Strategic analysis of the retail industry in australia

EXECUTIVE SUMMARY

This report is a strategic analysis of the retail industry in Australia, with a specific focus on the supermarket sector and an applied case study to supermarket chain ‘ Coles’. The objective of the report is to study past changes, forecast future changes and analyse influences to the industry, with a discussion on how these influences will affect Coles’ strategic business plan. The report discusses in detail the external factors influencing the industry including changes to legislations, the unpredictable nature of the economy, changes in social behaviour and trends and the rapid growth of technology and its implications. This analysis is conducted using the PESTEL model. Also included is an external environmental analysis with the application of Porters Five Force model. The case study of Coles begins with an internal environmental analysis of four key resources that give Coles a sustainable competitive advantage such as superior supply chain management (SCM) and their favourable brand reputation. Using the information obtained through the internal analysis, a value chain analysis is conducted. Finally, recommendations are provided for Coles in relation to the relevant internal and external factors influencing the direction and profitability of not only Coles itself but also the supermarket industry as a whole.

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PART 1: BACKGROUND INFORMATION

Coles Supermarkets Australia Pty Ltd, trading as Coles, is an Australian supermarket headquartered in Melbourne as part of the Coles Group. Coles was founded in 1914 by George Coles. The first Coles variety store was opened in 1927, It wasn't until 1960 when the first Coles supermarket opened in North Baldwyn. By 1973, the now industry leader, had established a supermarket in each of Australia's capitals. Since then Coles has been a pioneer in the grocery sector and has grown exponentially, with over 800 stores and 100, 000 employees nationwide (Gunasekaran, Lai & Edwincheng, 2008). In 2007 during the midst of the GFC, Wesfarmers acquired Coles Group Ltd for $19. 3 billion, in Australia's biggest corporate takeover. This offer was accepted by Coles' board on 1 July and approved by Coles shareholders in November (Wesfarmers, 2018).

PART 2: EXTERNAL ENVIRONMENTAL ANALYSIS

MACRO ENVIRONMENTAL ANALYSIS

POLITICAL

Political factors can include things such as government policies and the regulation of the retail industry, and these factors affect the industry's revenue and profitability. Political stability means better business because political disruption leads to the disruption of supply chain and sales. An example is a consumer policy launched by the Australian Federal Government known as the ACCC. The various policy changes that come with the ACCC will increase industry competition as they attempt to remove barriers for new entrants to the industry. These, as well as the numerous legislative changes are factors that supermarkets will have to take into consideration when formulating strategies.

ECONOMIC

Economic factors are always very important in the context of trade and business. The state of the national and the global economy heavily influences the profits for the retail industry. Economic growth means that consumers have a higher disposable income and are therefore not only more likely to spend more on their weekly shopping. Economic and governmental factors often overlap in areas such supply chain management and taxation requirements, which can decrease consumer purchasing power. Changes in the stability of the economic environment can be advantageous or detrimental to an industry such as the retail, and retailers need to be prepared for the changes in buying habits during a down turn. (Pratap, 2017).

SOCIAL

A major change over the past decade or two is consumer awareness. Changes to the modern lifestyle has created changes in habits in the retail industry. Things such as status can heavily impact the retail industry and those striving to be a part of a higher social class are more inclined to purchase products with prominent branding and logo's highly visible on the packaging. Along with the emphasis on branding there has been a significant increase in the amount of packaging used on products. (Kasi, 2016). Now days almost all retail items, including fresh produce is available in packaging. The demands of the new generation are much different than the older generations, as they are also placing a greater emphasis on their health and this has resulted in a rise in organic products (McCarthey, 2013, p. 1). The importance of customer service and keeping up with customers' needs is growing and more focus shall have to be on customer engagement (Pratap, 2017).

TECHNOLOGY

Technological factors are one of the biggest drivers of change and play a key role in both the supply chain and also customer service or sales. The growth of digital technology has increased the number of players in the retail industry (Pratap, 2017). This is because consumers can now shop online and get it delivered, reducing the need for instore visits. This could result in loss of sales for the retail in industry as consumers are not walking through the store and being exposed to the various advertising techniques that supermarkets employ such as certain lighting, aromas and shelf placement (Crouch, 2018).

