



Proposed merger of Armaguard and Prosegur: Submission by Woolworths Group Limited

11 November 2022

Woolworths Group Limited (**Woolworths**) owns and operates national retail businesses including Woolworths Supermarkets and BIG W.

Cash is an integral part of Woolworths' service offering to customers, as our customers value access to physical cash services for purchases and withdrawals in physical stores.

Woolworths' physical stores handle large volumes of cash that need to be transported to and from financial institutions by cash in transit (**CIT**) service providers. Effective and efficient cash management is critical to our operations. The safety of our customers and team is a core requirement for CIT services provided to Woolworths.

This submission contains Woolworths' responses in relation to topics set out in Attachment B to the ACCC's market inquiries letter dated 6 October 2022.

Woolworths' dealings with the merger parties

Prosegur Australia Holdings Pty Limited (**Prosegur**) is Woolworths' current CIT service provider. Prosegur has supplied CIT services to Woolworths since [REDACTED]. The contract also covers associated services, in particular in relation to:

- forecasting change and banking requirements; and
- digitisation of end-to-end cash handling processes.

Woolworths also engages Prosegur for:

- the collection and secure transport of discontinued and obsolete tobacco products from stores, which need to be returned back to the supplier/s; and
- the delivery of collectable coins to Woolworths' stores.

The above services could alternatively be provided by Linfox Armaguard Pty Ltd (**Armaguard**). Armaguard was Woolworths' supplier of CIT services [REDACTED]. Armaguard Technology Solutions currently supplies Woolworths with [REDACTED] in-store ATMs.

Competition for the provision of CIT services

Woolworths requires a full-service solution of cash transport, processing and administration services. Armaguard and Prosegur are two of the largest CIT providers in Australia, and the only two providers capable of providing national coverage and the level of service required by a large national retailer such as Woolworths.

(i) Estimated market shares

We estimate that the shares of supply of full-service CIT services in Australia are approximately:

- Armaguard - 67.5%; and
- Prosegur - 32.5%.

(ii) Attributes of a full-service CIT service provider to Woolworths

The attributes of a full-service CIT service provider that are key to Woolworths include:

- national geographic coverage and appropriate infrastructure;
- security systems and processes to manage risks related to moving large volumes of cash;
- an innovative and collaborative approach to customer service; and
- reasonable service costs.

(iii) Prosegur compared to Armaguard

Prosegur is a relatively recent entrant in Australia, albeit it is part of a large international company. Prosegur is a “disruptor” [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

(iv) Smaller security companies

Some security companies such as Wilson provide intra-State, low volume, low value “soft services”, whereby a licensed security professional will personally transport a small volume of cash to a nearby banking facility. These services are not appropriate for a large-scale national retail business, however, given the scale requirements and the inherent risks involved in transporting large volumes of cash. Therefore, in Woolworths’ view “soft services” are not substitutable for full-service CIT services and are not in the same market.

“Soft services” providers do not form a material competitive constraint on full-service CIT providers.

Impact of the proposed merger

Woolworths is concerned that if the proposed merger proceeds, the full-service CIT industry will be in a worse position than before Prosegur entered Australia (when some medium-sized players still existed that were in a position to service some of Woolworths’ needs). [REDACTED]

(i) Lack of competitive constraint

No other existing company would be in a position effectively to constrain the merged firm from reducing the quality of its CIT services and/or raising prices post-merger. As mentioned above, the only other providers of CIT services are very small and not able to cater to the needs of a large national retailer.

(ii) High barriers to entry

There are high barriers to entry or expansion for potential full-service CIT service providers. Major barriers include:

- funding to secure sufficient volumes of cash, as CIT service providers purchase substantial floats of cash from banks in order to supply these floats to customers such as Woolworths (enabling a retailer to on-provide the cash to end-customers as change or Eftpos cash withdrawals at in-store check-outs);
- lead time to source appropriate armoured vehicles;
- lack of availability of skilled and licensed labour, including:
 - armed guards: can take around a year to source; and
 - truck drivers: there is a shortage in Australia;
- potential lead time to source and fit out appropriate facilities in key geographic locations;
- the need to invest in systems and processes to securely manage and track resources and assets; and
- to service retailers, the requirement for systems integration with smart equipment at stores (e.g. smart safes) and reporting.

