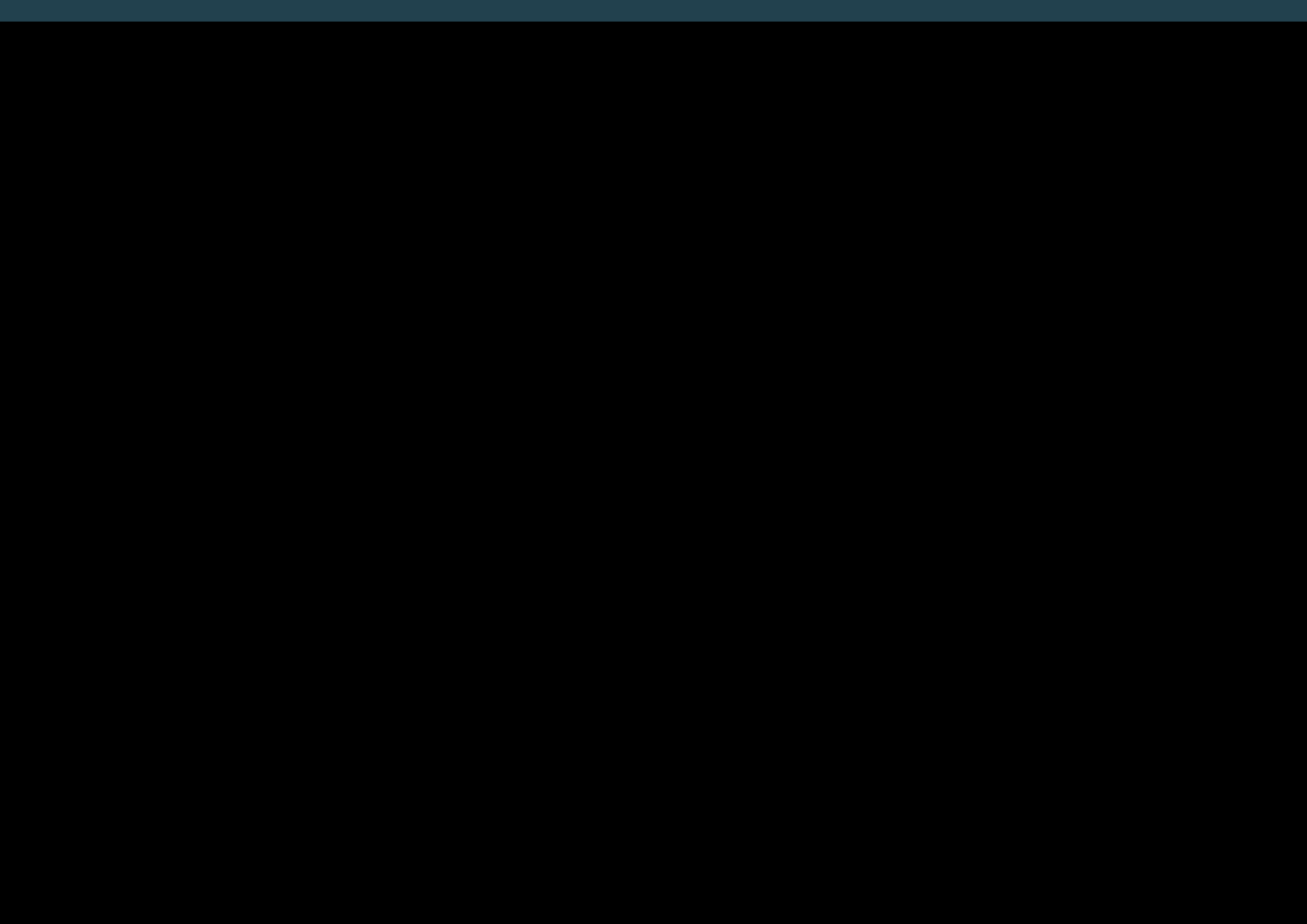


Bankwest Future of Business: Focus on Supermarkets

2019 release





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Key insights

Foreword

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%¹ 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%² annually to June 2024.

