Macro environmental factors affecting the industry marketing essay

1. 0 Introduction

This report shall examine Coles Supermarket, Western Australia Based, Australian grocery retailer, and its position in the Australian supermarket industry. Through examination of Coles' internal operations it is hoped that a better understanding of Coles 's strategy, and subsequent success, can be gathered. Hence recommendations for future sustained competitive advantage can be formulated based on the findings from an examination of the external environmental factors affecting the industry.

1. 1 Coles Supermarket

The focal grocery retailer of this report is Coles Supermarket, specifically, its food and retail grocery business. Coles operate 742 stores across Australia, has taken its total sales to $30 billion in 2010, a rise of 4. 2%, and now controls around 35% of the industry. Hence, Coles is the second place in the market leader, with its leading competitor, Woolworths controlling 40% of the market (Westfarmer Annual Report 2010). However, with major environmental changes on the horizon it is debatable if Coles can increase such numbers in future.

C: UsersMuiAppDataLocalTempmsohtmlclip11clip_image001. png C: UsersMuiAppDataLocalTempmsohtmlclip11clip_image001. png

Figure 1, Coles full financial year revenue2008-2010, and Coles Operate stores (Westfarmer Annual Report 2010).

2. 0 External Analysis

Significant trends in macro-environmental dimensions will be discussed, specifically socio-cultural and economic trends and how they will impact Coles profitability in future. The Porters' five forces model may be utilized to assess the state of the competitive environment, and finally the attractiveness of the industry to Coles in the future shall be examined.

2. 1 Macro-Environmental factors affecting the Industry

Socio-Cultural Factors: One major social trend is the increasing consciousness towards health and well-being, reflected in a movement towards organic produce and healthy alternatives. This trend offers an opportunity for Coles, as currently there are few players in the market offering organic foods, and sales of organic foods are set to rise over the long-term (IBIS, 2011). It also constitutes a potential threat in that farmer's markets and niche supermarkets which specialize in such produce will thrive in the environment.

Another social trend would be the increasing number of consumers who are time-poor. Consequently, there is a higher demand for " time convenience". i. e. the ability to patronize a store when consumers have the time. The ability to provide fulfill this need has been possible by extending in trading hours. In addition, Coles is providing further convenience through expansion of its product range as much as possible, and created new business such as Coles Express.

Economic Factors: The current economic climate has resulted in lower spending levels, especially with flexible goods. Hence, consumers are switching to private label brands for cost savings. Subsequently, supermarkets are increasing their private label offerings. This enables them to compete on the basis of price while realizing the higher margins. Provision of private labels also enables supermarkets to compete on the basis of choice convenience, i. e. offering a low-cost alternative.

2. 2 Porter's five Forces Analysis

In this section, the attractiveness/profitability of' the Australian supermarket industry

in current times shall be assessed. This will be followed by an examination of Coles relative position in said industry.

Threat of Substitutes: The threat of substitutes is high, as Coles laces many indirect competitors, such as convenience stores, specialist grocery stores, and farmers' markets. Evidence suggests these indirect competitors are viable substitutes to Coles and cause serious threats in the future: Convenience stores have also experienced an expansion in product offerings and would he competing directly with supermarkets in the provision of choice convenience and wide product range. With the increasing trend towards healthy alternatives, Farmer's markets selling organic produce are also poses a potential future threat. However, the threat posed by specialty stores is perceived to be minimal with the rise of increasingly time-poor consumers.

Rivalry amongst Existing Competitors: A high degree of rivalry exists in the land is a direct result of the small number of major players in the market and their lack of perceivable differentiation due to the generic nature of the services and products provided. Therefore, competition is primarily based on price, but other competitive factors include product choice and store location. Three main drivers of an increase in future rivalry are the private retailer IGA, Actions and Woolworths which in the leading position.

