

## Submission in response to Attachment B

The comments below adopt the same numbering as the questions in Attachment B of the Market Inquiries letter dated 6 October 2022.

### General

#### 1. Please provide a brief description of your business or organisation.

Coles is a leading Australian retailer, with over 2,500 retail outlets nationally that process more than 20 million customer transactions each week.

#### 2. Please outline the reasons for your interest in the Proposed Transaction, including any commercial relationships with Armaguard, Prosegur or any of their subsidiaries. In doing so please identify the specific service(s) you acquire from or supply to Armaguard and/or Prosegur, if any.

Coles has an ongoing commercial relationship with Armaguard, whereby Armaguard currently provides Coles with CIT services across all supermarkets, liquor and Coles Express stores nationally. Coles' current agreement for these services commenced on [REDACTED] and will expire on [REDACTED]. Coles anticipates that it will require the ongoing provision of CIT services from a third party, so that it may continue offering all payment methods to suit the needs and preferences of its diverse customers.

### CIT services

#### 3. Please provide any views on the market shares and competitive positioning of Armaguard, Prosegur and their competitors in the following areas of competition:

- a) the supply of integrated end-to-end wholesale and retail CIT services;
- b) the supply of CIT services to retail customers who require a full-service solution of cash transport, processing and administration; and
- c) the supply of cash-transport-only services to retail customers who only require cash transport between their location(s) and, for example, a bank branch.

Regarding delivery of end-to-end CIT services to Coles, in Coles' view Prosegur and Armaguard are the only two suppliers of CIT services able to provide a national service. Coles estimates that Armaguard has approximately 60% market share and Prosegur approximately 30% market share of the CIT services market, with the remainder of the market being highly fragmented and not suitable for Coles' national/geographic footprint. In Coles' opinion, the market has already undergone significant consolidation over the past decade when Prosegur acquired Chubb Security Australia (2013) and Toll Secure Australia (2016) and Armaguard acquired Brinks Australia (2014).

In relation to the supply of cash-transport-only services between sites, Coles has not recently considered or engaged the market for these services. In Coles' experience, internal counting and management of cash at stores can lead to increased cash loss (theft) and pose a safety risk to our team members when handling high volumes of

cash. Coles therefore engages a third-party to provide these services to address the potential safety risks posed to team members and increased exposure to cash theft.

4. Please identify and describe other businesses that compete with Armaguard and/or Prosegur in the supply of CIT services. In your response, please identify the specific CIT service in which these competitors compete and discuss how strong these competitors are.

Coles' national network of stores requires end-to-end CIT management services and there is no provider of these end-to-end services with a national footprint other than Armaguard and Prosegur. In its recent market tender, Coles reviewed potential alternatives to Prosegur and Armaguard and identified no other suitable CIT service providers. Coles did seek a proposal from a major bank [REDACTED] to deliver the required scope of services however, the services were higher in cost compared with the equivalent services offered by [REDACTED]. This raises concerns for Coles, as a sole national provider of CIT services will likely lead to higher pricing when Coles re-contracts for CIT services at the expiry of its current agreement.

5. What factors (scope, quality, geographic coverage/networks, cost of service) are important to customers of CIT services? Why are those factors important? Do you consider there to be anything unique about the CIT services provided by Armaguard and/or Prosegur?

The key factors which Coles considers important in the provision of CIT Services are:

1. *Geographic coverage*

Coles has a diverse geographic footprint inclusive of some very remote locations. Coles requires a service provider who can service this network whilst maintaining a consistent and high quality of service delivery. It also reduces the administrative burden for Coles in managing a single supplier who can service our entire network of stores. Coles considers that only Armaguard and Prosegur can provide CIT services to the entire network of Coles stores.

2. *Cash-counting services*

As referred to in Coles' response to question 3 above, Coles does not handle cash in stores, nor does it possess the required processes, controls and capabilities to do so. Accordingly, Coles relies on a third-party provider to complete this task on its behalf. Whilst [REDACTED] currently provides this service to Coles, Coles believes this service could be completed by other providers (for example, banks).

3. *Timeliness between collection and processing*

Cash is currently collected and counted (overnight) on the same day by [REDACTED], with the amount deposited the following day. Through market

engagement, it is Coles' understanding that [REDACTED] could also provide this service with similar timeliness, but it is unclear to Coles if other providers could do so.

#### 4. *Safety*

Due to the large volumes of cash being handled by our current CIT provider, Coles requires a supplier who is:

- highly experienced with safe infrastructure and robust processes and procedures; and
- has a well trained and experienced team who are diligent in adhering to safety requirements, particularly when handling cash at stores.

Armaguard and Prosegur are competent in this space, leaning on their domestic and international experience. Coles understands that other CIT service providers are not as experienced.