¹IBIS 2018

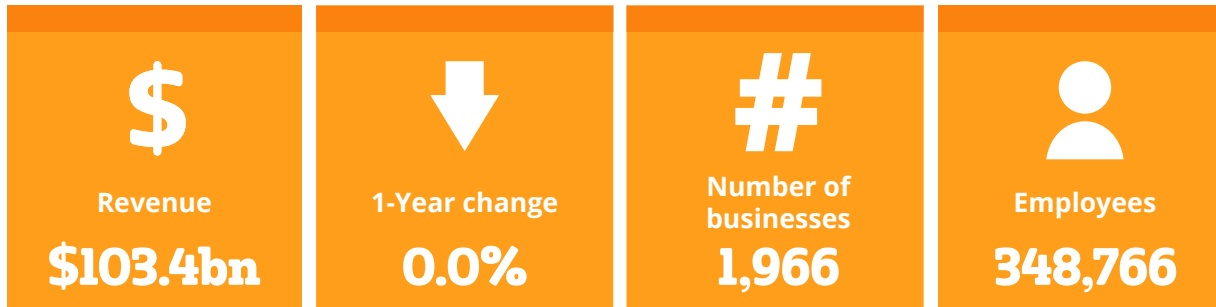
²IBIS 2018

Focus on supermarkets

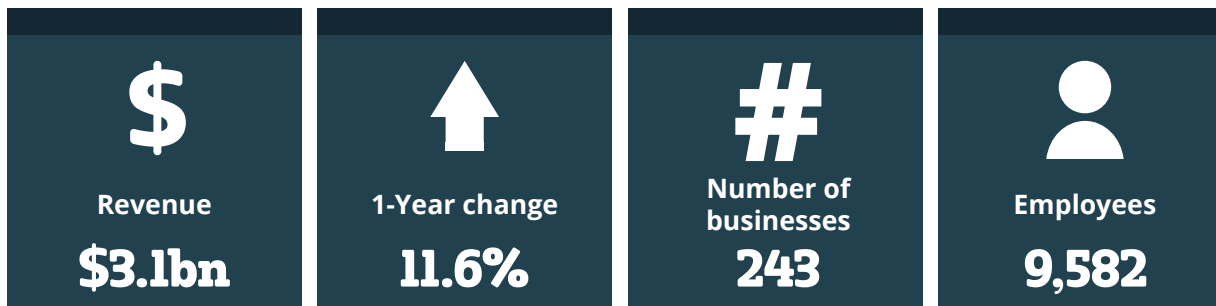
Supermarkets and grocery stores across Australia continue to compete heavily on price for a share of the \$100bn market. The recent growth of private-label brands and online grocery shopping has altered the industry's operating landscape significantly.

