

July 2013

Processed Tomatoes Safeguards Inquiry
Productivity Commission
LB 2 Collins Street East
Melbourne Victoria 8003

By Email: tomato.safeguards@pc.gov.au

Submission to Productivity Commission on Imports of Processed Tomato Products

COLES

Coles Group is a subsidiary of the Wesfarmers Limited, a publicly listed Australian company.

Coles operates over 750 supermarkets nationally across Australia, employing 100,000 team members. Coles supermarkets typically sell around 25,000 different product lines across fresh and packaged grocery foods, as well as non-food grocery items. Including Coles fresh foods, some 25 per cent of these product lines are Coles branded.

Over the last five years Coles has adopted a new approach to sourcing our food by placing greater emphasis on delivering quality, service and value to our customers while at the same time fostering growth and innovation with our suppliers. Coles has also moved to longer term partnerships and direct relationships with these suppliers, examples of which are shown in the attached booklet¹ *"Backing Aussie Food"* illustrate.

The success of this approach is demonstrated by the growth in the number of Coles customers and sales to them. Coles is now buying \$4 billion more Australian food than it was 5 years ago and serving an additional 3.5 million customers a week thanks to the way we are sourcing and delivering better quality, service and value.

As a result of these sourcing changes and a concerted effort to recue imports, we have in fact doubled the volume of food we source directly from Australian suppliers compared to five years ago. Our Australian First buying policy and preference for Australian products under Coles brand demonstrates the success of this policy, with 96 per cent of all fresh produce being Australian grown and 90 per cent of Coles branded packed goods being Australian Made. We are not aware of any other developed economy with such a high percentage of its food being sourced and sold within its borders.

¹ Coles Backing Aussie Food 2013

Tomatoes

Approximately 420,000 tons² of which preserved tomatoes are grown in Australia, of which half is used for preserved and processed food products. Coles sells less than 9,000 tons (including imported and Australian tomatoes) of preserved tomatoes or about 4 per cent of Australia's preserved tomato production. Coles source 100% of its fresh tomatoes from Australian growers.

Coles sells 31 different lines of tinned tomatoes, usually in 400 gram or 800 gram packs. *SPC Ardmona* supply Coles with 14 of these lines, including Coles brand Australian Diced tomatoes. We also purchase via import agents, Coles brand Italian Tomatoes from *La Doria, Conserva Italia, Ferger and De Clemente Conserva*. We also sell four lines of branded Italian tinned tomatoes from *Capriccio Basile Imports and Mutti S.P.A.*

Coles is prepared to provide the Commission on a commercial in confidence basis details of the specific lines of tomatoes we sell, their country of origin, prices and volumes of each. Given the very short time to respond to factual data requests from the Commission we are unable to include them in this initial submission but will provide as soon as we can.

Tomato Imports

Coles is not experiencing a surge in imported tomatoes. Italian tomatoes sales in Coles have been stable over the last year while Australian tomato sales (from SPC Ardmona) at Coles have increased.

As a category however, preserved tomatoes have a relatively high penetration of imports. The key reasons are highlighted in the issues paper and in other industry reports:

- a high Australian dollar for sustained period of time making imports cheaper and exports less competitive,
- substantially higher costs of manufacturing in Australia - shown by an international comparison of manufacturing productivity and unit labour costs by the US Government in 2011 (PDF Attachment³)
- changes in consumer preferences over time.
 - Canned tomatoes are in relative decline as a category as consumers use alternatives such as fresh tomatoes or more conveniently ready to use tomato based sauces or pastes and because some of these alternatives are relatively cheaper, better quality or simply more convenient.

There has been a trend, perhaps a tradition, in Australia that prefers Italian tomatoes. This is due, not surprisingly, to the large number of Italians and southern Europeans that have migrated to Australia, bringing with them cooking styles and dishes that use tomatoes.

² ABARES March Quarterly Review of Agricultural commodities page 79

³ INTERNATIONAL COMPARISONS OF MANUFACTURING PRODUCTIVITY AND UNIT LABOR COST TRENDS, 2011

Popular pasta dishes such as spaghetti bolognaise, pizzas and the like are very popular meals among all Australians. The fact that Coles sells over 140 lines of pasta and tomato based sauces demonstrates the demand but also its origins and why Italian style tomatoes and tomato varieties (Roma being a very popular fresh variety) are preferred in these dishes. We are not aware of the volume of Australian or imported tomatoes that Australian food manufacturers use in these products.

Impacts on other parties

Clearly there are competitive consequences for local processors of a high Australian dollar and having a relatively high cost base.

Coles would be happy to consider further requests for information from the Commission and will provide the data we are collating for the Inquiry as soon as we can.

Yours Sincerely

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NEWS RELEASE



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INTERNATIONAL COMPARISONS OF MANUFACTURING PRODUCTIVITY AND UNIT LABOR COST TRENDS, 2011

Manufacturing productivity increased in 2011 in 15 of 19 countries covered, the U.S. Bureau of Labor Statistics reported today. Labor productivity (output per hour) rose by more than 2 percent in the majority of countries (see chart 1). These productivity increases were generally driven by gains in output coupled with modest changes in hours (see chart 2).

The data presented for the United States differ from those in the BLS Productivity and Costs news release. (See technical notes.)

Chart 1. Percent changes in manufacturing output per hour, 2010–2011

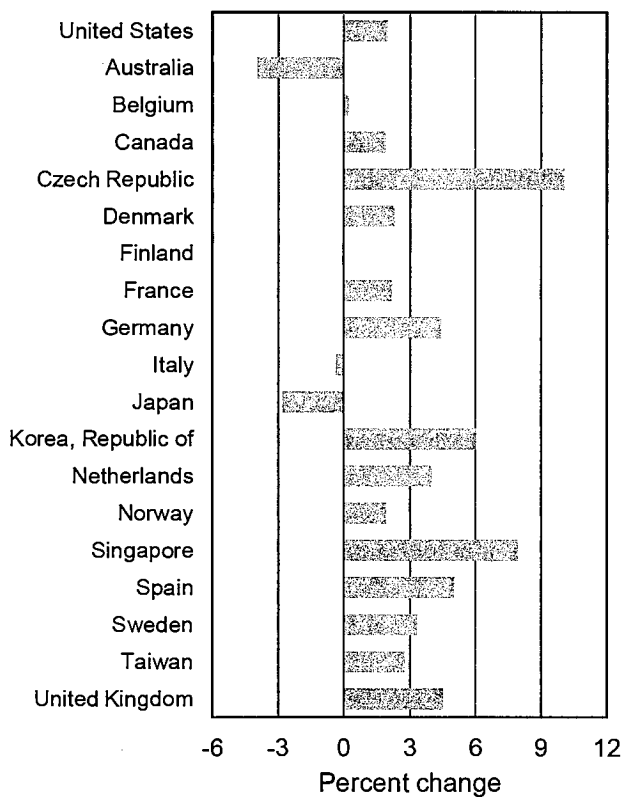
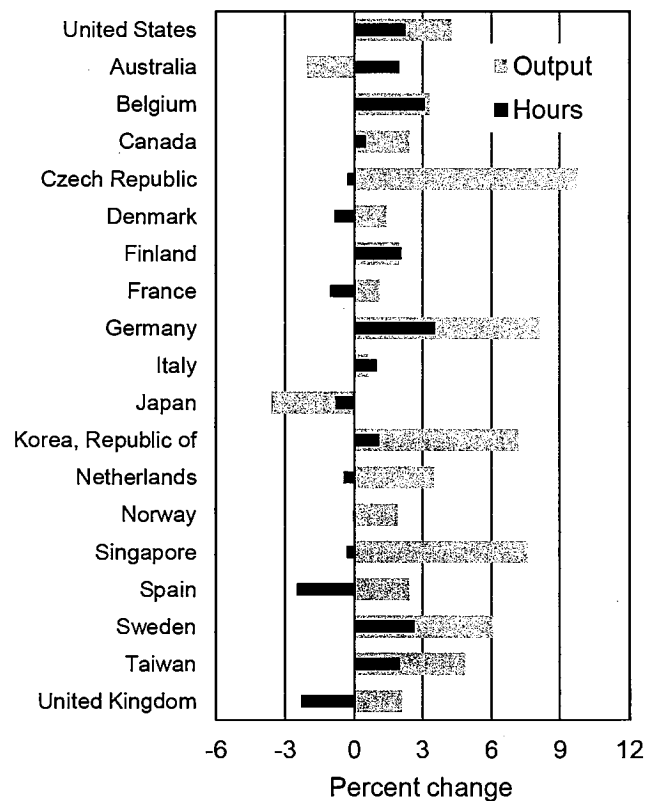
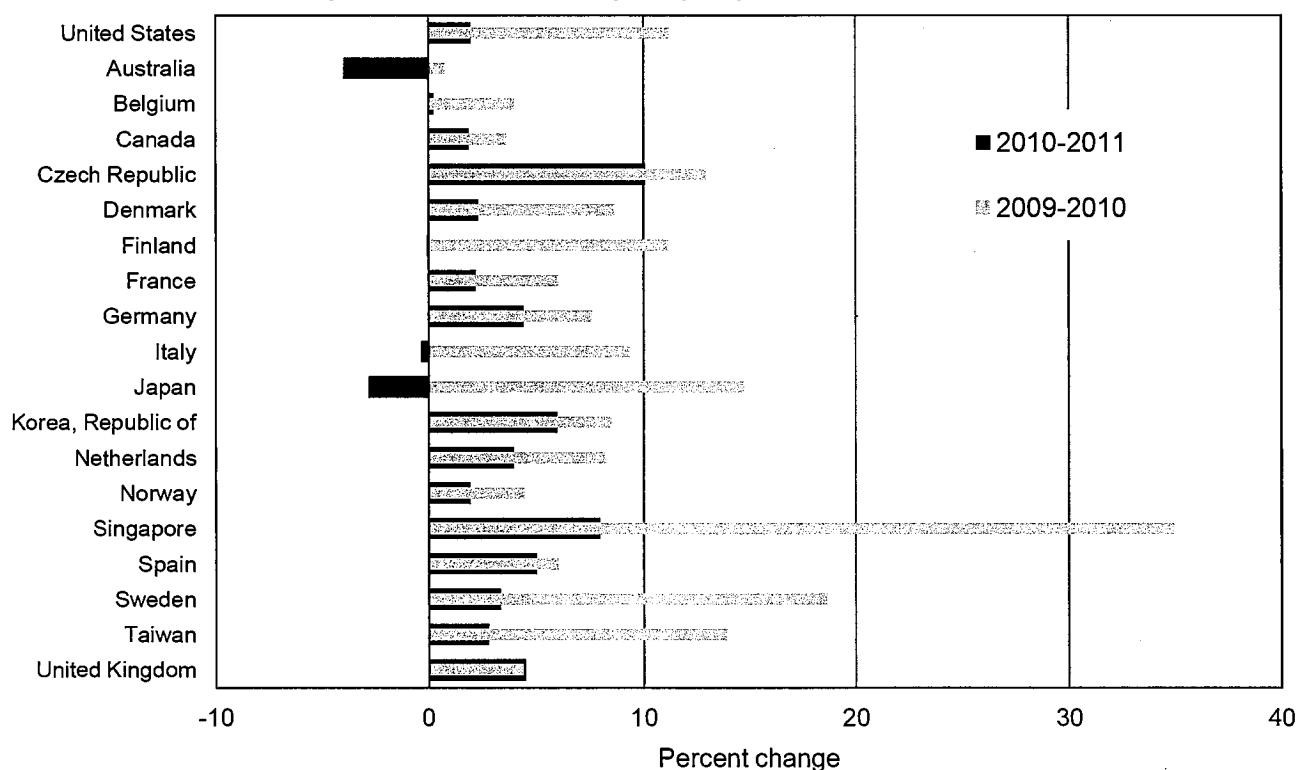