#### 5. *Cost of service*

Whilst Coles plans to continue to offer all payment methods to meet the needs and preferences of its diverse customers, our view is that the cost of cash transactions need to remain competitive with digital alternatives. Cash transactions remain an important payment method for Coles' customers, and [REDACTED]

#### 6. *Frequency of service*

It is particularly important for Coles' service providers to meet requirements at an individual store level, as Coles is currently providing cash-out services to communities nationally. Coles has noted customers are increasingly using supermarkets [REDACTED] for cash-out services as bank branches and ATMs continue to close. Coles considers that only Armaguard and Prosegur have the infrastructure and capability to meet Coles' frequency of service requirements.

6. Do you consider that other companies would constrain a combined Armaguard and Prosegur from raising prices or reducing the quality of its CIT services? Why? Which companies would provide this competitive constraint?

Given that collectively, Armaguard and Prosegur have 90% market share for CIT services, Coles' opinion is that it is highly unlikely that other companies could constrain prices being raised in the market. As stated above, other CIT service providers are not a viable option for the services Coles requires and Coles would be subject to a single supplier's pricing regime.

7. Would a new entrant, or existing business seeking to expand face any significant barriers in seeking to establish a CIT service? Do you consider that the possibilities noted by Armaguard and Prosegur, including the major banks sponsoring new entry

and the ability of retail customers to insource cash delivery, are viable options?

In Coles' opinion, the decline of cash usage coupled with a merger of two of the market's largest CIT service providers would result in significant barriers to entry to both new entrants and existing businesses seeking to provide CIT services. Coles anticipates potential hurdles faced by new market entrants would include:

- capital costs associated with the highly intensive infrastructure necessary to run an end-to-end CIT business;
- a consolidated and streamlined market that makes it difficult for new suppliers of CIT services to provide a commercially viable solution to customers; and
- limited access to distribution channels which are already managed by suppliers who are highly experienced and possess significant brand equity in a mature market.

Regarding the possibilities noted by Armaguard and Prosegur in their application for merger authorisation, the ability of retailers to insource cash delivery is not an attractive option for Coles due to several factors, including:

- an increased risk to team member safety;
- potential increase in cash loss/theft;
- no cash handling capability within the Coles business;
- increased cost of managing a dedicated cash delivery team;
- the capital required to procure a fleet capable of safely handling cash; and
- the operational challenges arising from the need to manage multiple outsourced third-party providers.

Coles is also not convinced that a major bank sponsoring a new entrant is a viable option to service Coles. During Coles' most recent tender process, Coles engaged with a major bank who submitted a proposal to deliver a full CIT solution.

[REDACTED]

As noted above, Coles is concerned that if the transaction proceeds, and the only potential constraint is entry by a party such as a bank, then even if such entry did in fact occur, it would be a duopolistic market with one extremely large and one minor player, and a consequential significant increase in prices.

8. Do you consider any other factors would constrain a combined Armaguard and Prosegur from raising prices or reducing the quality of its CIT services? For example:

- a) Do you consider customers have significant bargaining power in the negotiation and procurement of CIT services? You may wish to consider factors such as the contract tendering process (including details of the process and results of any recent tender processes) and how easy or difficult it is for customers to switch supplier.

Coles does not consider customers have significant bargaining power in the

negotiation and procurement of CIT services. A merger between Armaguard and Prosegur would result in only one commercially viable supplier being available to Coles. The absence of competitive alternative providers would leave Coles with minimal bargaining power at the conclusion of Coles' current agreement with Armaguard. Coles considers that the only other possible alternative would be for a major bank to offer CIT services, but as discussed above, Coles does not consider this would be a commercially viable option.

b) To what extent does the price of CIT services influence retailers' decisions about whether to offer cash as a payment option (i.e. do you consider that, as Armaguard and Prosegur submit, they would need to keep prices of CIT services sufficiently low to arrest the decline in cash usage by remaining a cost competitive payment method for retailers to offer in comparison to card and digital payment methods)?

Coles' view is that the price of CIT services only influences retailers' decisions to offer cash as a payment option to a limited extent. As noted above, Coles offers a variety of payment options to its customers and



Coles acknowledges that CIT service pricing would likely influence other retailers' decisions about whether to offer cash as a payment option.

c) Do you consider, as Armaguard and Prosegur submit, that if they were to significantly increase prices for CIT services the RBA could exercise powers to regulate the cash distribution system and that the threat of such regulatory intervention would constrain them?

Coles is unable to comment on the exercise of powers of regulators such as the RBA.

9. Do you consider, as Armaguard and Prosegur submit, the current demand for cash is not sufficient to sustain two major national suppliers of CIT services? Please provide details including examples where possible.

Coles' view is that cash usage has been stable since 2020. Coles cannot comment on the sustainability of operating two businesses in the current/future market when contemplating the trajectory of cash usage within the economy. However, Coles does note comments in the RBB Economics Report that the current model is not sustainable.