Woolworths disagrees with the merger parties’ suggestion that retailers could viably insource cash delivery. This is unrealistic due to the complexity and risk profiles inherent in the requirements of cash in transit services. Bespoke knowledge and risk management expertise would be required, which would fall far outside Woolworths’ core business and strategic objectives.

Woolworths is not in a position to comment on the ability or willingness of major banks to sponsor a new entrant CIT service provider.

While Prosegur was able to enter Australia and commence supplying CIT services nationally before 2020, at the time there was more demand for CIT services, Prosegur had substantial overseas capabilities, and there were existing substantial Australian businesses that Prosegur was able to acquire (e.g. the medium player Chubb CIT Industry, and Toll Secure in 2017).

(iii) Countervailing bargaining power

Post-merger, customers would have much less bargaining power than they do today. Therefore, we would not expect to generate as positive an outcome in the next tender process as we did in the last, given that post-merger Armaguard would not be subject to the competitive tension provided by a large and capable disruptor such as Prosegur.

[REDACTED]

(iv) Ability to increase prices: no material constraint provided by the emergence of other payment methods

Customer demand still requires cash services to be available in a retail in-store context, and we expect this to continue for the foreseeable future. In Woolworths' view, it is not the case that (as the merger parties submit) post-merger the merged firm would need to keep prices of CIT services low to arrest the decline in cash usage by enabling cash to remain a cost competitive payment method. Woolworths is not in a position to mitigate any increase in the

price of CIT services by moving to accept only card and digital payment methods, as many customers still prefer to use cash. Commercially, Woolworths still needs to offer cash payment (and withdrawal) facilities in-store. This includes in any emergency situation (e.g. natural disasters). The price of CIT services is not the leading factor influencing the decision of a retailer such as Woolworths about whether to offer cash as a payment option.

(v) Lack of clarity about any constraint due to the threat of regulatory intervention

Woolworths is not in a position to comment on whether and when the RBA may intervene to regulate the cash distribution system, and whether this threat of regulatory intervention would be a material constraint on the merged firm's profit-maximising incentives to significantly increase prices for CIT services. We note that the market was unregulated for a long time prior to Prosegur's entry.

(vi) Dynamic characteristics of the market: declining demand for CIT services

Set out below is data on cash usage at Woolworths Group's stores. The numbers are impacted by the fact that Endeavour Group Limited (EGL) demerged from Woolworths Group in 2020. The demerger saw the separation from Woolworths Group of some 1,592 Dan Murphy's and BWS stores, and hotel venues owned by ALH Group Pty Ltd.

Calendar year	Proportion of transactions where payment was made in cash (versus non-cash)	Total amount of cash collected from Woolworths Group's stores per year	Total amount of cash dropped off at Woolworths Group's stores per year	Number of stores serviced	Average frequency of CIT service per store (per week)
2016	████	██████	████████ ██████	██████ ██████	██████ ██████
2017	████	██████	████████ ██████	████	██████ ██████
2018	████	██████	██████	████	████
2019	████	██████	██████	████	████
2020 ¹	████	██████	██████	████	████
2021	████	██████	██████	████	████
2022 to date	████	██████ ████████	██████ ████████	████	████

¹ Figures from this row down exclude EGL from early February 2020, due to internal separation from that date in preparation for the demerger in July 2020.

² This amount will increase during the 4 months remaining until the end of CY23.

The above data demonstrates a steady gradual decline in the use of cash until Covid arrived in Australia in January 2020, then a steeper decline post-Covid. Factors driving the decline in the use of cash include:

- Consumers are becoming more comfortable over time with using the proliferation of non-cash modes of payment. This includes in-store, e.g. at self check-outs that do not accept cash, as well as online.
- The older generation of consumers that are more comfortable using cash are gradually becoming a smaller proportion of Australia's population.
- Covid and the lockdowns from around April 2020 rapidly caused consumers to switch to online and cashless transactions, for reasons of hygiene and convenience.