Chart 2. Percent changes in manufacturing output and hours, 2010–2011



In 2011, only the United Kingdom had larger productivity growth in manufacturing than in the previous year; in all other countries, productivity growth slowed down or declined. Only the Czech Republic and Singapore experienced productivity growth of 8 percent or higher in 2011, while in 2010 the majority of countries experienced growth that exceeded 8 percent (see chart 3).

Chart 3. Percent changes in manufacturing output per hour



Get More Information

Analyze trends with interactive charts.

The Excel version of the data tables includes an interactive dashboard that displays charts from a custom selection of variables, countries, and time periods at www.bls.gov/ilc/#productivity.

Find additional data.

The data tables with annual indexes back to 1950 used to prepare this report are available at www.bls.gov/ilc/#productivity.

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Unit labor costs are the cost of labor input required to produce one unit of output and can be denominated either in national currency units or in U.S. dollars. Expressed in national currency units, manufacturing unit labor costs increased in 2011 in about half the countries covered; Japan and Australia recorded the largest increases (see chart 4).

To compare unit labor costs across countries, they are generally converted into a common currency, in this case U.S. dollars. Changes in a country’s unit labor costs in U.S. dollars are roughly equivalent to the change in unit labor costs in national currency plus the change in the value of the country’s currency relative to the U.S. dollar (see table 3). The values of the currencies of all countries compared appreciated relative to the U.S. dollar in 2011. As a result, unit labor costs in U.S. dollars showed larger increases than unit labor costs expressed in national currencies.

In 16 of the countries covered, unit labor costs on a U.S. dollar basis increased more than in the United States, causing the U.S. manufacturing labor cost competitiveness to increase relative to these countries. The United States improved its competitiveness the most against Australia and Japan due to the large appreciation of their respective currencies against the U.S. dollar. However, U.S. labor cost competitiveness deteriorated relative to the Republic of Korea and the Czech Republic.