## Non-CIT services

Coles has no submissions in respect of questions 10 to 14 as it does not acquire any non-CIT services from a third party.

## Public benefits

15. Do you consider, as Armaguard and Prosegur submit, that if one of them was to cease supplying CIT services this would cause major interruption to the operation of the cash distribution system and associated costs?

As Armaguard and Prosegur are currently the only two major CIT service providers, Coles' view is that there would be major operational interruptions to the cash distribution system (and increased associated costs) if one of these service providers were to cease supplying CIT services. Coles considers it unlikely that given existing contractual arrangements with customers that a major CIT service provider would discontinue operations 'overnight', and rather that if this scenario was to occur there would be a wind down period in which case the remaining incumbent would have time to scale up its operations, and business could be transitioned.

16. In the event of one party ceasing to supply CIT services, what would be the anticipated timeframe for transitioning across to another provider? What, if any, disruption do you consider that this transition would cause to your business?

Based on recent market activity and discussions with prospective suppliers, Coles estimates a [REDACTED] timeframe for a full transition to another service provider if either one of Armaguard or Prosegur ceased supplying CIT services and a managed wind down process occurred. We anticipate the disruption to Coles would be minimal provided the processing/collection model remained unchanged and the transition was supported by the incumbent provider.

17. Do you consider, as Armaguard and Prosegur submit, that the Proposed Transaction will generate efficiencies in the provision of CIT services by them and/or ensure ongoing high levels of customer service?

Coles considers that the Proposed Transaction would drive operational efficiencies as a result of the associated consolidation of assets and resources. Coles expects that customer service would remain, at a minimum, as per current customer service levels however, Coles is concerned that when its contract expired, any renewal would involve a reduction in service levels, in addition to the price increases outlined above.

18. To what extent would acquirers of CIT and non-CIT services, and/or the community more broadly, benefit from Armaguard and Prosegur combining their businesses?

Please see answers above.

Whilst Coles is not an acquirer of non-CIT services, Coles believes that maintaining ATM services will support the community as banks continue to close branches/ATMS.

19. To what extent do you consider that any other public benefits, including the ones listed in Attachment A, are likely to result from the Proposed Transaction?

It is unclear to Coles if the avoidance of a major interruption to the operating of the cash distribution system and associated costs from an exit of Armaguard or Prosegur from the supply of CIT services delivers a material public benefit, or whether this situation would arise at all. Coles believes that, in such a scenario, it is likely that the remaining provider would take on new customers with the stated excess capacity, so the community continues to be supported.

Coles agrees with Armaguard and Prosegur's view that a consolidated business would deliver a more efficient cost structure through the elimination of duplicated fixed costs.

Based on the current information available to Coles, we do not have a view on Armaguard and Prosegur's submissions that the Proposed Transaction will reduce Armaguard and Prosegur's carbon footprint, or that the Proposed Transaction would avoid the cost, delay and uncertainty associated with the RBA moving to any new regulatory model for cash distribution or the need for the RBA or the Australian Government to assume responsibility for cash distribution.

20. How significant do you consider any public benefits likely to arise from Proposed Transaction to be in terms of likely size/magnitude (for example, on a scale from very small, to significant)? Where relevant, is the public benefit likely to be an enduring benefit or a one-off benefit?

Please see answers above. Coles is unable to comment on the significance or duration of any public benefits.

### **Public detriments**

21. In addition to any competitive detriment that you may have identified in your responses to questions 3 to 14, please outline whether there are any other effects of the Proposed Transaction that you consider may give rise to a public detriment.

Coles believes that increased costs to manage cash (such as those arising from a market where there is only one provider) may lead to higher prices of goods/services for consumers who prefer to transact with cash. In addition, some retailers may be obliged to remove cash payment as an option due to the increased associated costs when compared with other forms of payment.

### **Other information or issues**

22. Please provide any additional information or comments, or identify other competition or public benefit issues, that you consider relevant to the ACCC's

## consideration of the Proposed Transaction.

In summary, Coles submits that:

- CIT services are critical to Coles' operations and Coles has no desire nor current capability to insource CIT services.
- Whilst there has been a decline in cash transactions in retail:
  - Coles is experiencing increased usage of supermarkets as 'ATMs' as bank branches/ATMs continue to close; and
  - Coles services the whole community and the demand for cash transactions remains significant in the community and particularly in certain sectors/regions around Australia. Coles must be able to continue to provide cash payment options nationally and requires safe, consistent, efficient, reliable and effective CIT services from a third-party service provider.
- Coles is concerned to ensure the Proposed Transaction does not result in:
  - any long-term increase in prices for these services (this may also have flow on effects for customers who prefer cash as a payment method); and
  - any long-term decrease in service provision.