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



Online



Establishments (2018-2019)³

6,668

Australia



553

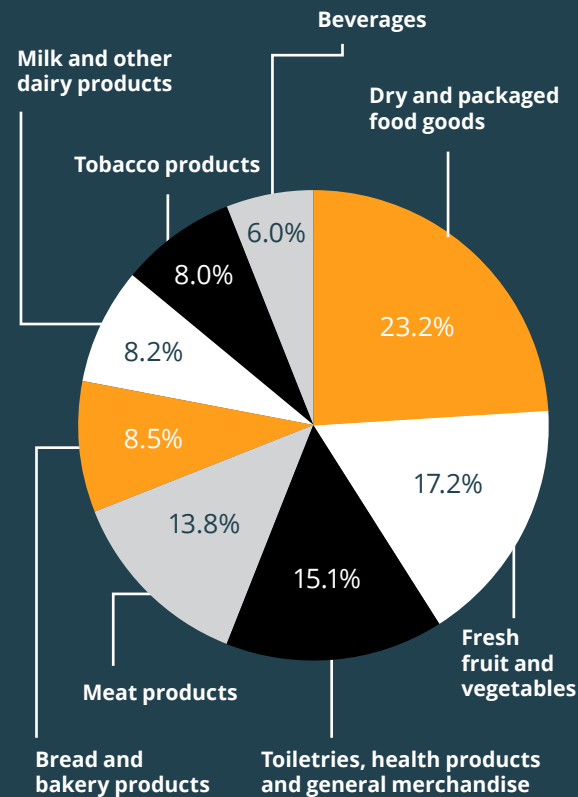
WA

³BIS 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 breakdown⁴

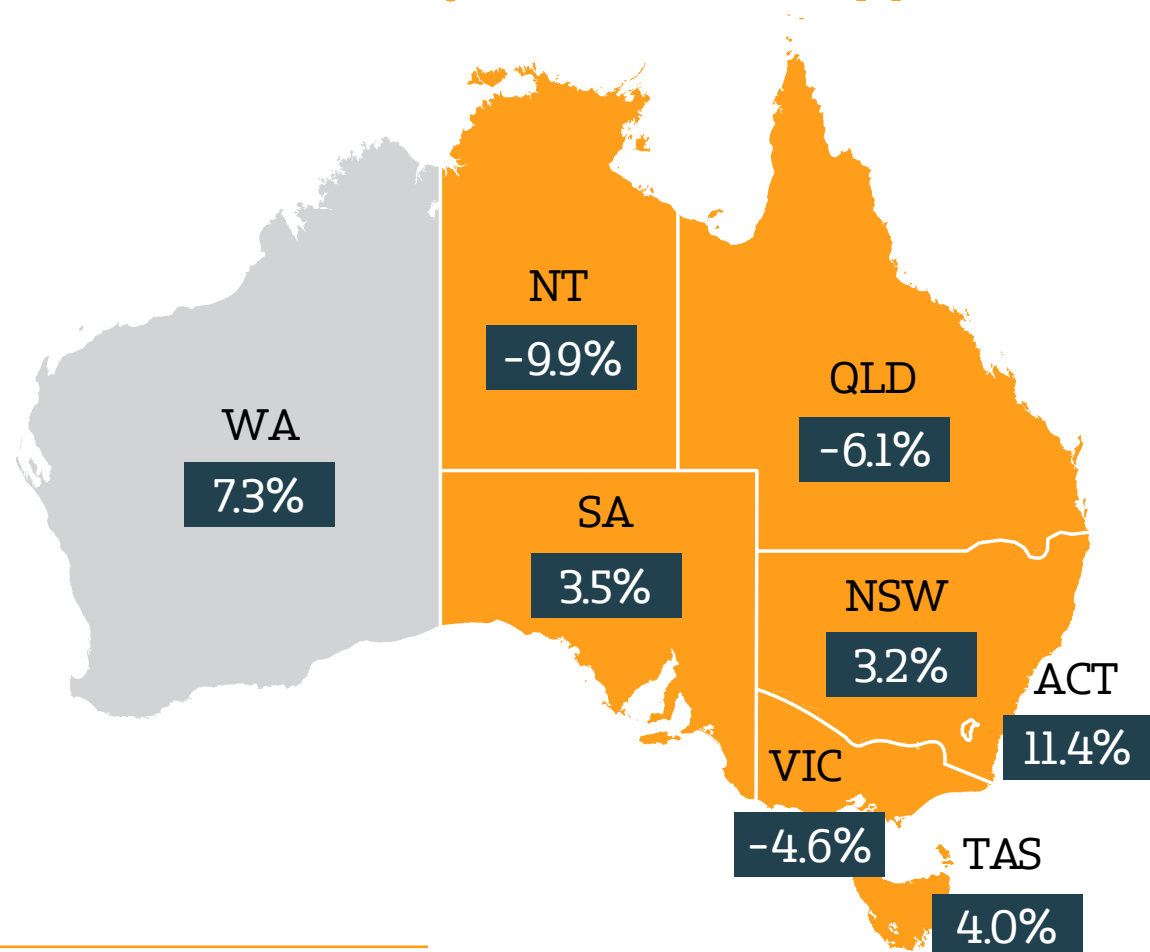


⁴IBIS 2018

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, 2018⁵

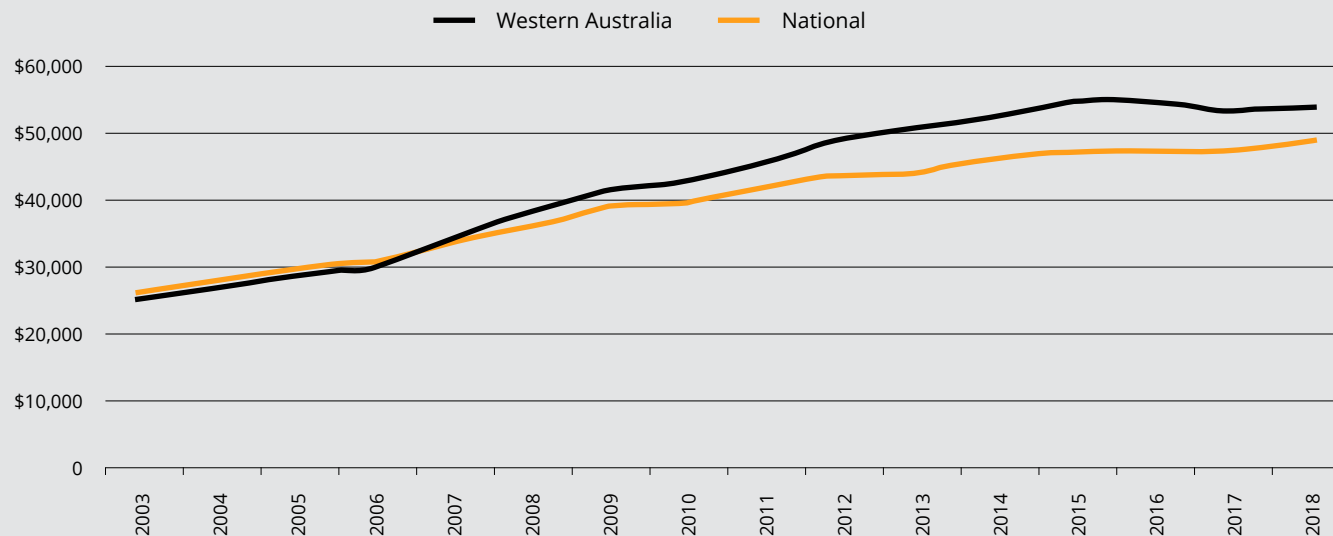


⁵IBIS 2018

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

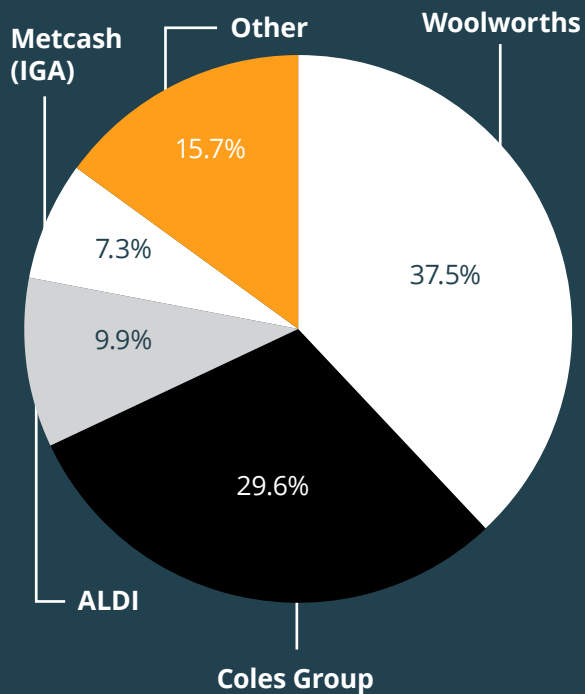


Premium
Australians are willing to pay a premium for organic products and those with perceived health benefits or of superior quality



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