Bargaining Power of Suppliers: The bargaining power of suppliers used to be very low. With Woolworths and Coles controlling more than 75% of the market (Fenner, 2011), many local Australian producers have an extremely limited selection of intermediaries to choose from (McKinna, 2011). Therefore, in many cases, Coles or Woolworths is the major purchaser, perhaps even the only purchaser, of a producer's production. Even major international brands such as Kellogs and Nestle do not dare to upset either retailer; such is the power of their market-share (Wade, 2002). However, this is set to change, with the existing of the Action supermarket and the expansion of IGA, along with the Federal Government and The Australian Competition and Consumer Commission's (ACCC) recent push to lower competition barriers in the Industry (Hewett, 2011). Thus, the bargaining power of suppliers is set to be " moderate" in future due to a potentially larger selection of intermediaries to consign to.

Bargaining Power or Buyers: Whilst low, the buying power of consumers is also set to increase in future. Once again, the aggressive push by the Federal Government and ACCC to lower competition barriers and allow new competitors to enter the market is set to increase consumer choice (Hewett, 2011), consequently increasing consumers bargaining power. Further driving the increase of consumer bargaining power would be the rise of price comparison websites such as 'grocery. bestpricedirectory. com. au' which enables consumers to compare prices and choose the cheapest alternative.

Both factors are set to bring consumers future bargaining to a more " moderate" level.

Threat of New Entrants: The threat of new entrants is very low, and is set to remain unchanged. An " insidious combination of local zoning laws and leasing agreements with landlords" has resulted in " an artificial scarcity of grocery store sites" (Hewett, 2011). As such, this has deterred many new entrants from entering the market, especially overseas players interested in the Australian grocery industry. This is further aggravated by preferential treatment for Coles and Woolworths by landlords, due to their enormous pulling power in terms of consumer traffic (McKinna, 2011).

Furthermore, potential entrants to the Australian grocery market must compete with Coles and Woolworths incredible economics of scales. Thus the investments in infrastructure, and facilities would be massive, and the expertise to manage them all would be specialized and rare. Thus, very few firms have the expertise or resources required for such a significant undertaking, and only a few players such as IGA and Action are able to do so (McKinna, 2011).

2. 3 Comparison of industry attractiveness for Coles

From the Porters Five-Forces analysis in the previous section, the Supermarket industry until a few years ago presented moderately high to high attractiveness for Coles, the most important reason or which was the high barriers to entry and weak bargaining power of suppliers and buyers. Hence profitability would be high for Coles at that point of lime. However, future environmental changes are set to change the attractiveness of the industry to Coles to " moderate". Hence, Coles's profitability is set to decrease from high to moderate in future as well. The main reasons for this would be the increase in bargaining power of suppliers and buyers, along with the greater intensity of firm rivalry with Woolworth, Action and expansion of IGA. C: UsersMuiAppDataLocalTempmsohtmlclip11clip_image001. png

Figure 2, Attractiveness and Profitability of Industry to Coles in near future

As such, the ability to outperform its rivals and maintain its competitive edge rests on Coles resources and capabilities, and more importantly how those resources and capabilities are utilized in the future, when industry attractiveness and profitability has decreased from previous levels.

3. 0 Internal Analysis

This section will begin with an assessment of Coles's position in the food chain (i. e. extended value system) the firm participates in. It will be followed by an examination of the significant functions within Coles Value Chain that delivers the most value to the firm. Finally, Coles most significant resources and capabilities shall be identified and discussed in detail.

Coles

3. 1 Examination of the Food Chain Coles participates in C: UsersMuiAppDataLocalTempmsohtmlclip11clip_image001. png

Figure 3, Coles Food Chain

From the above diagram, it can be observed Coles's function in the food chain is to provide producers with a channel to reach end consumers. This is because the producers Coles works with concentrate solely on production, hence those producers require to go-between with retailing expertise and infrastructure.

For many of Coles' suppliers, Coles is a major buyer, if not the only buyer of their produce. Thus, Coles exerts great influence over many of the small local producers and can state things like farm sizes, crop type, agricultural methods and prices the producers receive, which are based on Coles product and process quality specifications" (wade. 2002).