Chart 4. Percent changes in manufacturing unit labor costs, 2010–2011

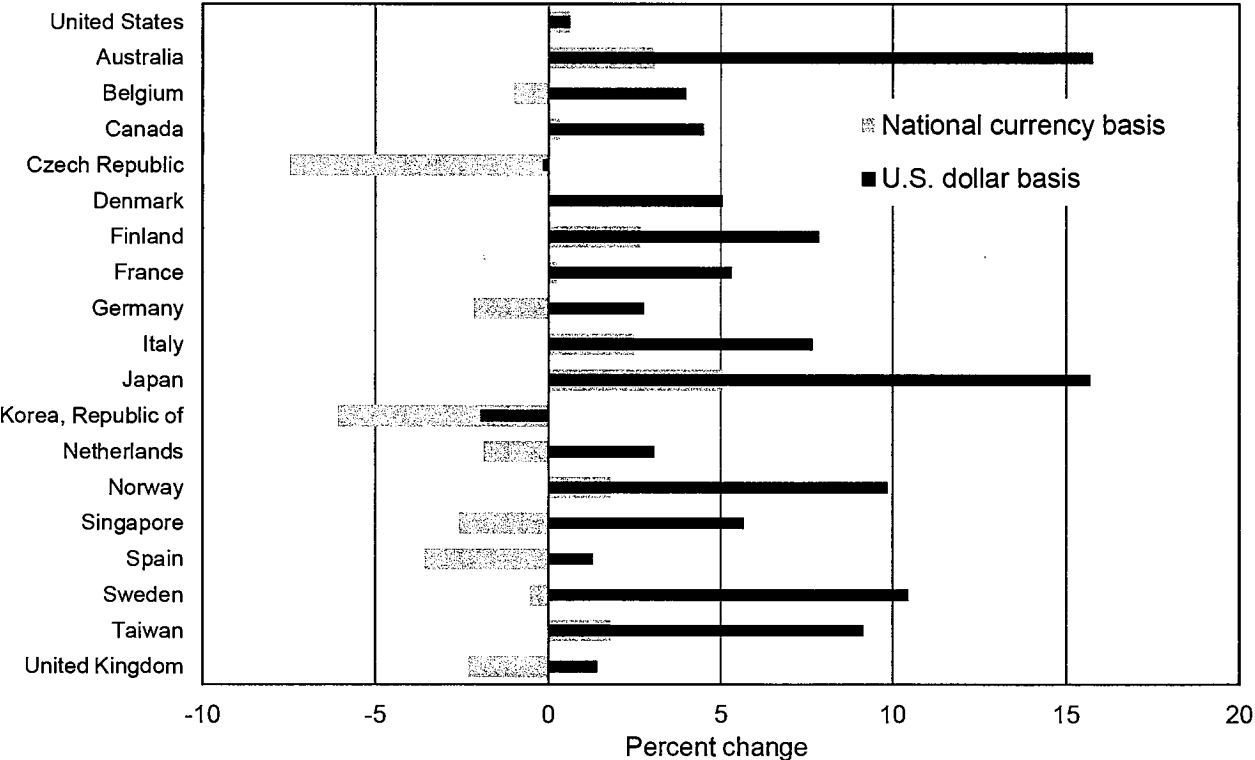


Table 1. Output per hour, output, and hours

Manufacturing, 19 countries, 1979–2011

Average annual compound rates of change

Country	Indicator	1979-2011	1979-1990	1990-2000	2000-2007	2007-2011	2009-2010	2010-2011
United States	Output per hour	4.2	3.0	4.3	6.1	3.8	11.2	2.0
	Output	2.7	2.3	4.2	2.9	-0.3	11.2	4.3
	Hours	-1.4	-0.6	-0.1	-3.1	-3.9	0.0	2.2
Australia	Output per hour	1.7	2.1	1.8	2.3	-0.5	0.8	-4.0
	Output	1.2	1.6	1.5	1.5	-1.2	0.7	-2.1
	Hours	-0.5	-0.5	-0.4	-0.8	-0.7	-0.1	2.0
Belgium	Output per hour	2.8	4.2	2.8	2.2	-0.2	4.1	0.2
	Output	1.2	2.6	1.5	0.7	-2.2	4.8	3.3
	Hours	-1.5	-1.6	-1.2	-1.5	-2.0	0.7	3.1
Canada	Output per hour	2.2	2.1	3.6	1.0	0.8	3.7	1.9
	Output	1.4	1.9	4.2	-0.6	-2.8	5.2	2.4
	Hours	-0.7	-0.2	0.6	-1.6	-3.5	1.5	0.5
Czech Republic	Output per hour	NA	NA	NA	9.7	8.3	13.0	10.1
	Output	NA	NA	NA	9.4	5.4	13.8	9.8
	Hours	NA	NA	NA	-0.3	-2.7	0.8	-0.3
Denmark	Output per hour	2.4	2.4	2.4	2.9	1.5	8.7	2.3
	Output	0.8	1.4	2.0	0.5	-3.1	1.5	1.5
	Hours	-1.5	-0.9	-0.4	-2.4	-4.5	-6.6	-0.9
Finland	Output per hour	4.9	5.0	6.5	7.0	-2.9	11.2	-0.1
	Output	3.5	3.4	5.5	6.2	-5.8	9.1	2.0
	Hours	-1.3	-1.5	-0.9	-0.8	-3.0	-1.9	2.1
France	Output per hour	3.2	3.2	3.9	3.3	1.1	6.1	2.2
	Output	0.9	0.9	1.9	1.2	-1.8	3.6	1.2
	Hours	-2.2	-2.3	-1.9	-2.1	-2.9	-2.3	-1.0
Germany	Output per hour	2.5	2.1	3.4	4.2	-1.9	7.6	4.5
	Output	1.0	1.2	0.6	3.0	-2.4	11.3	8.1
	Hours	-1.5	-0.9	-2.6	-1.2	-0.5	3.5	3.5
Italy	Output per hour	2.1	3.4	2.5	0.9	0.0	9.4	-0.4
	Output	1.0	2.6	1.3	0.8	-3.5	7.0	0.6
	Hours	-1.1	-0.8	-1.2	-0.1	-3.5	-2.1	1.0
Japan	Output per hour	3.4	3.8	3.3	3.8	2.2	14.8	-2.8
	Output	2.3	4.7	0.8	2.6	-1.4	18.2	-3.6
	Hours	-1.1	0.9	-2.4	-1.1	-3.5	3.0	-0.8
Korea, Republic of	Output per hour	NA	NA	10.5	8.1	4.1	8.5	6.0
	Output	8.5	10.8	8.4	6.8	5.6	14.7	7.2
	Hours	NA	NA	-1.9	-1.1	1.5	5.7	1.1
Netherlands	Output per hour	3.1	3.2	3.4	3.8	1.1	8.3	4.0
	Output	2.1	2.4	2.7	2.0	-0.3	6.9	3.5
	Hours	-1.0	-0.8	-0.7	-1.7	-1.3	-1.3	-0.5
Norway	Output per hour	1.8	2.0	0.9	2.3	2.6	4.5	2.0
	Output	0.7	-0.6	1.2	2.3	0.1	2.2	1.9
	Hours	-1.1	-2.5	0.2	-0.1	-2.4	-2.2	0.0
Singapore	Output per hour	5.0	4.0	7.2	2.0	7.7	35.0	8.0
	Output	6.8	7.3	7.4	5.5	6.4	29.7	7.6
	Hours	1.8	3.2	0.2	3.5	-1.2	-3.9	-0.3
Spain	Output per hour	2.8	3.3	2.0	2.9	3.0	6.1	5.1
	Output	1.4	2.1	2.8	1.1	-3.2	0.5	2.4
	Hours	-1.3	-1.2	0.8	-1.8	-6.0	-5.2	-2.5
Sweden	Output per hour	4.2	2.1	6.2	6.6	0.9	18.6	3.4
	Output	3.3	1.7	5.8	5.2	-1.3	19.8	6.1
	Hours	-0.8	-0.4	-0.4	-1.3	-2.2	1.0	2.6
Taiwan	Output per hour	6.1	6.3	5.0	7.6	5.7	13.9	2.8
	Output	6.5	7.5	5.0	7.2	6.2	25.4	4.9
	Hours	0.4	1.2	-0.1	-0.4	0.5	10.0	2.0
United Kingdom	Output per hour	3.4	3.5	3.0	4.5	2.2	4.4	4.5
	Output	0.4	0.9	0.9	0.1	-1.7	3.8	2.1
	Hours	-2.9	-2.5	-2.1	-4.3	-3.8	-0.6	-2.3

NOTE: Output is real value added in national currency units.

German data for years before 1991 pertain to the former West Germany.

NA=data not available.

Table 2. Unit labor costs, compensation, and output

National currency basis, manufacturing, 19 countries, 1979–2011
Average annual compound rates of change

Country	Indicator	1979-2011	1979-1990	1990-2000	2000-2007	2007-2011	2009-2010	2010-2011
United States	Unit labor costs	0.2	2.5	-0.4	-2.2	-0.7	-9.1	0.6
	Compensation	2.9	4.9	3.8	0.6	-1.0	1.1	4.9
	Output	2.7	2.3	4.2	2.9	-0.3	11.2	4.3
Australia	Unit labor costs	NA	NA	1.6	2.8	2.4	0.0	3.1
	Compensation	NA	NA	3.1	4.4	1.2	0.7	1.0
	Output	1.2	1.6	1.5	1.5	-1.2	0.7	-2.1
Belgium	Unit labor costs	1.1	1.8	0.2	1.0	2.0	-3.7	-1.0
	Compensation	2.4	4.4	1.6	1.7	-0.2	0.9	2.3
	Output	1.2	2.6	1.5	0.7	-2.2	4.8	3.3
Canada	Unit labor costs	2.0	4.6	-0.3	2.7	-0.1	-5.8	0.3
	Compensation	3.5	6.5	3.8	2.1	-2.8	-0.9	2.8
	Output	1.4	1.9	4.2	-0.6	-2.8	5.2	2.4
Czech Republic	Unit labor costs	NA	NA	NA	-1.8	-5.4	-8.8	-7.5
	Compensation	NA	NA	NA	7.4	-0.3	3.8	1.5
	Output	NA	NA	NA	9.4	5.4	13.8	9.8
Denmark	Unit labor costs	2.6	5.5	0.5	2.1	1.1	-5.4	0.0
	Compensation	3.5	7.0	2.5	2.5	-2.1	-4.0	1.4
	Output	0.8	1.4	2.0	0.5	-3.1	1.5	1.5
Finland	Unit labor costs	1.2	5.7	-2.2	-3.1	5.2	-9.6	2.7
	Compensation	4.7	9.4	3.3	2.9	-0.9	-1.3	4.7
	Output	3.5	3.4	5.5	6.2	-5.8	9.1	2.0
France	Unit labor costs	2.1	5.8	-0.2	0.1	1.7	-3.9	0.3
	Compensation	3.0	6.7	1.7	1.3	-0.1	-0.5	1.4
	Output	0.9	0.9	1.9	1.2	-1.8	3.6	1.2
Germany	Unit labor costs	1.6	3.3	1.4	-2.2	3.8	-8.6	-2.2
	Compensation	2.5	4.6	2.0	0.7	1.4	1.8	5.8
	Output	1.0	1.2	0.6	3.0	-2.4	11.3	8.1
Italy	Unit labor costs	4.4	8.8	1.9	2.1	3.1	-6.3	2.5
	Compensation	5.5	11.6	3.2	3.0	-0.6	0.3	3.2
	Output	1.0	2.6	1.3	0.8	-3.5	7.0	0.6
Japan	Unit labor costs	-1.1	0.7	-0.9	-4.4	-1.0	-13.9	5.1
	Compensation	1.1	5.5	-0.1	-1.8	-2.3	1.8	1.3
	Output	2.3	4.7	0.8	2.6	-1.4	18.2	-3.6
Korea, Republic of	Unit labor costs	3.7	7.9	2.6	1.6	-0.7	-0.6	-6.1
	Compensation	12.6	19.5	11.3	8.5	4.9	14.0	0.6
	Output	8.5	10.8	8.4	6.8	5.6	14.7	7.2
Netherlands	Unit labor costs	0.5	0.8	0.3	-0.1	1.3	-6.9	-1.9
	Compensation	2.6	3.2	3.0	1.9	1.0	-0.5	1.6
	Output	2.1	2.4	2.7	2.0	-0.3	6.9	3.5
Norway	Unit labor costs	4.0	6.7	3.4	2.3	1.3	-1.9	1.8
	Compensation	4.7	6.1	4.5	4.7	1.5	0.3	3.8
	Output	0.7	-0.6	1.2	2.3	0.1	2.2	1.9
Singapore	Unit labor costs	0.2	3.7	-1.5	-1.1	-3.0	-18.3	-2.6
	Compensation	7.0	11.3	5.8	4.4	3.2	6.0	4.8
	Output	6.8	7.3	7.4	5.5	6.4	29.7	7.6
Spain	Unit labor costs	3.9	7.8	2.7	2.4	-0.5	-5.0	-3.6
	Compensation	5.4	10.1	5.5	3.5	-3.7	-4.5	-1.2
	Output	1.4	2.1	2.8	1.1	-3.2	0.5	2.4
Sweden	Unit labor costs	1.1	6.6	-2.1	-2.3	1.0	-17.5	-0.5
	Compensation	4.5	8.4	3.6	2.8	-0.3	-1.2	5.5
	Output	3.3	1.7	5.8	5.2	-1.3	19.8	6.1
Taiwan	Unit labor costs	0.5	5.5	0.2	-3.8	-4.0	-9.4	1.8
	Compensation	7.1	13.5	5.2	3.1	1.9	13.6	6.8
	Output	6.5	7.5	5.0	7.2	6.2	25.4	4.9
United Kingdom	Unit labor costs	2.7	6.1	1.3	0.6	1.1	0.7	-2.3
	Compensation	3.1	7.0	2.2	0.6	-0.6	4.5	-0.2
	Output	0.4	0.9	0.9	0.1	-1.7	3.8	2.1

NOTE: German data for years before 1991 pertain to the former West Germany.

NA=data not available.