Source: IBIS 2018

Spotlight on Australia

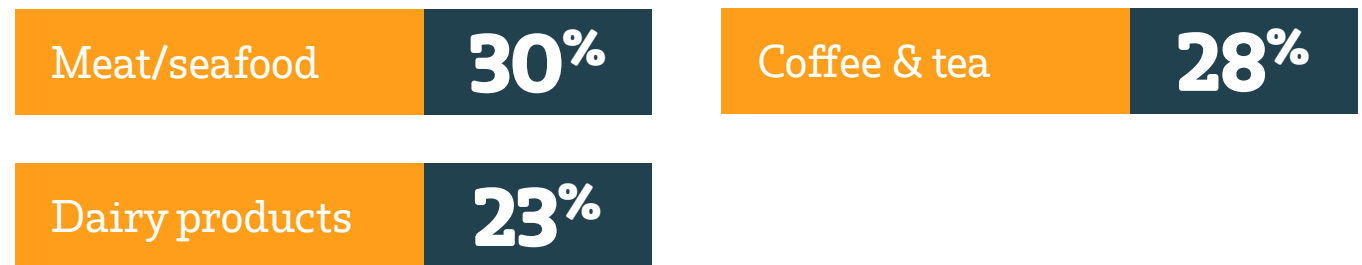
The fierce competition between supermarkets continues to put downwards pressure on prices. With higher margins on private-label products, supermarkets are pushing home brands to maintain profitability. In 2017, the national average of household spend allocated to private-label was 24.1%, its growth outpacing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

	Revenue	Revenue growth	Value growth	Unit growth
Private label	\$17.7bn	\$662m	3.9%	4.8%
Branded products	\$80.0bn	\$1.5bn	2.2%	2.1%

Source: IRI 2017

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.