Online retail has enjoyed exponential growth because of the convenience provided by technology. A way retailers are trying to implement this convenience of technology is through self-service checkouts. Even if they are against the idea, in the present day, nearly everything around us is automated, and it's hard for customer service industry to evade automation. The benefits of self-service check outs for retailers include reducing customer wait time, lowering operational expenses and improving overall quality. (Raza, 2014).

if the retail industry wants to grow and stay with the times there will only be more of these checkouts implemented in the future.

ENVIRONMENT

The need to remain social and environmentally important is especially important in the retail industry. Packaging, waste reduction, renewable energy and the plastic bag debate are several of the concerns facing supermarkets. Although behaving in an environmentally friendly manner may present initial costs, choosing not to can present long term loss of profits through consumer boycott.

LEGAL FACTORS

As highlighted in previous sections, many of the external factors overlap, such as legal and political. There are laws that both benefit and disadvantage the retail industry. The government imposes several regulations that check illegal trafficking of retail products, which helps to reduce supply issues and price fluctuations (Kasi, 2016). However, laws such as labour laws can be expensive to adhere to and cost retailers financially, this can make it hard to maintain a competitive advantage and keep costs for consumers low (Pratap, 2017)

COMPETITVE ANALYSIS

THREAT OF SUBSTITUTES

The threat of substitutes is high in the retail industry. There is direct competition from grocery stores, and in particular convenience stores and farmers markets. The combination of convenience and also a large product range has seen massive growth for convenience stores (Hattersley, Isaacs & Burch, 2012). The growing social trend of organic food has led to consumers preferring healthy, natural products which may present farmers markets as a potential threat to supermarkets.

COMPETITION

The threat of competition in the supermarket industry is high. This is attributed to the low perceived difference between the goods and services offered by the different franchises and stores (Deloitte, 2012). The biggest product differentiator is price; therefore, it is likely the supermarket with the lower average prices will thrive in the current industry environment. This competition is expected to increase in the future as retailers who are already in the market, such as Aldi and IGA, expand (Gunasekaran, 2008).

BARGAINING POWER OF CUSTOMERS

The bargaining power of customers in the industry is low due to the Coles / Woolworths duopoly of market share. This means the supplier has a very narrow selection of intermediaries to choose from (Deloitte, 2012, pp. 33-37). Major brands sell predominantly to Coles and Woolworths, with some brands selling only to them. However, the growth of IGA and Aldi and further push on the ACCC’s policy to reduce barriers of entry to the industry is predicted to shake this up with the power of customers expected to rise from low to moderate (Deloitte, 2012, pp. 33-37).

BARGAINING POWER OF BUYERS

The bargaining power of consumers in the industry is also low, however as with the customers, it is expected to increase from low to moderate, this is because of the emergence of e-commerce and price comparison sites. Buyers can now compare items online and much more aware of what they are purchasing and the value for money ratio. This presents a threat to the supermarket sector.

THREAT OF NEW ENTRANTS.

As already mentioned in the report the threat of new entrants in this industry is low due to the Coles / Woolworths duopoly, holding over 70% market share between them (Treadwell, 2018). Despite efforts from the government and the ACCC to introduce policies that allow for the ease of entry for new retailers (ACCC, 2009) the threat of entrants is expected to remain low for the foreseeable future. Because of their market share, Coles and Woolworths are more attractive to landlords than new players in the supermarket sector. New entrants face heavy start up costs associated with infrastructure and facilities, and also professional help and expertise to manage the business, Gunasekaran, 2008, pp. 550-551), this expense often becomes a deterrent.

PART 3: INTERNAL ENVIRONMENTAL ANALYSIS

KEY RESOURCES/COMPETENCIES

BRAND REPUTATION

Due to its early establishment, the Coles brand has been developed over decades making it one of the most well-known brands in Australia. The positive connotations associated with the Coles brand are a result of many years of high quality products and service. This level of brand recognition is extremely valuable to a company and hard to imitate as it takes a long time to develop. However, the high quality and fresh food is not rare and rather a point of parity (POP) for competitors in the industry.

SUPPLY CHAIN MANAGEMENT – SCM

The effective SCM implemented by Coles is a key competency that provides a competitive sustainable advantage as it allows for cost savings. Recently there has been a shift in company regarding their SCM. The changes adopted have made for an effective supply chain management and this can be accessed through their profitability. The technology used by Coles in their SCM allows them to have the most organised supply chain of the supermarket industry. (Stank et al. 2011, p. 940). This is very hard for competitors to imitate and therefore allows Coles to compete with its biggest rival, Woolworths (Gunasekaran, 2008).