Table 3. Unit labor costs (ULC) in U.S. dollars and in national currency

Manufacturing, 19 countries, 1979–2011
Average annual compound rates of change

Country	Indicator	1979-2011	1979-1990	1990-2000	2000-2007	2007-2011	2009-2010	2010-2011
United States	ULC in U.S. dollars	0.2	2.5	-0.4	-2.2	-0.7	-9.1	0.6
	ULC in nat. cur.	0.2	2.5	-0.4	-2.2	-0.7	-9.1	0.6
	Exchange rates	--	--	--	--	--	--	--
Australia	ULC in U.S. dollars	NA	NA	-1.3	8.4	7.9	16.1	15.8
	ULC in nat. cur.	NA	NA	1.6	2.8	2.4	0.0	3.1
	Exchange rates	-0.2	-3.2	-2.9	5.4	5.3	16.1	12.3
Belgium	ULC in U.S. dollars	1.2	0.6	-2.5	6.9	2.5	-8.4	4.0
	ULC in nat. cur.	1.1	1.8	0.2	1.0	2.0	-3.7	-1.0
	Exchange rates	0.0	-1.2	-2.6	5.8	0.4	-4.8	5.1
Canada	ULC in U.S. dollars	2.6	4.6	-2.7	7.6	2.0	4.4	4.5
	ULC in nat. cur.	2.0	4.6	-0.3	2.7	-0.1	-5.8	0.3
	Exchange rates	0.5	0.0	-2.4	4.8	2.1	10.8	4.2
Czech Republic	ULC in U.S. dollars	NA	NA	NA	7.5	-1.8	-9.0	-0.2
	ULC in nat. cur.	NA	NA	NA	-1.8	-5.4	-8.8	-7.5
	Exchange rates	NA	NA	NA	9.4	3.8	-0.2	7.9
Denmark	ULC in U.S. dollars	2.6	4.0	-2.1	8.0	1.5	-10.0	5.1
	ULC in nat. cur.	2.6	5.5	0.5	2.1	1.1	-5.4	0.0
	Exchange rates	-0.1	-1.5	-2.6	5.8	0.4	-4.8	5.1
Finland	ULC in U.S. dollars	0.9	5.9	-7.1	2.6	5.6	-13.9	7.9
	ULC in nat. cur.	1.2	5.7	-2.2	-3.1	5.2	-9.6	2.7
	Exchange rates	-0.3	0.2	-5.1	5.8	0.4	-4.8	5.1
France	ULC in U.S. dollars	1.8	3.4	-2.9	5.9	2.1	-8.6	5.3
	ULC in nat. cur.	2.1	5.8	-0.2	0.1	1.7	-3.9	0.3
	Exchange rates	-0.3	-2.2	-2.6	5.8	0.4	-4.8	5.1
Germany	ULC in U.S. dollars	2.4	4.5	-1.4	3.5	4.2	-13.0	2.8
	ULC in nat. cur.	1.6	3.3	1.4	-2.2	3.8	-8.6	-2.2
	Exchange rates	0.8	1.1	-2.7	5.8	0.4	-4.8	5.1
Italy	ULC in U.S. dollars	2.7	5.2	-3.7	8.1	3.5	-10.8	7.7
	ULC in nat. cur.	4.4	8.8	1.9	2.1	3.1	-6.3	2.5
	Exchange rates	-1.6	-3.3	-5.4	5.8	0.4	-4.8	5.1
Japan	ULC in U.S. dollars	2.0	4.6	2.1	-5.6	9.2	-8.1	15.7
	ULC in nat. cur.	-1.1	0.7	-0.9	-4.4	-1.0	-13.9	5.1
	Exchange rates	3.2	3.8	3.0	-1.3	10.3	6.7	10.1
Korea, Republic of	ULC in U.S. dollars	1.1	4.1	-2.0	4.5	-5.0	9.6	-2.0
	ULC in nat. cur.	3.7	7.9	2.6	1.6	-0.7	-0.6	-6.1
	Exchange rates	-2.6	-3.4	-4.5	2.8	-4.3	10.3	4.4
Netherlands	ULC in U.S. dollars	1.3	1.7	-2.4	5.7	1.7	-11.4	3.1
	ULC in nat. cur.	0.5	0.8	0.3	-0.1	1.3	-6.9	-1.9
	Exchange rates	0.7	0.9	-2.7	5.8	0.4	-4.8	5.1
Norway	ULC in U.S. dollars	3.7	4.7	-0.1	8.5	2.5	2.1	9.9
	ULC in nat. cur.	4.0	6.7	3.4	2.3	1.3	-1.9	1.8
	Exchange rates	-0.3	-1.9	-3.4	6.0	1.1	4.1	7.9
Singapore	ULC in U.S. dollars	1.9	5.5	-1.0	0.8	1.5	-12.8	5.7
	ULC in nat. cur.	0.2	3.7	-1.5	-1.1	-3.0	-18.3	-2.6
	Exchange rates	1.7	1.7	0.5	2.0	4.6	6.7	8.5
Spain	ULC in U.S. dollars	2.1	3.8	-3.0	8.3	-0.1	-9.6	1.3
	ULC in nat. cur.	3.9	7.8	2.7	2.4	-0.5	-5.0	-3.6
	Exchange rates	-1.8	-3.7	-5.5	5.8	0.4	-4.8	5.1
Sweden	ULC in U.S. dollars	-0.2	3.5	-6.3	2.1	2.0	-12.4	10.5
	ULC in nat. cur.	1.1	6.6	-2.1	-2.3	1.0	-17.5	-0.5
	Exchange rates	-1.3	-2.9	-4.3	4.5	1.0	6.2	11.1
Taiwan	ULC in U.S. dollars	1.2	8.3	-1.3	-4.5	-1.3	-5.0	9.2
	ULC in nat. cur.	0.5	5.5	0.2	-3.8	-4.0	-9.4	1.8
	Exchange rates	0.6	2.7	-1.5	-0.7	2.8	4.8	7.2
United Kingdom	ULC in U.S. dollars	1.8	4.4	-0.4	4.6	-4.3	-0.7	1.4
	ULC in nat. cur.	2.7	6.1	1.3	0.6	1.1	0.7	-2.3
	Exchange rates	-0.9	-1.6	-1.6	4.1	-5.4	-1.3	3.8

NOTE: Exchange rates are value of foreign currency relative to the U.S. dollar.

German data for years before 1991 pertain to the former West Germany.

NA=data not available.

TECHNICAL NOTES

The comparisons in this release are based on data available to the Bureau of Labor Statistics as of September 1 from national statistical offices of the countries compared. Below is a summary of the concepts used in this release. For more information on the methodology used in this release, see the detailed technical notes at www.bls.gov/ilc/#productivity.

Labor productivity is defined as real output in national currency per hour worked. Unit labor costs are defined as the cost of labor input required to produce one unit of output, and are computed as compensation in nominal terms divided by real output.

BLS constructs the trends in this release from three basic measures: output, total labor hours, and total compensation. In general, the output measures are real value added and total labor hours refer to hours worked by all employed persons. Total compensation includes employer expenditures for direct pay, employer social insurance expenditures, and labor-related taxes and subsidies.

In general, the measures relate to total manufacturing as defined by the International Standard Industrial Classification (ISIC). Data for the United States and Canada are in accordance with the North American Industry Classification System (NAICS), except for compensation data for the United States before 1987. For most countries, the measures are prepared according to the United Nations System of National Accounts 1993 (SNA 93) for the most recent years. For earlier years, data were compiled according to other systems of national accounts.

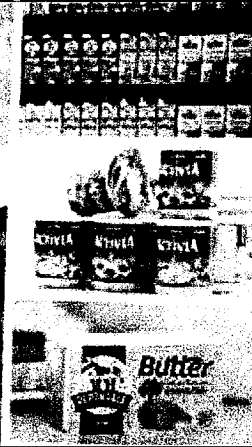
The U.S. manufacturing output series used in this release differs from the manufacturing output series that BLS publishes as part of its major sector productivity and costs measures for the United States.¹ The International Labor Comparisons program uses a value added output concept, while the major sector series is on a sectoral output basis, which is gross output less intra-sector sales and transfers. Even though BLS has determined that sectoral output is the correct concept for U.S. measures of productivity, there are other considerations that make value added the better concept for international comparisons of labor productivity, such as differences among countries in the extent of vertical integration of industries and the availability of value added data.

The BLS measures are limited to trend comparisons. BLS does not prepare level comparisons of manufacturing productivity because of data limitations and technical problems in comparing the levels of manufacturing output among countries.

For more information on the methodology used in this release, see the detailed technical notes at www.bls.gov/ilc/#productivity.

¹ For more information about sectoral output, see www.bls.gov/lpc/.

BACKING AUSSIE FOOD



HELPING
AUSTRALIA GROW

That's why we are sourcing Aussie products
from local suppliers and growers.

Contents

Australian Country Choice Group

Bannister Downs

Bega Cheese

Berry Sweet

breadsolutions

Chapel Hill

Devondale-Murray Goulburn

Farm Foods

Grove Juice

Linley Valley Pork

Outback Spirit

Primo Smallgoods

Red Kelly

Rocky Ponds Produce

Rosabrook

Sunny Queen Farms

Tamar Valley Dairy

The Mitolo Group

Tuckers Natural

Warrnambool Cheese and Butter

Yaru Water

Coles – Backing Aussie Food

At Coles we are now buying \$4 billion more Australian food from producers than five years ago thanks to a fundamental change in the way we source food for our customers.

And more than 3.5 million extra customers are now visiting our supermarkets each week because they believe our food is fresher, cheaper and they welcome our Australia-first sourcing policy.

To achieve this turnaround at Coles over the past five years, we have adopted a new approach to sourcing our food by placing emphasis on delivering quality, service and value to customers while at the same time fostering growth and innovation for our producers.

Rather than the previous transactional approach where our suppliers changed from one day to the next, we have moved to partnerships and direct relationships with food producers.

As a result of these changes and our concerted effort to reduce imports, we have in fact doubled the volume of food we source directly from Australian producers compared to five years ago.


This booklet provides examples of our new relationships and how we've worked with them to generate growth through increased sales and innovation.