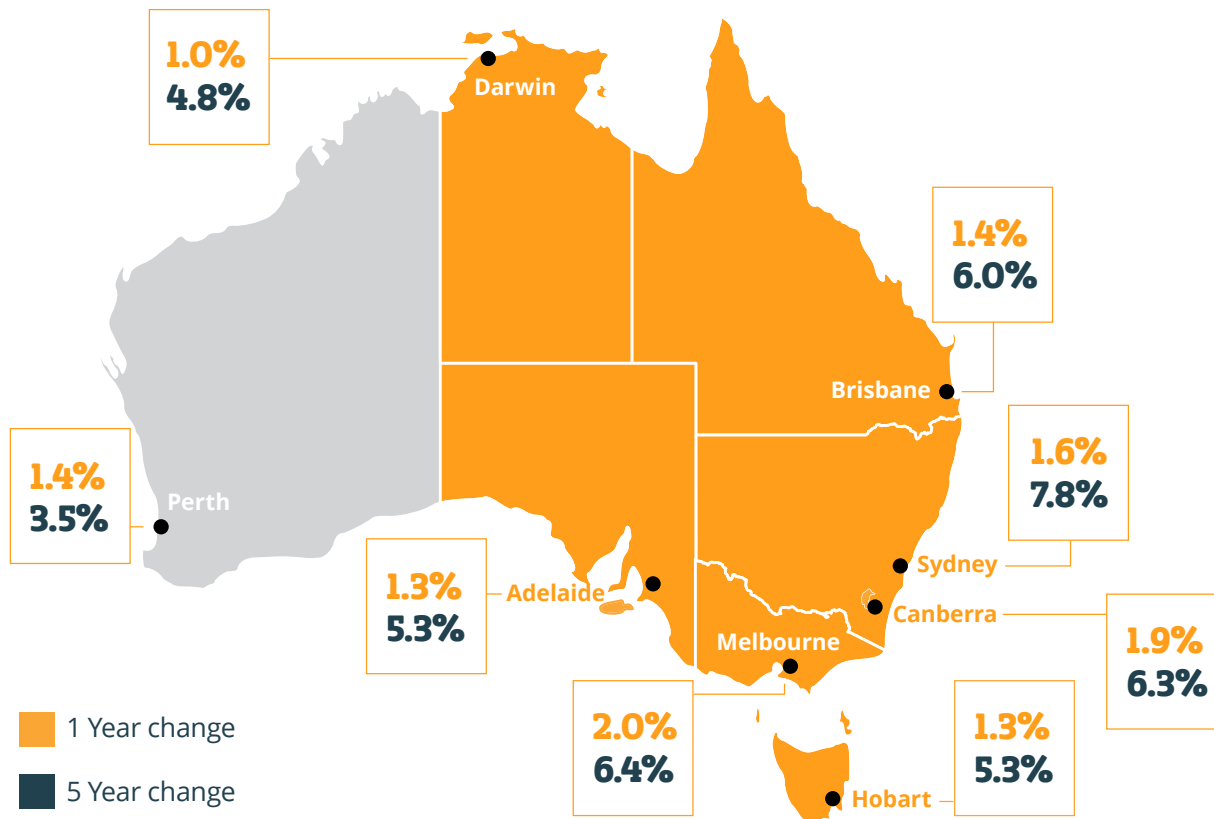


Source: Nielsen 2018

Spotlight on Western Australia

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%).

Food and beverage CPI (September 2018)



Source: ABS 6401

Perth fruit and veg prices growing

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.

