

WOOLWORTHS AND COLES DOMINATE RED MEAT MARKET CONTROL, CENTRALIZE OPERATIONS, AND FACE CRITICISM FOR ALLEGED PRICE GOUGING



Woolworths and Coles Dominate Red Meat Market Control, Centralize Operations, and Face Criticism for Alleged Price Gouging

Editor: Andrew Dunlop, Australian Beef Association (ABA).

Key Points:

- Woolworths and Coles have established dominance in the red meat market as smaller retailers and local butcher shops face closure or specialization.
- Large retailers align with processors in preferential or exclusive arrangements to secure priority and supply chain security.
- In the early 2000s, retail chains like Woolworths formed strategic partnerships with processors such as Frews for lamb and Teys for beef.
- Retailers owned the livestock, closely managing efficiency and costs in the processing chain.
- Over the years, there has been a shift from in-store butcheries to centralized facilities, reducing costs and skilled labor requirements.
- Retailers, like Woolworths, have restructured their red meat business, emphasizing centralization of packaging in retail-ready formats.
- Despite changes, large retailers seem to have strengthened their control over the supply chain, as seen in Woolworths' establishment of Greenstock.
- A study by the University of Tasmania and the Australian Beef Association in 2013 estimated the producer's share of retail beef spend, revealing a decline over the years.
- Price surveys in 2023 indicate minimal differences between Woolworths and Coles prices, while independent retailers offer lower prices.
- A comparison of retail beef prices and farm gate prices reveals a widening retail-to-producer price spread, indicating potential market concentration issues.
- Critics, including Choice Magazine and senior business journalist Jonathen Barrett, accuse Coles and Woolworths of expanding profit margins during a cost-of-living crisis.
- Lack of competition, alleged price gouging, and failure to pass on reduced costs to consumers

raise concerns about the supermarkets' corporate social responsibility.

- Inflationary pressures have desensitized consumers to high prices, affecting the consumer price index and influencing interest rate policy.

Actionable Step:

- Become part of the conversation and solution by contributing your ideas or support for a proposed new way forward on this forum link
https://www.onfarm.co/forums/topic/17/woolworths-and-coles-dominate-red-meat-market-contr-ol-centralize/view/post_id/24
- Sign up for free and share in The Voice of Farmers.

Woolworths and Coles have become dominant in red meat marketing as small retailers and corner butcher shops close or specialise to survive.

These large retailers align themselves with processors in a preferential or exclusive arrangement to ensure priority and security of supply. The large chain's objective is to retail the full carcass through their outlets and to supplement supply with specific items when opportune. Full utilization of the carcass was seen as the most efficient and most profitable mode of operation. In the early 2000s, the retail chains had a team of buyers in each state sourcing livestock (cattle and lambs) and programmed their catalogue and sale items accordingly. Woolworths lined up with Frews for lamb for example and with Teys for beef. On a big week, Woolworths could kill 8,000 beef cattle and 50,000 lambs to supply their stores.

Processors toll processed beef and lamb on an open book costing arrangement where the contract processor would justify their costs line by line and a team of Woolworths analysts (called techos) went through costs line by line and audited these costs. In addition, techos went through each works to ensure specifications and yield targets were being met even to the extent of identifying items or parts into each category of trim (Extra lean, lean or regular) for mince production. The retailer (in the case of Woolworths) owned the livestock so managing efficiency in the processing chain and the costs in the chain was important.

Beef was prepared and packed into primal cuts that were butcher shop ready, packed into vacuum bags, then boxed and sent to state distribution centres for distribution to stores. Lamb was usually sent in carcass form through to in store butcher shops although legs, middles or shoulders were purchased on the open market and sent through either packed in vacuum bags or gas flushed for preparation in store to loin and forequarter BBQ chops and legs were often retailed as brought in (chump off short legs for roasting). The next step was for each store to prepare the product by trimming, slicing and packing product onto polystyrene trays thence overwrapped and priced. Mince was also prepared in store from trim left over from preparation or from cuts identified for mincing (round or knuckle were used for extra lean mince). Almost every store in those days had in store butcher shops with fully qualified butchers preparing beef, lamb, pork and other items for retail. The Gross Profit target was 28% so that cost comprised 72% of retail price. The GP would then theoretically cover all the instore costs. Categories were managed as profit centres within each store to the extent that combining scan data with distribution centre invoicing could identify problem stores or categories within the meat chain. Shared services as they called head office (where categories were managed from as profit centres) had a "potential profit" model where they could predict and monitor profits in each store. Where problems were identified, supervisors would visit to check on performance within the in-store butchery and put remedial action in place where required. Retail prices were set within each region (usually state by state) by shared services based on the costs within each state.