3. 2 Value Chain Analysis of Coles

Coles mission statement specifies how Coles " Down Down, Prices Are Down" and " Quality food costs less at Coles". Thus, all the value-creating activities of Coles's business are all geared towards delivering the above promises (Westfarmer Annual Report 2010).

The three main value-creating functions involved in delivering the firm's promises are:

1. In-Bound Logistics: Coles is essentially a retailer. Hence it does not produce the products it sells. Instead, it controls the distribution network of its products. Within this function there are two significant activities which contribute to the firm: Procurement and Logistics:

C: UsersMuiAppDataLocalTempmsohtmlclip11clip_image001. png

Figure 4, In-bound logistics summary (Coles Supplier, 2011).

Coles produce goes directly from producers to a national or regional distribution centre, where it is certified for quality then transported directly to stores. In addition, Coles owns and operates of all the trucks and distribution centers involved in its distribution network. This puts it in a better position to prevent worker strikes and enables greater control in ensuring punctuality of shipments. Moreover, operating the distribution centers (DCs) and trucks in its supply chain puts Coles in a better position ensure optimum distribution efficiency and product quality' (Coles Supplier, 2011).

2. Operations: This involves two primary activities that ensure customer convenience and value, Quality Assessment and Inventory Management:

C: UsersMuiAppDataLocalTempmsohtmlclip11clip_image001. png

Figure 5, Operation Summary (Coles Supplier, 2011).

From the time the stock arrives at the retail store to when the products are put on display, constant checks are made to detect and remove defective products. Furthermore, for each stock unit there is a Minimum Presentation Level (M. P. L)'". Sophisticated Point of Sale (POS) technology keeps track of' the number of stock units sold for a particular product, and once stock levels fall beneath the M. P. L, a re-stocking order is dispatched to the relevant distribution centre (Coles Supplier, 2011). In addition, Coles utilizes an advanced forecasting program to forecast future changes in demand due to environmental factors such as seasonal changes or economic trends.

3. Marketing and Sales: Two main activities are involved in increasing sales and enabling Coles to compete effectively, In-store Promotions and Organizational Dynamism:

C: UsersMuiAppDataLocalTempmsohtmlclip11clip_image001. png

Figure 6, Marketing and Sale Summary (Coles Supplier, 2011).

Coles holds weekly specials to boost short-term sales of certain products where

prices of certain items are reduced by a large percent (Coles Supplier, 2011). This is supplemented by the distribution of sales catalogues informing consumers of the weekly specials. Highly effective in boosting short-term sales and inventory turnover, an example would be how Coles would normally sell $2000-$3000 worth of toilet paper per week, but that amount increases to around $8000 during its weekly special (Coles, 2011). A significant capability of Coles would be its ability to keep up with consumer trends and environmental changes, enabling the formulation or new strategies to compete effectively (Coles, 2011). For instance, to keep up with current consumer lifestyles and preferences, Coles introduced its selection of easy to prepare meals under its Coles Quality Food brand in conjunction with its monthly online interactive Coles Feed Your family Recipe guide which provides recipe suggestions and nutritional advice for healthy living (Coles, 2011).

3. 3 Assessment of Coles' Significant Resources and Capabilities

Coles adopts an integrated competitive strategy, i. e. it utilizes a combination of both cost leadership and differential elements to compete, with its efficient supply chain to minimize costs, and its brand image to differentiate itself based on quality. In addition, strategic factors such as minimization of future threats and keeping the firm flexible in wake of environmental changes are also critical to Coles survival. Thus, with the above factors in consideration, Coles three most significant resources and capabilities are:

Highly Effective Supply Chain: Coles efficient distribution network is both a resource and a capability in its in-bound and out-bound logistics. The end of' tangible and intangible assets such a technological capabilities and supplier relationships, it is highly valuable as it was the significant cost- savings achieved throughout its entire logistics network that enabled Coles to come closer to Woolworths (McKinna, 2011). The level of cost saving benefits provided is non-substitutable by any other resource. It is also difficult o copy as the level and scope of the technological capabilities involved is highly specialized and staggering. However, should Coles posses an unfavorable public image or sell products undesirable to consumers, possessing an efficient distribution network would be irrelevant. Thus, by itself an effective supply chain is insufficient as a distinct competency, and must be supported by other competitive advantages.

