year to September 2018, after seeing the largest decline the previous year. While prices increased overall, food and non-alcoholic beverages in Perth are still 3.4% below the national average.

The online groceries sector generates a disproportionate share of revenue in Western Australia because of the state’s more restrictive trading hours. This enhances the convenience of online ordering, which can be completed 24/7, with delivery to follow or collection during business hours.6

Source: ABS 6401

<table>
<thead>
<tr>
<th>Category</th>
<th>1 Year change</th>
<th>5 Year change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bread and cereals</td>
<td>↑ 0.3%</td>
<td></td>
</tr>
<tr>
<td>Meat and seafoods</td>
<td>↑ 1.4%</td>
<td></td>
</tr>
<tr>
<td>Dairy</td>
<td>↑ 0.8%</td>
<td></td>
</tr>
<tr>
<td>Fruit and vegetables</td>
<td>↑ 4.3%</td>
<td></td>
</tr>
</tbody>
</table>

The online groceries sector generates a disproportionate share of revenue in Western Australia because of the state’s more restrictive trading hours. This enhances the convenience of online ordering, which can be completed 24/7, with delivery to follow or collection during business hours.6

IBIS 2018
What does the future hold?

Major supermarkets are looking to utilise technology to operate more effectively in order to streamline costs, attract new customers and fight for market share over the next five years.

Percentage of products sold on promotion in Australia

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>30%</td>
</tr>
<tr>
<td>2017</td>
<td>40%</td>
</tr>
</tbody>
</table>

Source: Nielsen 2018

New players in the market

ALDI’s impact on prices has already been felt around Australia. New players are expected to continue to enter the market in the near future, bringing with them alternative business models that will challenge the traditional supermarkets.

Costco
The American wholesaler, has confirmed plans to open its first store in Perth in 2020.

Kaufland
A German-owned hypermarket (supermarket and department store operating as one super store), plans to open its first store in Adelaide in FY2019 and open 32 stores across the country by 2023.

David Jones
Owned by South African company Woolworths Holdings Ltd*, plans to spend more than $100m in the next three years to break into the food retailing business. The first standalone gourmet food store will open in Melbourne in 2019.

*No connection to Woolworths supermarkets in Australia

How are supermarkets responding to competition?

- Offering more online grocery shopping options to improve convenience
- Coles and Woolworths have invested in improving the in-store experience to differentiate their business from low-cost stores like ALDI
- Promotional campaigns, such as ‘Little Shop’ by Coles & Woolworths’ Black Friday promotion
- Investment in store systems, mobile apps and online platforms to extend customer reach
- Personalised consumer marketing to attract new customers
- Automated distribution centres to reduce employees required
- Using data to tap into customer preferences and assist with future business planning
What challenges does the industry face?

Large, multinational corporations are entering the online market and putting pressure on existing brick and mortar supermarkets and grocery stores, especially the smaller ones. Amazon recently launched into the Australian food market with 400 pages of pantry and packaged food products, while Costco is also rolling out an online store in 2019. The advantages of doing business online has created challenges for traditional businesses including:

- Remaining price competitive while retaining a desired profit margin
- Tackling the economies of scale advantage that online retailers have
- Dealing with streamlined online buying experiences that utilise technology like voice searching

Challenges for small operators

Woolworths and Coles together, owned a greater market share of the Australian fresh fruit and vegetable sector in 2018 than all other grocers combined. Compared to the previous year, Woolworths saw a net 1.3% increase in market share, driven by competitive pricing and shopping convenience.

In Western Australia, the number of small businesses in the fresh fruit and vegetable sector declined by 2.2% from June 2016 to June 2017. In June 2017, there were 190 fresh fruit and vegetable small businesses in WA, which represents 7.7% of the total fruit and vegetable small grocers in Australia.

Australian fresh fruit and vegetable market share

<table>
<thead>
<tr>
<th>Market Share</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Woolworths</td>
<td>27.4%</td>
</tr>
<tr>
<td>Coles Group</td>
<td>23.9%</td>
</tr>
<tr>
<td>Other Fresh Fruit and Vegetable Retailers</td>
<td>48.7%</td>
</tr>
</tbody>
</table>

Source: Roy Morgan 2018
Where do the opportunities lie?

The growing appetite for quality, healthy and sustainable food products presents an opportunity for grocers to increase profit margins by catering to the needs of their local community.

Growth in food retailers in Australia (2017)

<table>
<thead>
<tr>
<th>Specialty food retailers – 6,204 stores</th>
<th>Supermarkets and grocery retailers – 25,132 stores</th>
</tr>
</thead>
<tbody>
<tr>
<td>↑ 2.1%</td>
<td>↓ 0.3%</td>
</tr>
</tbody>
</table>

CoreData research found almost half of Western Australians would be willing to pay marginally or considerably more to shop at a local, WA supermarket brand.

Source: CoreData 2018
**Forecasted industry growth**

Despite remaining flat in the year to June 2019, revenue is forecast to grow by 10.6% in the five years to June 2024.

Over the next five years, the supermarket and grocery store industry will experience:

- 0.7% Establishments
- 5.4% Businesses
- 1.1% Employment

**Actual & projected online grocery sales revenue, 2010 – 2024**

The Online Grocery Sales industry has significant potential for growth, with revenue forecast to increase at an annualised 12.0% over the five years through 2023–24, to total $5.4 billion.

---

Source: IBIS 2018

1IBIS 2018
2IBIS 2018
3IBIS 2018
Sources


IBISWorld (2018) ODS527 Online Grocery Sales in Australia.


Vuong, B “Convenience Stores in Australia”, IBISWorld, January 2019

You, T “Tobacco and Other Store-Based Retailing in Australia”, IBISWorld, October 2018

Youl, T “Supermarkets and Grocery Stores in Australia” IBISWorld, October 2018
We provide banking solutions to many of Australia’s leading businesses, including those running supermarkets and grocery stores. Whether you require straightforward banking or a more customised solution, our team of experienced banking specialists can help.

We understand that Business Banking is about more than just financial solutions.

Speak to one of our Bankwest Business Banking Specialists today on 13 7000.
The information contained in this report is of a general nature and is not intended to be nor should be considered as professional advice. You should not act on the basis of anything contained in this report without first obtaining specific professional advice. To the extent permitted by law, Bankwest, a division of Commonwealth Bank of Australia ABN 48 123 123 124 AFSL/Australian credit licence 234945, its related bodies corporate, employees and contractors accepts no liability or responsibility to any persons for any loss which may be incurred or suffered as a result of acting on or refraining from acting as a result of anything contained in this report.