

## Proposed Merger of Armaguard and Prosegur: Submission by Woolworths Group Limited

#### 4 April 2023

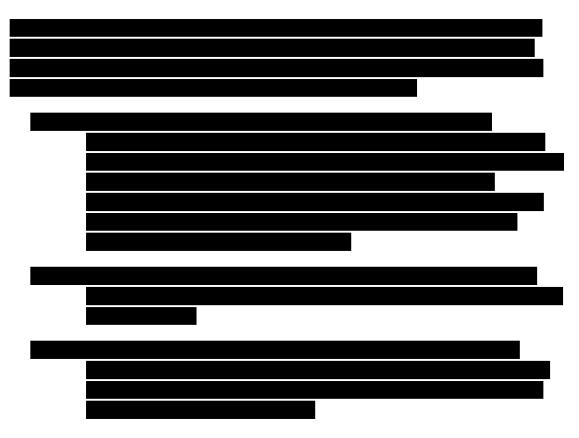
Woolworths Group Limited (**Woolworths**) welcomes the opportunity to comment on the court enforceable undertaking proposed to the ACCC by Armaguard and Prosegur (**Proposed Undertaking**).

- 1. Cash-in-transit services are integral to Woolworths' business
- 1.1. As set out in Woolworths' submission dated 28 October 2022, Woolworths' customers value their ability to make cash payments for their purchases in more than 1000 Woolworths stores nationally, and their ability to make high value cash withdrawals in those stores, with or without purchasing goods.
- 1.2. Woolworths' stores (including Woolworths Supermarkets, Metro and BIG W) collectively handle large volumes of cash. This cash is processed and transported to and from financial institutions by cash-in-transit (CIT) service providers. It is critical to Woolworths' operations to have effective and efficient cash management, including for the safety of customers and team.

# 2.1. As set out in Woolworths'

#### October submission:

- 2.1.1. The independent and successful operation of both Armaguard and Prosegur would be Woolworths' preference for maintaining competitive tension in the relevant markets.
- 2.1.2. If however one of the firms is likely to exit, then the proposed merger should be authorised subject to conditions which will remedy the likely detrimental effects of the resulting absence of competition. The conditions should be designed to ensure reasonable fees and quality of service from MergeCo, as Australia's only full-service CIT service provider, over the long-term.



- 3. Comments on the Proposed Undertaking
- 3.1. Post-merger, MergeCo will not be constrained by competition from any other full-service CIT service provider in Australia. In these circumstances, if the merger is authorised, Woolworths supports MergeCo providing the Proposed Undertaking or otherwise being subject to effective oversight and regulation to counter the absence of competition and ensure that:
  - CIT services customers pay reasonable fees and receive reasonable quality of service going forward; and
  - end-consumers' cash needs can continue to be met.
- 3.2. Woolworths considers that further careful consideration should be given to the suitability of a court enforceable undertaking to achieve the above objectives. Other supplementary options warrant careful consideration, such as legislation establishing a dispute resolution framework and an industry ombudsman.
- 3.3. If MergeCo provides an enforceable undertaking, additional careful consideration and independent stress testing should be applied by reference to the following elements:
  - appropriateness of the pricing formula;
  - mechanism for future review of the pricing formula;
  - future expansion of geographic coverage; and
  - greater focus on service levels.

#### Appropriateness of the pricing formula

3.4. The pricing formula in the Proposed Undertaking is based on a Target Revenue that allows MergeCo to earn an EBIT margin of 10%.

Woolworths considers that an independent expert should be retained to opine on a reasonable Target Revenue and annual price increases, in the circumstances. The expert should have regard to what national or monopoly service providers reasonably earn in regulated industries such as telecommunications or energy.

### Mechanism for future review of the pricing formula

3.5. The Proposed Undertaking should allow scope for the pricing formula to be reviewed and potentially amended in future, in case the proposed formula has shortcomings in practice or becomes out of step with reasonable rates in future. For example, the Proposed Undertaking could provide for periodic reviews of the pricing formula by an independent expert every two years. It should be tested and evaluated in practice.

#### Future expansion of geographic coverage

3.6. The Proposed Undertaking fixes the required national geographic coverage by MergeCo as at today. There should instead be provision for the geographic coverage to extend over time. Otherwise, there is less incentive for MergeCo to expand its services to less profitable locations in future.



3.8. The ACCC should consider the applicability of principles akin to the "universal service obligation" in the telecommunications sector. This is a long-standing consumer protection that ensures everyone has access to landline telephones and payphones regardless of where they live or work. Likewise, whilst cash remains legal tender and is relied on by customers across the country, Australia's full-service CIT provider should enable businesses to deal with consumers in cash.

#### Greater focus on service levels

3.9. The Proposed Undertaking states that MergeCo will maintain the standard of service that existed prior to the Commencement Date and work to identify, approve and implement productivity improvements. Woolworths is concerned to make this commitment more robust, to ensure that MergeCo is more strongly encouraged in practice to maintain sufficient network capacity to service all customers, and to

- provide a high quality service (e.g. with frequent cash collections and strong security protections).
- 3.10. For example, the Proposed Undertaking could be strengthened to requirieMergeCo to commission periodic independent reports on the level of service that MergeCo provides. Such reports should consider relevant overseas developments in the provision of CIT services, and be based on feedback from MergeCo's customers on whether they are satisfied or have concerns. The reports should make recommendations on potential variations of the Proposed Undertaking where relevant. MergeCo should be required to engage with the ACCC in relation to the recommendations which must be implemented and MergeCo's proposed plan to do so.
- 3.11. The Proposed Undertaking currently provides for limited oversight by the ACCC and Reserve Bank of Australia (RBA). It requires:
  - 3.11.1. that MergeCo procure six-monthly audits of its compliance with the Proposed Undertaking (for example, to ensure that MergeCo has correctly applied the pricing formula and maintained the geographic service coverage on offer at the Commencement Date); and
  - 3.11.2. the provision of the audit reports to the ACCC, which may provide copies to the RBA.

MergeCo must also have in place a process to handle complaints about its compliance with the Proposed Undertaking.

3.12. A targeted yet active oversight role by the ACCC would better ensure the continued compliance with and fitness for purpose of the court enforceable undertaking. It would also create more incentive for MergeCo to respond to customer needs, to invest in its service offering and to innovate. At a minimum MergeCo should be required to: (a) engage with the ACCC as submitted in paragraph 3.10; and (b) provide reports on how MergeCo proposes to address complaints and recommendations made in a credible published annual independent review.