Although the volume of cash is decreasing overall, as consumers move to using non-cash forms of payment, Woolworths still requires a minimum frequency of CIT services. This is due to the need to manage sensibly the risks of having large volumes of cash held at store sites. For example, on average Woolworths' Metro stores need to be serviced by a CIT provider every [REDACTED] days. [REDACTED]

Non-CIT services

The only competitors of Armaguard or Prosegur in the supply of non-CIT services are suppliers of low volume, low value "soft services", such as security companies. These service providers are weak competitive constraints. They are unable adequately to compete with the services provided by Armaguard and Prosegur, taking into account volume, scale and the inherent risks that Armaguard and Prosegur are well equipped to manage.

Public benefits or detriments

(i) Impact of one party ceasing to supply CIT services

If one of Armaguard or Prosegur were to cease to supply services, the interruption to a large retail customer such as Woolworths could be significant depending on the planning leading up to the change. Without prior planning, the other service provider would be unlikely immediately to have capacity to service a large customer such as Woolworths in addition to its other existing customers. The provider may take time to ramp up its service offering, and during this ramp-up period some customers could be left without a reliable service provider.

Generally, before potentially changing CIT provider Woolworths' Procurement team would run a market and opportunity review, and it would take approximately [REDACTED] for Woolworths to switch providers. But assuming that Prosegur suddenly ceased to supply CIT services and Woolworths switched to Armaguard (if it had ready capacity to take us on), we expect there would be a [REDACTED] transition plan once negotiated. There would likely be disruption to the type and level of service Woolworths received.

[REDACTED]

[REDACTED]

[REDACTED]

In the past, [REDACTED] around 3-5 Woolworths stores located in remote areas [REDACTED]. At that time, Woolworths used Toll Secure and its own supply chain business to provide CIT services to the relevant remote stores. As mentioned above, Toll Secure was acquired by Prosegur in 2017 therefore it is no longer a standalone provider of CIT services. Woolworths is not currently equipped to self-supply CIT services through its own supply chain, and would not wish to do so (as mentioned above in response to the merger parties' suggestion that retailers could viably insource cash delivery). If a third party CIT service provider could no longer service Woolworths' CIT needs in remote areas, Woolworths would need to undertake a major assessment and project to consider all viable options and next steps.

(ii) Potential efficiencies and other benefits

The proposed merger has the potential to result in efficiencies and synergies, at least initially. There could be benefits such as environmental benefits from route optimisation or lack of duplication of vehicles on the road. Woolworths is not in a position to comment on the magnitude of these benefits. However, the lack of competition from another major CIT provider post-merger carries significant risk that standards of CIT services provided could drop and prices could rise.

(iii) Potential detriments

In addition to the potential detriments just mentioned, the proposed merger could have a particularly detrimental impact on the level of services provided in remote communities.

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED] This would have a negative impact on the relevant communities, in addition to any direct negative commercial impact on Woolworths. For example, pensioners who are only comfortable using cash and do not have a credit card or the ability to use a debit card would be unable to purchase groceries.

Suggested conditions of authorisation

To help guard against potential detriments of the proposed merger, if it can be authorised, Woolworths submits the ACCC should carefully consider imposing conditions to protect against enduring detriments, including that the merged entity must:

- maintain a fully national network with sufficient infrastructure to maintain a commercially viable service in all areas (including regional and remote areas) where Armaguard or Prosegur currently operates;
- maintain robust security of service and systems (e.g. of no less than the current grading) in order to manage risk effectively;
- maintain the present frequency of service, in order manage the risk to customers of storing large volume of cash on-site;
- not increase price by more than inflation annually; and
- honour Prosegur's existing contract with Woolworths [REDACTED]
[REDACTED]