Catalogues came out every Monday, were state based as were the specials (the meat department would have a page as they do now) and specials were rotated through beef, pork and lamb so as to dispose of the full carcass every period. Catalogues within each state were compared with those of the competition (Coles) who also published their catalogues on Mondays and adjustments to pricing made to match the competition on featured items. This was called competition policy, where featured items were never to be beaten on price by opposition catalogues. Competition Policy also allowed each store to monitor neighbouring competition (butcher shops within the centre etc) and where they had key items cheaper, the store manager would advise shared services who would then approve a local price change for that store to match the outside retailers price on that item. On the face of it this would appear to be favouring competition, however in the longer term, this formed a kill zone where supermarkets, able to cross subsidize key items, would force smaller single category operators such as independent butchers to the wall. Competition Policy was witnessed in early November 2023 when Woolworths advertised a 20% price reduction on most lamb items through till Christmas and Coles quickly followed to match these prices at least on the main items surveyed.

Bonuses for all staff from store staff to head office (shared service) staff were based on sales and profit targets and of course Category Managers incentives included share options so were share price related.

Things have changed since the early 2000s in several ways. There are less in-store butcheries with most retail items now being prepared in central facilities and shipped into stores shelf ready. This has several consequences which in the main, reduce the cost to the retailer, the costs are pushed down the supply chain. Skilled butchers are no longer required in each store, all that is needed is relatively unskilled shelf stackers. Wastage is reduced as it is easier to control and shelf life before product deteriorates beyond saleability is extended reducing discounting to clear. Dedicated cleaning teams are no longer required in store and the need to dispose of waste items such as fat, bone and packaging is now the responsibility of the retail ready processor and there is the option to use multiple use plastic cartons instead of single use cardboard for shipping retail ready packs, further reducing in store waste and again costs. The space previously dedicated to in store preparation can now be utilized for retail purpose and the previously necessary preparation equipment is no longer needed (band saws, stainless steel cutting benches, mincers, knives, steels, weigh scales and all manner of other equipment, even mince and sausages were made in store). Having centralized preparation of retail ready packs allows retail chains to tailor product mix according to each stores customer base further reducing wastage and cost.

The range and style of product has changed with more value adding (for instance butt cuts are less often sold as steak and more often sold as stir fry strips or sizzle/minute steak and high-grade mince). Portion or pack size has been reduced and there is much more modified atmosphere and vacuum-packed product displayed where in the past, overwrapped polystyrene trays was the main form of product on offer. There was a period when both retail ready prepared and in store prepared product shared the offer and some of the largest stores had an up market in store butcher, however these seem to have been phased out meaning the offer in many urban stores is almost exclusively retail ready product prepared outside and brought in to be stacked on the shelf already labelled and priced for sale.

Despite all these changes, one could not imagine the large retailers have relinquished control on the supply chain but rather only strengthened it. Woolworths restructure of red meat through the establishment of Greenstock ([Woolworths restructures red meat business across Australia - Sheep Central](#)) would be evidence of this. Product being stacked onto shelves in

one Sydney metropolitan Woolworths supermarket was all from Hilton Foods Heathwood Queensland confirming centralization of packaging in retail ready format (trimmed, prepared, packaged and priced).

Estimating producer share of retail beef spend.

University of Tasmania and the Australian Beef Association in 2013 took a standard beef carcass and prepared standard retail beef items from it, collecting information on the retail yield of each cut. A model was then developed where retail prices could be entered, and the retail value of the carcass estimated.

Price surveys were then undertaken in 2013 and again in 2023 to determine what percentage of the retail spend was ending up with the cattle producer. These prices were then entered into the model that calculated the total retail value of a standard carcass. Comparing this with established prices for cattle would give an estimate of the producers share of the retail spend.

Prices of items differ at retail according to level of preparation and pack size, so in these surveys, the lowest price on each displayed item was used, for example the silverside could be retailed as corned silverside at \$10 per kg or as a sizzle steak at \$20 plus per kg and mince in a 500g pack was \$1-2 per kg more expensive than a 1kg bulk pack. The prices being the lower in the range therefore underestimated prices, retail dollar spend and would overestimate the producer share of the retail spend.