These stories which demonstrate our focus on quality, service, value and long-term investment include:

- Our new 10 year partnership with leading Victorian-based dairy processing co-operative, Devondale Murray Goulburn, which will deliver higher returns to dairy farmers who own the co-operative.
- Our relationship with Tamar Valley in Tasmania, which demonstrates how we've sought new suppliers to replace imported food with fresher, Australian-made food.
- Our moves with Primo in South Australia and Linley Valley Pork in Western Australia to sourcing only sow stall-free pork for our Coles Brand offer, which show how animal welfare is at the heart of what we do.
- The transition we've made with Sunny Queen in Queensland from caged eggs to cage-free eggs for Coles Brand, which highlights our ethical and responsible sourcing.
- An innovative approach to milk processing, pasteurisation and packaging by Western Australia family business Bannister Downs, which is a true example of value-adding in the dairy industry.
- A new sourcing arrangement with NSW business Yaru Water, which results in the sale of Australia's first premium Indigenous bottled water.
- Consistent growth for family business Rocky Ponds in northern Queensland, which has invested in a \$2 million new produce packing shed on the back of a direct relationship with Coles.

I encourage you to read these stories, which illustrate the promising future for food production in Australia.

Thank you.



Ian McLeod
Managing Director



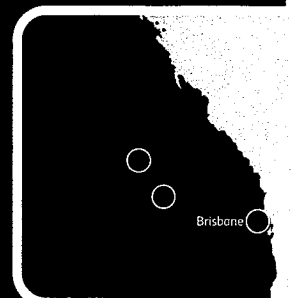
- 90% of Coles Brand food and drink products are Australian made
- 100% of Coles fresh meat is Australian
- More than 96% of our fresh fruit and vegetables are Australian grown



HELPING
AUSTRALIA **GROW**

That's why we are sourcing Aussie products
from local suppliers and growers.

Coles beef to meet an ever changing market



Snapshot

Business

Australian Country Choice Group

Location

Owens and manages 26 cattle properties across Queensland at locations such as Babbiloorra in the Carnarvon Ranges and runs two feedlots at Roma and the Brisbane Valley

Owner

The Lee family

Produce

Fresh and value-added beef products under the Coles Finest, Coles Butcher, Coles Grill, Coles Made Easy, Drovers Pride and Aussie Bites brands

Size

680,000ha of owned, leased and managed land

Processing the numbers

265,000

Cattle processed annually at Cannon Hill facility

110 million

Kilograms of ACC processed products sold through Coles stores in 2012

1000

People employed across the group

100%

Proportion of HGP-free beef produced by ACC for Coles

Australian Country Choice Group, Queensland

"With more than 70 per cent of Australia's beef being produced for export, it remains vital for Coles to have a dedicated and sustainable supply chain to ensure a continuous supply of beef products attuned to the needs of their customers. It is the long-term commitment and support of Coles that has encouraged the Lee family to dedicate and grow this beef supply chain."

David Foote, Chief Executive Officer

With control right along the supply chain — from the paddock to the retail shelves — Australian Country Choice (ACC) is Coles' largest fresh beef supplier.

And with one of the world's most significant vertically-integrated supply chains, the Queensland-based company continues to deliver 100 per cent Australian beef with no hormones.

ACC Chief Executive Officer David Foote says Coles' move to HGP-free beef in 2011 was a game changer for his company and in fact the whole of the Australian beef industry.

"While there is absolutely no question about the safety to consumers of eating beef from cattle treated with hormones, there is clear consumer sentiment toward products with fewer additives, which come from sustainable production systems and have identifiable origins," says David.

A company so vast it incorporates 20 properties, two feedlots and a central processing, boning, packaging and distribution facility in the Brisbane suburb of Cannon Hill, ACC has been in business since 1958.

HELPING AUSTRALIA GROW

That's why 100% of the fresh meat sold at Coles is Australian grown.



Coles Managing Director Ian McLeod and ACC's Trevor Lee.

Founded by H.J. Lee & Sons, ACC was an early pioneer to develop a commercial beef feedlot in the 1970s and, in 1974, began supplying Coles with grain-fed cattle. Today, with fourth generation family members active in the business, ACC is Coles' principal beef supplier, delivering over 100 million kilograms of beef products for Coles.

"With more than 70 per cent of Australia's beef being produced for export, it remains vital for Coles to have a dedicated and sustainable supply chain to ensure a continuous supply of beef products attuned to the needs of their customers."

It is the long-term commitment and support of Coles, that has encouraged the Lee family to dedicate and expand this supply chain, making ACC one of the world's only beef suppliers that manages not only the cattle breeding, feeding, processing and value-adding but also the packing for retail.

And the company remains proudly family owned.

"No matter what type of beef customer survey is undertaken, consumer sentiment has remained strongly in favour of beef products that are Australian grown, have reduced additives with eating quality attributes that consistently provide tenderness, juiciness, flavour, texture and value for money," says David.

Having the supply chain and quality systems in place to deliver these attributes as the new standard platform for Coles, ACC has been working in close partnership with Coles to develop a wide range of new and exciting products for seasonal ranges.

These value-added meat products focus on providing Coles customers with a wide range of choices in flavours and cooking styles, and offer greater convenience to suit today's time-poor but quality-conscious consumer. Over the past 18 months, 30 new products have been launched across the meat category.

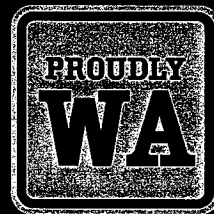
q&a

with David Foote

Q: Does Coles' commitment also help ACC continue to be at the forefront of new products?

A: The Coles product development team works directly with ACC to develop and bring new products to market. Over the past 18 months, 30 new products have been launched across the meat category. These value-added meat products focus on providing Coles customers with a wide range of choices in flavours and cooking styles, and offer greater convenience to suit today's time-poor but quality-conscious consumer.

Coles helps family dairy grow its brand



Snapshot

Business

Bannister Downs

Location

Northcliffe, Western Australia

Owner

Sue and Mathew Daubney

Produce

Fresh full-cream and lite milk, cream, flavoured milk and dessert cream

Size

1,214 hectares

Pouring over the numbers

1924

The year the Daubney family arrived in the Northcliffe region and began farming

900

The number of cows milked twice daily by Bannister Downs

6,000,000

The litres of milk produced by Bannister Downs each year

75

The number of people employed by Bannister Downs

53

The number of hectares the original farm occupied in 1924 – it has since grown to 1,214 hectares

Bannister Downs, Northcliffe, Western Australia

"Getting people to try the milk is the biggest challenge and having it in Coles was a big help in growing the brand."

Sue Daubney, Bannister Downs Dairy manager

Cows, not people, make the best milk. It's a simple philosophy but one that has served Bannister Downs well.

A family owned and operated dairy farm since 1924, Bannister Downs supplies Coles' Western Australian stores with fresh full-cream, lite and flavoured milks and dessert cream in eye-catching Ecolean pouches.

The product stands apart for what's not in it — it's proudly GM and permeate free, with no skim milk powder added.

The Northcliffe property had always produced high quality milk, but when owners Sue and Mathew Daubney decided they would no longer submit to the whims of a volatile milk market, the Bannister Downs brand was born.

That was in 2004. Just five years later, Bannister Downs began hand-delivering supplies to a select few Coles stores in the south-west corner of the state. It was to be a short-lived arrangement.

"We didn't do any marketing within the first four or five years of the brand; our customers knew us and valued the fact we were real people, not some large corporation, and knowledge of the product spread by word of mouth," says Sue.

"We did a lot of in-store sampling to grow the brand in the beginning and we were given the support to do this. Getting people to try the milk is the biggest challenge and having it in Coles was a big help in growing the brand."

In just three years, Coles has become Bannister Downs' biggest customer, buying around 15 per cent of the company's milk and cream every week.

HELPING AUSTRALIA GROW

That's why all of our fresh milk is 100% Australian milk.

Bannister Downs Northcliffe, Western Australia



"People tell us they have swapped to shopping at Coles so they can buy our milk," says Sue.

But despite their rapid ascent to 'household name' status, Mathew and Sue remain committed to the product that got them there.

They continue to graze their 900 Holstein, Friesian, Ayrshire and Jersey cows on rolling paddocks lined with Jarrah and Karri trees, just as Mathew's grandparents did.

The herd is milked twice daily and the milk piped less than 10 metres to a closed-circuit processing system — one of the few like it in the country — where it undergoes homogenisation to evenly distribute the cream and pasteurisation as required by Australian Health Regulations.

Batch processing — where the milk comes from a single origin — is what gives Bannister Downs milk its creaminess and depth of flavour.

Pasteurisation at a lower temperature (65 degrees instead of 72) takes longer, but preserves some temperature-sensitive proteins and bolsters the product's health credentials.

The milk is then poured and sealed into 1 litre and 600ml Ecolean pouches on an Ecolean system, which requires no caps or labels and uses flat, sterile packaging, which minimises the risk of contamination.

"Our milk comes from our cows in the morning and is on the trucks to Perth by the afternoon," says Sue.

An on-farm management plan that prioritises animal welfare also helps to create a premium product.

"We make decisions in the best interests of the herd and of the milk.

We feed only hay, not silage, as it can taint the milk and we select not only for production, but also for constitution. A cow has to be able to graze and to walk," says Mathew.

Bannister Downs may have grown to cover 1,214 hectares and employ 75 people, but it remains very much a family business.

"My grandparents started with 130 acres that they purchased and came out from England to make a living on. They expected to see a farm and instead they found forest.

You have to admire their tenacity," says Mathew.

Mathew's parents, Robert and Alison, also live and work at Bannister Downs, as do Uncle Les Daubney and Aunt Valerie.