Bread and cereals	↑	0.3%
Meat and seafoods	↑	1.4%
Dairy	↑	0.8%
Fruit and vegetables	↑	4.3%

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

⁶BIS 2018

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

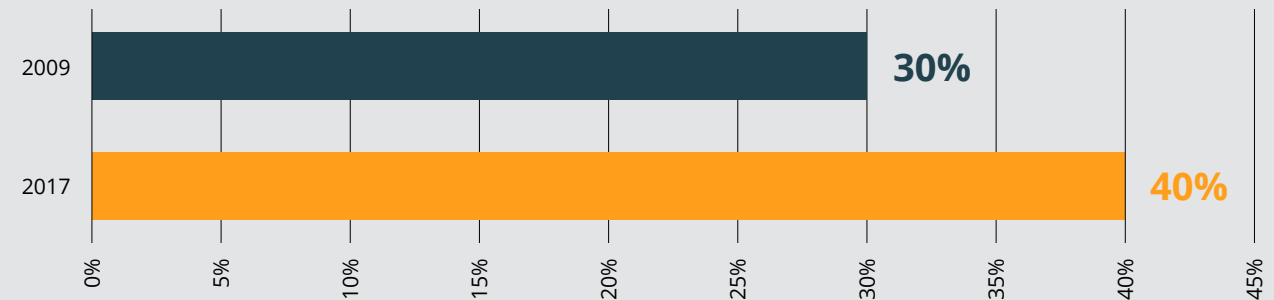


Using data to tap into customer preferences and assist with future business planning

What 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



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

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



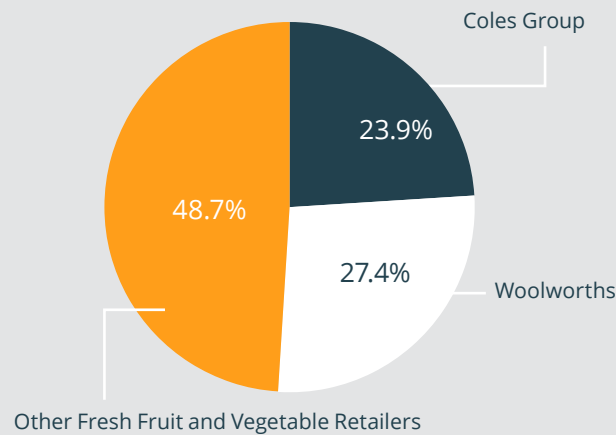
Dealing with streamlined online buying experiences that utilise technology like voice searching

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



Source: Roy Morgan 2018



Top trends for 2019 among specialty retailers



Organic food and supporting local producers



Environmentally friendly packaging of products



Functional food products with claims of health benefits



Fresh alternatives and ready to eat, packaged, shelf foods



Healthier drinks with lower alcohol volume and digestive benefits

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)



Specialty food retailers – 6,204 stores

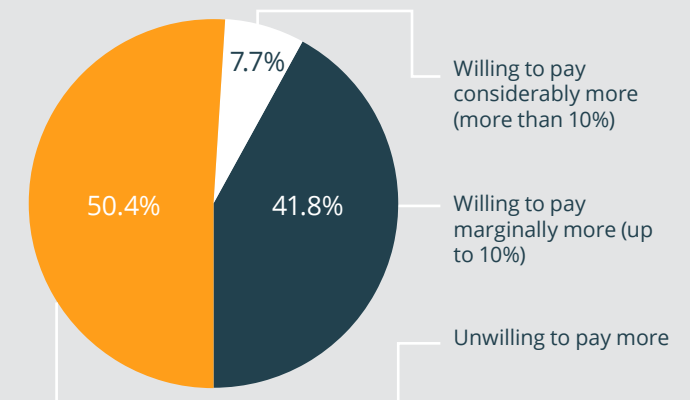


Supermarkets and grocery retailers – 25,132 stores

The number of specialty food retailers in WA remained stable at 705 in 2017, accounting for 11.4% of these establishments nationally. The majority of specialty food retailers in both Australia and Western Australia are small businesses, at 96.8% and 95.2% respectively. As they are not part of national chains, they are more likely to utilise local products or production expertise to capitalise on the growing trend of buying local. Specialty non-employing stores have seen growth of 5.4% nationally between June 2016 and June 2017, suggesting strong demand for family or independently-owned grocers.

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.

Attitudes towards paying for groceries 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%⁷ in the five years to June 2024.