One of the findings was that on any week in 2023 surveys, prices of 7 to 9 of the 18 or so key items was identical in Woolworths and in Coles. Almost invariably, both supermarkets are pricing T-Bones at \$30, Porterhouse and Scotch Fillet at \$40, Eye Fillet at \$52 Rump at \$28 and Corned Silverside at \$10 per kg. Meanwhile as of late November, the independents, including Aldi were offering key items at over \$10 per Kg cheaper, with Rump at \$17.99, Scotch Fillet \$26.99 and Porterhouse at \$21.99.

Because of the minimal difference between the big 2, averages across both were used to give a single number. The outputs from the model are tabulated below.

	Jun-13	June-Nov 2023	Nov-23
Farm gate price Heavy steer @ 340 Kg Carcass	\$ 1,064.20	\$ 1,679.60	\$ 1,237.60
Conservative retail spend	\$ 2,941.40	\$ 4,561.15	\$ 4,513.67
Estimated Farm Gate Share	36%	37%	27%
Post Farm Gate costs plus margin	\$ 1,877.20	\$ 2,881.55	\$ 3,276.07

Farm Gate price was calculated as 92% of saleyard heavy steer indicator price to adjust for the cost of getting cattle to market which is born by the producer. Carcass yield was used to adjust from liveweight price to carcass price with the yield assumed to be 53% of curfewed saleyard liveweight.

As previously mentioned, retail spend is conservative as in each case, the lowest displayed price for each cut was used.

ABS Beef Retail prices and MLA's NLRs Livestock prices.

The Australian Bureau of Statistics (ABS) has been collecting meat prices including beef for several decades and the data is publicly available. So too there is a long history of collection of livestock prices by the Meat and Livestock Australia's (MLA's) National Livestock Reporting Service (NLRS). We thought comparing ABS generated retail beef prices, and the NLRS generated National Heavy Steer Indicator Price would provide useful information on trends. In addition, we created a "retailprice/ producer price spread" by dividing the ABS retail price by the farm gate price for heavy steers over the period March 2020 to November 2023. A summary of the data and the index is presented below.

	Beef \$/kg	Heavy Steer	Farm Gate	Retail to Producer price spread
Average	\$17.25	\$2.26	\$2.08	8.75
Maximum	\$27.12	\$4.53	\$4.17	13.35
Minimum	\$10.47	\$1.26	\$1.16	5.97
November 2023	\$26.52	\$2.16	\$1.99	13.35

As shown above, whilst retail beef prices are close to highest on record (\$26.52 vs \$27.12 per kg), farm gate price for heavy steers is below the 23-year average (\$1.99 vs a 23 year average of \$2.08 per Kg) with the result being the retail to producer price ratio (average retail price for beef divided by estimated farm gate price, both in \$/Kg) or spread is the highest on record.

Conclusion.

The Australian Beef Association contends that red meat retail prices (lamb has seen similar issues) have been extraordinarily resistant to the correction one would expect to accompany the fall in livestock prices. The level of concentration in Australia's retail sector is more than likely a contributor to this phenomenon. Allan Fels when commenting on the PWC consulting issue and the lack of competition between the big 4 consulting firms stated, *"They have a similar culture which means they don't really compete, the four look alike and their competition is quite marginal"* (*Professor Alan Fels interview, ABC radio, 17/7/2023 5:06pm). With only two major supermarkets in the space and some minor ones, the concentration in the retail sector is even more pronounced, and yes, they have a similar 'culture', as Professor Fels would say.

Jonathen Barrett, senior business journalist for The Guardian, recently wrote, *"Coles and Woolworths have consistently expanded their profit margins in a cost-of-living crisis, outstripping their UK counterparts"*, and he identified the lack of competition as the main cause (*The Guardian 27 July 2023).

Choice Magazine has awarded this years "Shonky Awards" to Coles and Woolworths for appearing to cash in during a cost of living crisis.

[Coles and Woolies - 2023 Shonky Awards | CHOICE](#)

The almost daily reference to inflation and high inflation by commentators, economists and the press in general has desensitized consumers to high and increasing prices. It has we believe steepened the demand curve making it inelastic and consumers now expect high prices and pay these high prices without question. This continual reference to inflation becomes a self-fulfilling prophecy.

Failure to pass on reduced costs to consumers is harming all Australians, as food prices – including red meat – feeds into the Australian Bureau of Statistics consumer price index, which

is a key indicator the Reserve Bank uses when setting interest rate policy.

It could not be said that the supermarkets have shown any leadership or corporate social responsibility in fighting inflation and supporting consumers with lower prices, in fact it would appear quite the opposite, that they have used their market power to increase their profits.