"I am proud to say we are a successful family business because we work well together. We are adding value to the effort of the generations before us and their 90 years of experience and history," says Mathew.

"We are not of the belief that we need to keep producing something new to stay ahead. We believe in producing milk that we would give to our family, milk that is the very best we can achieve," says Sue.

q&a

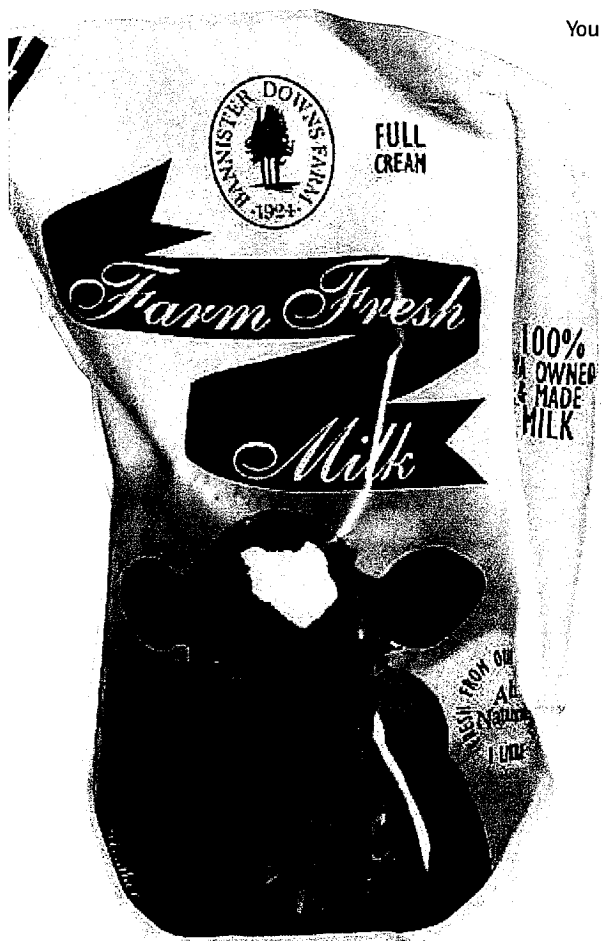
with Sue Daubney

Q: What advantages are there in selling your milk through Coles supermarkets?

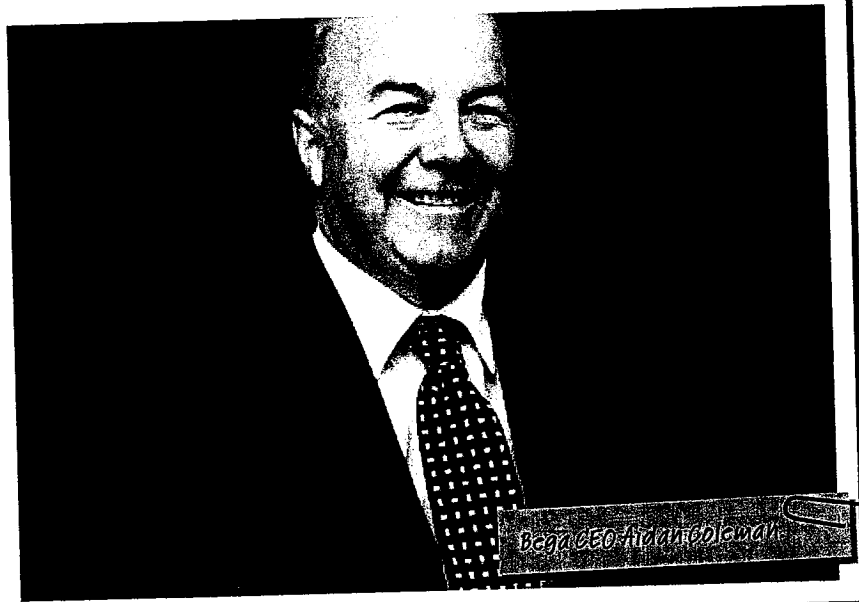
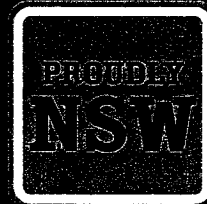
A: In the beginning, we were a small family business with a product no one had ever heard of, in packaging no one had ever seen.

Yet the support we have received from our customers and from Coles has been unreal.

It has allowed us to grow our brand to the point where we are supplying every Coles store in Western Australia.



Aussie cheese deal boosts demand



Snapshot

Business

Bega Cheese

Location

Bega, New South Wales

Owners

Listed on the ASX (BGA)

Product

Dairy

Milking the numbers

54 million

Extra litres of milk that have been required to meet the Coles Brand cheese contract

450

Number of dairy farming families across New South Wales and Victoria who are supplying the bulk of this milk

28

Number of new dairy farmers who have become part of the high quality milk network

30

Number of roles created in Bega's cut and wrap operations due to the increased volume required for Coles

Bega Cheese, Bega, New South Wales

"This agreement with Coles encompasses an extra 54 million litres of milk – every drop sourced from Australian farmers."

Aidan Coleman, Chief Executive Officer

A landmark deal to replace imported product with Australian-made cheese from iconic Australian dairy processor Bega Cheese has resulted in 30 more jobs, 28 new farmers and an extra 54 million litres of milk being sourced.

The increases come nearly two years after Coles struck a partnership with Bega Cheese to produce all the home brand cheese to supply its supermarkets across Australia.

As a result of the long-term agreement with Coles, Bega is now producing 19,000 tonnes of great quality Australian cheese each year.

Bega Cheese CEO Aidan Coleman says the five-year contract was a significant growth opportunity for the company.

"This contract has seen Bega Cheese source an extra 54 million litres of Australian milk," says Aidan.

"We have also taken on another 28 farmers to become part of our high quality milk network."

Dairy jobs boost

The contract between Coles and Bega Cheese has generated investment and jobs in the dairy industry, as well as driven innovation.

"The upgrade of our Coburg plant in Melbourne is commissioned for July and on top of that we have already created 30 roles in our cut and wrap operations to meet the contract requirements," says Aidan.

Coles Merchandise Director John Durkan said as part of its "Australian First" sourcing initiative, Coles wanted to enter a partnership that saw all its Coles brand cheese made in Australia.

HELPING AUSTRALIA GROW

That's why 100% of our Coles Brand cheese is sourced from Australia.



"Coles was very keen to partner with an Australian dairy industry processor who could produce all of our cheese locally and not rely on imported product," says John.

For Coles, the contract further underlines its commitment to developing long-term, mutually beneficial partnerships with Australian rural producers.

More than 100 years of quality

Bega Cheese is one of Australia's rural success stories, with a brand that is widely recognised and respected in Australia.

More than 60 million Bega branded products are sold throughout Australia each year.

With a history dating back to 1899 as a co-operative in the southern New South Wales town of the name it has adopted, Bega now operates five facilities across New South Wales and Victoria.

The company manufactures nearly 200,000 tonnes of dairy product each year and has

made a number of acquisitions that will see this volume increase even further.

A sustainable business

While celebrating this new contract, Bega also continues to recognise the importance of sustainable business growth.

The extra input provided by the Coles contract allows Bega to continuously improve the efficiency of its manufacturing operations.

The company places a particular focus on the efficient use of resources such as water, energy and packaging.

Bega Cheese also integrates environmental considerations as a core element of operational business activities and in any business decisions that are made.

Importantly, given the 450 dairy farmers they support, including the additional 28 they have taken on as a result of the Coles contract, Bega Cheese also strives to encourage ecologically sustainable practices from their milk suppliers.

q&a

with Michael Hampson
Bega General Manager Commercial

Q: How important is Coles' long-term commitment in helping Bega strengthen its relationship with its dairy farmer suppliers?

A: The long-term nature of the arrangements between our organisations gives considerable stability to our dairy farmer suppliers.

Repatriating the supply of cheese from New Zealand increases demand, enabling those farmers wishing to grow their business the opportunity to expand and build their farm businesses further.

Coles helps strawberry grower extend supply



Snapshot

Business

Berry Sweet

Location

Bullsbrook and Pemberton,
Western Australia

Owner

Anthony and Lee-Anne Yewers

Produce

Strawberries

Size

250,000 trays of strawberries are
produced each year

By the punnet

20

The number of hectares Berry Sweet has
under crop currently although this will
expand following the purchase of a new
property at Pemberton

12

The number of months every year
in which Berry Sweet can produce
strawberries for Coles

70%

The amount by which Berry Sweet has
been able to reduce its chemical spraying

0

The amount of pesticide and fungicide
spraying that Berry Sweet hopes to do
by 2015

Berry Sweet, Bullsbrook and Pemberton, Western Australia

"It's not us against Coles, it's all in together. We've both got to offer value to the customer because they're the ones who are going to buy my strawberries."

Anthony Yewers, Owner

By buying a new farm south of Perth, long-standing strawberry grower Berry Sweet will now be able to supply Coles 12 months of the year.

Anthony Yewers, owner of Berry Sweet, says his long-standing relationship with Coles and a commitment for the future gave him the confidence to buy another farm and extend their growing season.

"Until now I have only been able to supply the market for eight to nine months a year but Coles has been really keen for me to supply the whole 12 months.

"So with a commitment from Coles, my wife Lee-Anne and I have bought another 80 hectare farm 400 kilometres south of here at Pemberton so we can produce fruit in summer and supply Coles for 12 months of the year."

For more than two decades, Berry Sweet has been based at Bullsbrook, just under an hour north-east of Perth.

"My mum and dad were berry growers. I helped them when I was a kid, right up until I went to do an agriculture course," says Anthony.