Over the next five years, the supermarket and grocery store industry will experience:⁸



0.7%
Establishments

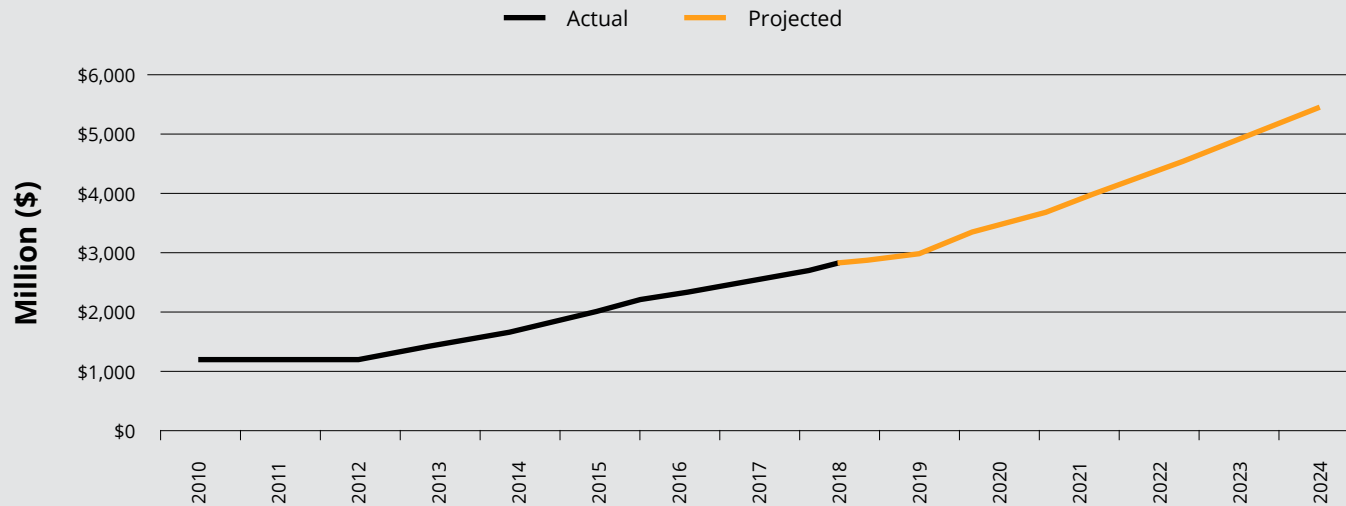


5.4%
Businesses



1.1%
Employment

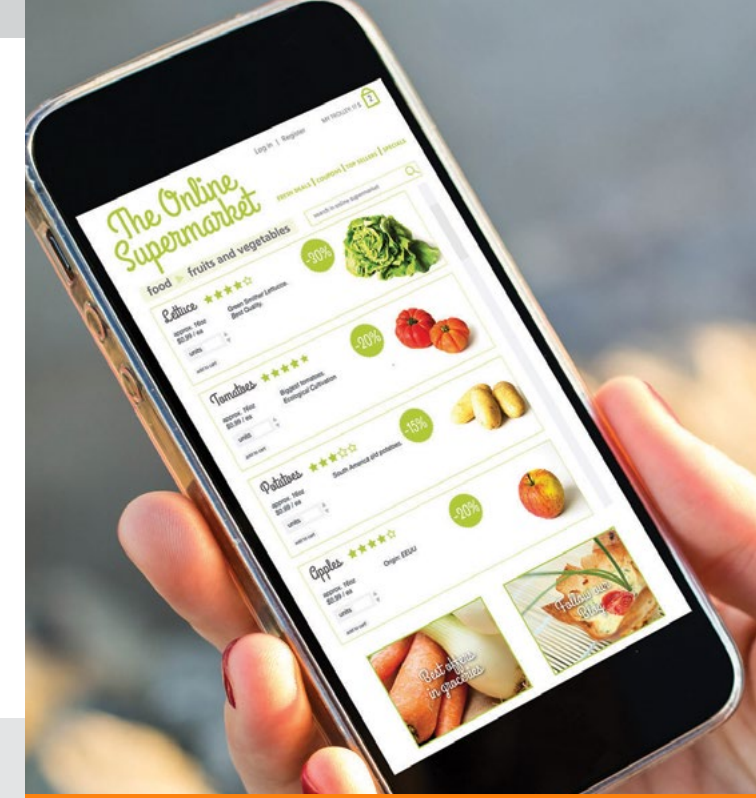
Actual & projected online grocery sales revenue, 2010 - 2024



Source: IBIS 2018

⁷IBIS 2018

⁸IBIS 2018



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.⁹

⁹IBIS 2018

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