Brand Reputation: Coles reputation as quality food was built over many years. This was done via positive consumer experiences with its products which can be attributed to its stringent quality assessment procedures throughout its supply chain (Urban, 2007), as well as its " Quality Food Cost Less at Coles" advertising campaign. Hence, this brand reputation is valuable, as it provides meaningful differentiation to its competitors, and has directly contributed to higher levels of customer satisfaction. It is also non-substitutable, as the benefits provided cannot be matched by any other resource. However, it is neither rare, nor hard to copy, with most of its rivals also claiming to sell fresh and Quality food. More importantly, fresh food and quality products have come to become a basic expectation of consumers. Thus, this reputation is not a distinct competitive advantage; rather it is a point of parity that Coles must possess in order to compete.

Effective Top Management: Despite recessionary pressures and rising inflationary rates, Coles is still able to achieve growth rates at higher than. This can be attributed to Coles effective top management, in particular CEO John Fletcher (Fenner and Raja. 2011). Further, the relations within the Coles Group top management is a significant factor perceived as enabling Coles to compete effectively with AGI in future and the main competitor such as Woolworths (Fenner. 2011). Thus, the capability of top management in steering Coles through the current economic climate and continuously achieving high growth rates makes it a valuable resource. As such, it is non-substitutable by any other resource, and is hard to copy as it is difficult to obtain capable and effective senior managers. However, it cannot be considered rare: as Due to the mature nature of the sector, most of the companies operating in the Australian Grocery Industry also have capable senior management. Therefore, effective top management is not a distinct competitive advantage, but a point of parity that is utilized in conjunction with other factors such as efficient supply chain to enable Coles to outcompete its rivals.

4. 0 Recommendation

The recommendations presented by this report are classified into short-term and long- term recommendations:

Short-term Recommendations: In the short-term, Coles should invest more in advertising. More specifically, Coles should create advertisements representing how their Coles Quality range of healthy meals to go fits into consumer's everyday routines. This would heighten brand recall of Coles in consumers' minds, which increases purchase likelihood.

More importantly, by creating advertisements linking Coles to healthy, easy to prepare meals that are conveniently available at reasonable prices, this would increase the chance of making Coles identical with convenience and healthy consumption, a valuable point of differentiation in a market where Quality food cost less are now points of parity.

Long-term Recommendations: It is recommended for Coles to focus more on convenience and an enjoyable shopping experience in the long-term. Coles current program to refurbish stores should be supplemented by measures to improve store atmosphere, such as the inclusion of relaxing music and having cheerful, enthusiastic and helpful staff to create an enjoyable shopping experience.

More importantly, in the long run it is recommended for Coles to invest in more profitable industries and businesses. As mentioned earlier, the attractiveness and profitability of the Australian supermarket is set to fall in the future. Thus, Coles should focus in new businesses in which sales growth are projected to rise over the long term, such as Coles Express and Coles online shopping.

5. 0 Conclusion

Coles Supermarket's business strategy has been analyzed in this report which base in Western Australia. Examination of Coles's external environment such as socio-cultural trends as well as the deteriorating economic climate had been conducted to gain understanding of current industry trend. The industry attractiveness was found to have declined in recent times, due to difference factors such as a rise in supplier and buyer bargaining power, greater intensity amongst rivals and higher threats from substitutes.

Internal operations it is hoped that a better understanding of Coles 's strategy. Coles' control of the distribution network of its products helps ensure quality and distribution efficiency. Coles' three most valuable resources and capabilities were found to be its highly efficient supply chain, its brand reputation and its effective top-level management. With recommendations for short-term and long term strategies may perhaps ensure sustainability of Coles supermarket's future.