MARKET SHARE

A key resource of Coles is their market share. In the 2017-2018 financial year Coles had 30. 3% of the supermarket industry market, second behind Woolworths. The next closest competitor is Aldi, with a significantly lower market share of just 9. 2 %. There is substantial evidence to suggest that market share is one of the main determinants of profit. A study done in the 1970's by the Marketing Science Institute on the Profit Impact of Market Strategies (PIMS) revealed that market share and return on investment are directly related. This is rare in this industry as it heavily dominated by the two key players. It is difficult to imitate as building such a large market share takes time and is not something other companies can easily do in a short time frame (Gale, Buzell & Sultan, 1975)

COMPANY SIZE

A valuable resource to Coles supermarket is merely the size of the company. Coles employs over one hundred thousand employees and runs over eight hundred supermarkets nation-wide. This is significantly higher than Aldi's five hundred stores. This a strength of the company as brand awareness plays an essential role on purchase intention because consumers tend to buy a familiar and well-known product. (Chi, Yeh & Yang, 2009). This idea can then be applied to an entire store rather than just a product. If a customer is familiar with Coles because there is several of them in the area they reside, they are more likely to shop at Coles when they travel; this strengthens brand equity as brand loyalty is established. It is hard for competitors to replicate as building a company of this size requires many years and a plethora of financial input.

VIRO TABLE

	Valuable	Rare	Inimitable	Organisational	Competitive consequences	Performar implicatio
Brand	yes	yes	hard	yes	Competitive parity	Above ave

Reputation						return
SCM	yes	yes	hard	yes	Sustainable Competitive advantage	Average r
Market Share	yes	yes	hard	yes	Temporary competitive advantage	Above ave return
Company Size	yes	yes	hard	yes	Sustainable Competitive advantage	Above ave return

VALUE CHAIN ANALYSIS

The business objectives put in place by Coles are done so as to strategically achieve their mission statements – ‘ Down Down Prices are Down’ and ‘ Quality Food Costs less at Coles’. These objectives are achieved through the various Value chain activities as follows.

IN BOUND LOGISTICS	OPERATIONS	MARKETING AND SALES
As Coles does not produce or manufacture the goods they sell, in bound logistics in one of the most important aspects of the organisations success (Nenycz-Thiel, 2012, p.	The operations procedures at Coles contribute greatly to the customers overall experience with the supermarket. Certain measures are put in place to ensure faulty products do not make it to the shop floor and minimum standard of presentation in required for all stock being sold.	As a way of increasing sa also keeping up to date industry, Coles offer wee specials advertised in th catalogues. This is referr micro marketing and has proven to increase profit (Montgomery, 1997). An marketing tactic to incre

172). The key factor that contributes to Coles successful in bound logitics is:

- Owning and operating their own distribution trucks (Coles, 2018).

This places coles ahead of the compeition in terms of product quality, time management and overall efficency.

Coles effective SCM flows onto their operations, with specialised technology to monitor stock levels and reimburse when stock falls below the requirement. This technology is also used in forecasting to anticipate consumer demand and therefore have adequate stock in store at the time of sales, etc. (Dwivedi, Merrilees, Miller & Herington, 2012)

sales in shopper dockets
Coles, if a customer spe
than $50 in one shop th
receive a shopper dock
voucher for 4c a litre of
Coles owned (Shell) pet
station (King & Gans, 20
bundling of two product
groceries and fuel, gene
increased sales for the c

PART 4: SUMMARY & RECOMMENDATIONS

The results from the analysis have revealed several recommendations, that if implemented, would thoroughly improve the strategic management of Coles and help the company sustain a competitive advantage through their current competencies, and possibly also create new avenues of competitive advantage.

1. With rapid advancements in technology it is inevitable that e-commerce becomes prevalent in the retail industry. It is important that Coles is not resistant to this change, but rather embrace the

technological advancements and see them as opportunities to expand the business further. For example, ensuring the website is user friendly and easy accessible and promoting the home delivery and click and collect services.

2. With consumers now more aware of what they are purchasing, it is important that Coles places an emphasis on value for money. This should be achieved through ‘ everyday low prices’ but also through weekly sales and promotions. As discussed, consumers are now much more health conscious than what they were years ago so a focus on fresh food and healthy recipes would provide benefits for the company.
3. The most profitable and influential key competency is Coles’ large market share and therefore it is crucial for the success of the business that this market share is grown or at the very least maintained.

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