When Anthony's mum fell ill while his dad was temporarily away working the oil fields, he took over the farm.

"I never went back to school and here we are 25 years later," Anthony says.

When Anthony took over the farm, it was probably the smallest berry grower in Western Australia.

"I think we're the biggest now," says Anthony, noting that the business produces 250,000 trays of fruit a year for Western Australia, South Australia and Victoria.

And it has been hard work.

"It's a 24-hour job. You're always thinking about it - you're always out there looking and walking the fields and looking again," he says.

HELPING AUSTRALIA GROW

That's why 100% of our fresh strawberries are Australian Grown.

Berry Sweet Bullsbrook and Pemberton, Western Australia



Anthony says Berry Sweet's relationship with Coles has been critical to the growth of the business over the past 16 years.

"When Coles first approached us about supplying them directly, we were a bit nervous about it at the start," says Anthony.

"We'd always been dealing with agents and were told don't deal with supermarkets 'cause they'll bend you over a barrel."

"After supplying Coles directly for a while, it became clear it was the (market) agent bending us over a barrel."

Berry Sweet started supplying Coles with a few hundred boxes a few times a week and the excellent quality of fruit has ensured the business continued to grow.

"We've been really lucky over here because we've had good people that have been involved from day one – good state managers, good buyers – so I've been fortunate at that end of it," says Anthony.

Anthony believes he's replicated that fortune by providing Coles with quality fruit.

"Our state manager is keen to move even more of our product now. I'm pretty stoked about the relationship (with Coles)," says Anthony.

"It's not us against Coles, it's all in together. We've both got to offer value to the customer because they're the ones who are going to buy my strawberries."

Anthony and Lee-Anne are proud of the produce they grow and want consumers to see their brand, take their strawberries home, love them and come back week after week.

"The way I see it, we are competing with a Mars Bar," says Anthony.

"With a Mars Bar you buy it each week and it tastes the same. Fruit has to be the same — you have to have the same eating experience all the time."

Anthony adds that along with consistent quality, there are also financial aspects to the relationship that need to work.

"We've got to make money because everyone else makes it off our back — we're the bottom of the pyramid. I always figure that if you're screwing the guy at the bottom, eventually the whole thing falls down," says Anthony.

"Coles is aware of that. They've offered us help with our expansion plans and in 2011 we worked with them on a five-year plan, where in the past we've not looked that far ahead."

Innovation

Anthony has a saying that "if you're not moving forward, you're going backwards."

To this end, Berry Sweet has introduced eight hectares of big tunnel exposures to reduce rain damage and limit the need for chemical sprays.

By introducing Integrated Pest Management, whereby beneficial insects are introduced to combat pests, a decade ago and erecting the tunnel exposures, Berry Sweet has been able to reduce chemicals by 70%.

This year Anthony and Lee-Anne are planning to erect more tunnel exposures at both farms and eventually hopes to be in a position where no pesticides or insecticides are required.

They are also looking at introducing field packing the fruit outside so it's only touched once before a consumer buys it.

"We handle the berries too much in Australia. We've been to the UK a bit as we want to base our business on how the growers do it there, where it is all field packed," he says.

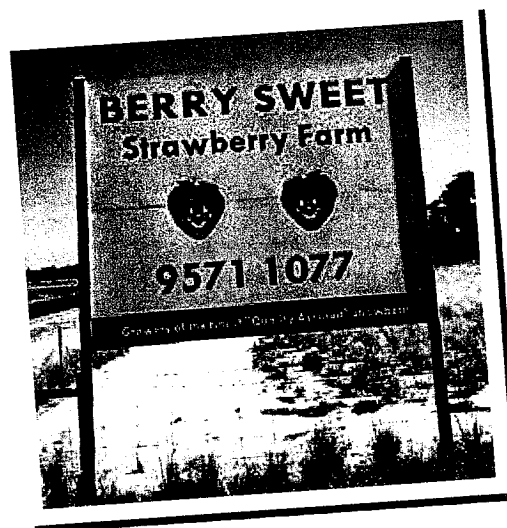
"I went to a heap of supermarkets in the UK and must've looked at thousands of punnets but I never saw one punnet of berries where you could see pressure marks."

q&a

with Anthony Yewers

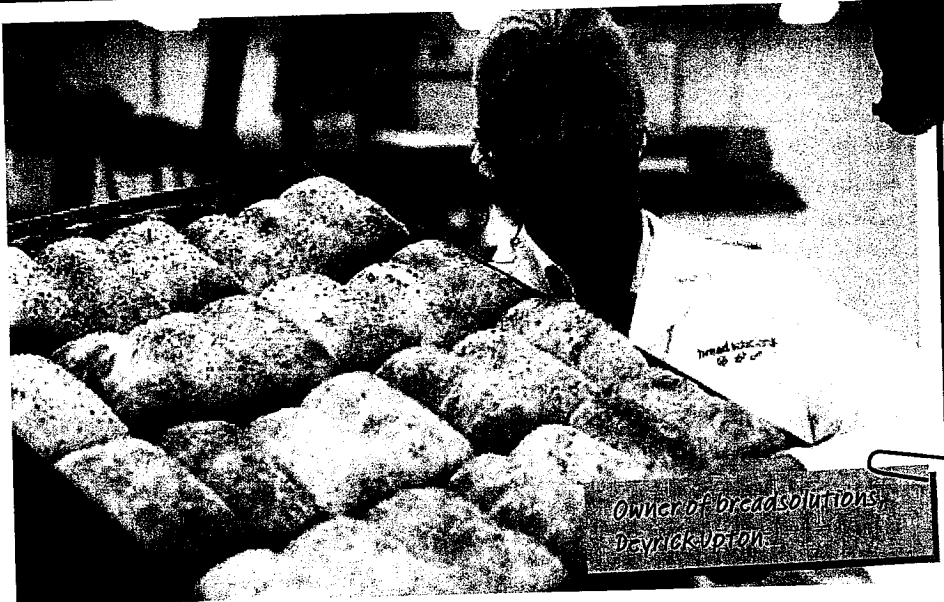
Q: How does Coles help you in terms of consumer insight?

A: We're trialling some different, larger sizes of punnets that you see in the UK so they'll help us to make sure that works with consumers. At the end of the day, we both want the same thing – to sell more strawberries.



A bread company on the rise

PROUDLY
VIC



Snapshot

Business

breadsolutions Pty Ltd

Location

Braeside, Victoria

Owner

Deyrick Upton

Product

Coles in-store bakery range

Number crush

828%

The growth of breadsolutions since working with Coles over the past 4 years

2008

The year breadsolutions opened their new factory "on the back of a handshake from Coles"

10

The number of people employed by breadsolutions when they opened their new site

200+

The number of people employed by breadsolutions today

24 hours

The number of hours breadsolutions operates every day of the year except for two

breadsolutions, Braeside, Victoria

"One of the things we love about working with Coles is that they are looking to elevate bread to another level — to give the consumer something totally different."

Deyrick Upton, Chief Executive Officer

Rising demand from Coles and state-of-the-art technology has resulted in Melbourne-based bakery, breadsolutions, effectively doubling in size every year since 2008.

Coles' relationship with breadsolutions began in 2007 and according to Deyrick Upton their new factory was "built on the back of a handshake from Coles". The factory is the company's current base in the Melbourne suburb of Braeside and opened in Easter 2008 with ten employees.

Today, breadsolutions employs 200+ people and the company has grown by more than a staggering 800% over the past four years of working with Coles.

As Deyrick says, that's the equivalent of the business doubling in size every year.

"Coles has never let us down. They backed us and have been a great partner to work with ever since," says Deyrick.

An innovative approach to a timeless craft

Bread is one of the oldest prepared foods, with evidence of its origins dating back 30,000 years.

The bread business today is one that goes a long way beyond simply mixing dough, flour and water.

Deyrick understands the need to innovate better than most. He regularly travels overseas looking at different technologies.

But Deyrick is not looking to copy existing innovations, he is looking for ways breadsolutions can lead the rest of the world.

With the company's 'minute technology', he believes they have achieved this.

'Minute technology' derives its name from the time it takes to re-bake the product — one-to-two minutes.

HELPING
AUSTRALIA GROW

That's why all our Coles Bakery breads contain 100% Aussie flour.

This is a lot shorter than any other par-bake product, and is the closest any supermarket bakery will get to producing artisan-bakery-quality bread.

To better explain this breakthrough technology, Deyrick explains there are limited options for a traditional bakery in preparing bread. That is until 'minute technology' was discovered.

In developing this approach, bread**solutions** is using a technique to allow the bread to retain its moisture — so much so that it has more moisture than if prepared from scratch. As a result the bread is every bit as fresh at the end of the day as when it comes out of the oven.

"In blind taste tests, people were unable to tell the difference between the freshly-baked morning bread, and the bread that was on the shelf at 6.30pm."

State-of-the-art-equipment is no cookie-cutter

Skilled bakers are in short supply, but with state-of-the-art technology, bread**solutions** can produce many times the output of a traditional bakery utilising the same number of skilled people.

"If you de-skill, then yes, it could be labelled a cookie-cutter approach," says Deyrick.

"However, bread**solutions** does everything a little bit different to the norm."

Deyrick says their state-of-the-art equipment challenges conventional thinking.

"There is still a strong skill approach with our equipment," says Deyrick.

"We handle our highly-fermented/hydrated doughs with the same craft as an artisan baker."

Early risers — helping Coles stay ahead

"One of the things we love about working with Coles is that they are looking to elevate bread to another level — to give the consumer something totally different.

"Our Rustic Baguette is a great example of this," says Deyrick.

"Here is a product we produced for Coles supermarkets that then went on to win Best in Show at the Sydney Show last year. This means that Coles can provide award-winning, artisan-quality products to every store, every day."

Deyrick is confident that with Coles, they couldn't find a better partner to grow the category.

"Coles really gets the concept of great bread really well," says Deyrick.

"They get the 'theatre' of the local bakery, and initiatives such as having bread out of plastic and 'naked' on the shelf I believe is playing a big part in increasing the demand for our product.

"Bread is the first thing you smell in the morning — it is at the pinnacle of fresh produce," says Deyrick.

In terms of Australia's perception and appreciation of bread, Deyrick believes we're years behind North America and Europe.

"The typical French person will visit a bakery three-to-four times a day — in Australia that's likely one visit every three-to-four days."

However, Deyrick believes Coles is making great strides in placing bread under the spotlight it deserves, citing the local Coles at Southland as a great example of how an innovative approach can boost sales.

"Bread sales at that store are up 70 per cent compared to last year."

q&a

with Deyrick Upton

*Q: How important is Coles' commitment in growing and developing the bread**solutions** business?*

A: It is crucial.

We first supplied Coles in 2007, since then our business has grown massively and over 800% in the past four years — that's in excess of 100 per cent each and every year.

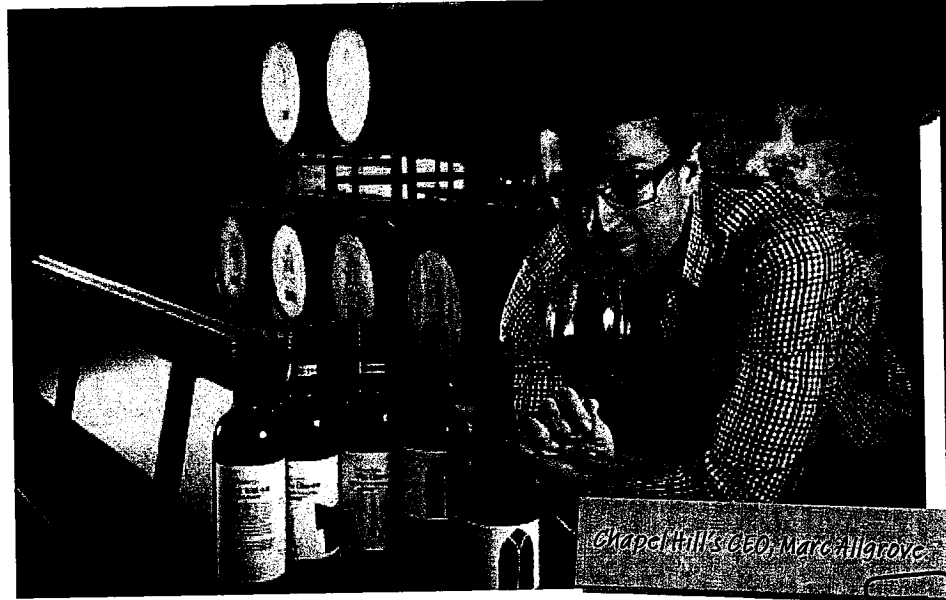
That's the extent of their importance — our business is doubling every year because of the demand Coles has created.

Our professional relationship with Coles also continues to grow. Every time I'm at the Coles offices, senior management go out of their way to come up and have a chat.



Coles helps to promote regional wines

PROUDLY
SA



Snapshot

Business

Chapel Hill

Location

McLaren Vale, South Australia

Owner

The Schmidheiny family

Product

Exclusive label wine

Size

44 hectares

Crushing the numbers

1973

The year the Chapel Hill brand was established, two years after Adelaide Professor Tom Nelson restored the chapel on the property

44

The number of hectares of vineyards owned and operated by Chapel Hill

17

The number of grower's vineyards in McLaren Vale that Chapel Hill supports

Chapel Hill, McLaren Vale, South Australia

"We have a very open, honest and frank discussion with Coles about what we bring to the table in terms of reputation and quality – and we're investing further in that to get more out of our wine." Marc Allgrove, Chief Executive Officer

Australian consumers have a growing understanding of the different wine regions yet still have a long way to go.

This is the view of Marc Allgrove, CEO of Chapel Hill at South Australia's McLaren Vale, who believes one key area of knowledge he would particularly like to see enhanced is provenance.

"I think there are many in the industry guilty of thinking there's more knowledge out there (among consumers) than there really is," he says.

Marc believes provenance has always played a role in the wine industry because the origin of the product cannot be replicated in any way.

"Wine is a part of our culture. It contributes to the landscape and to the identity of Australia, to tourism and to employment in regional Australia," he says.

"If we can get to a point where the everyday consumer values that uniqueness along with the flavour and quality it delivers, then they'll be prepared to pay a premium for that wine."

Marc says supermarkets are playing a more important role than ever in establishing the brand of regional wines.

"Traditionally, when you tried to establish a reputation for a brand of wine, you'd start in the restaurant trade, move into retail and then into national retail.

"While that may remain to an extent, the reality is you can have far more impact straight away by getting into the major retail chains.

"There was a time when a restaurant and independent retailer wouldn't touch a wine if it was available at one of the supermarket chains."

HELPING AUSTRALIA GROW

That's why we are sourcing South Australian wines from wineries such as Chapel Hill.

"The reality now though is that so many wines are in the supermarkets, should a restaurateur decide to exclude wines on that basis, they end up with an extremely eclectic wine list that is unfamiliar to their customers," says Marc.

"It doesn't give them a level of comfort to order."

Marc recalls recently visiting a restaurant in Melbourne where the sommelier boasted of offering a wine list full of obscure brands throughout the world.

"He thought it was brilliant," says Marc. "But when I asked him how it went, he just said it didn't sell."

Developing reputation and awareness

Marc believes that the contribution of restaurants in introducing wines to consumers will always be important.

"I think there will always be a role in building the credibility of a wine through restaurants," says Marc.

"But just as importantly, you develop reputation and awareness through outlets such as Vintage Cellars."

Marc believes that how you deal with the large retailers is fundamental to the success of any winery that is producing upwards of 20,000 cases of wine.

"I think the reality is they are providing a really good service to the consumer."

Everyone has a role to play

With Coles' ability to promote a brand to a broad consumer base, Marc says independents and restaurateurs should understand the important role they play and not demonise them.

"Restaurants, too, need to realise that nearly every decent wine that exists in the awareness of consumers is in one form or another in the supermarkets," says Marc.

"So put it on your shelves or on a wine list as the confidence provided by awareness to everyday consumers will help the wine to sell. Consumers understand that the service and experience provided by restaurants has a value and are willing to pay for it, otherwise they would not be in the venue."

"If you pay \$40 at a restaurant, you'll buy it for \$25 at a supermarket," says Marc. "You don't need to see it at \$15."

The case for premium regional wine

While acknowledging the promotion of alcohol is not without its challenges from a social viewpoint, Marc believes you can mount a genuine case around premium regional wine.

"Its contribution to our culture and everything that comes with it from a food perspective provides it with a real point of differentiation," says Marc.

q&a

with Marc Allgrove

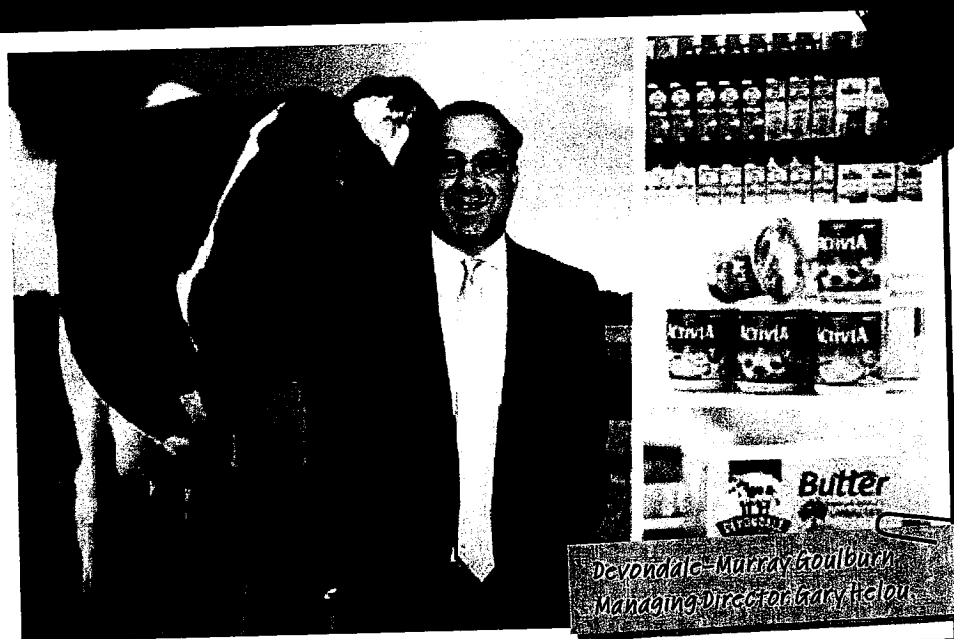
Q: Do you see a role for Coles in educating consumers about the McLaren Vale region?

A: I think Coles has set a great example with the Vintage Cellars model and that First Choice Liquor is a brand with a lot of latent potential. That's a gut feel, but if they use this potential to increase awareness around the uniqueness of wines from various regions, especially McLaren Vale, that would be fantastic.



Milk partnership provides long term security

PROUDLY
VIC



Snapshot

Business

Devondale-Murray Goulburn
(Devondale-MG)

Location

Melbourne and Sydney

Owner

Devondale-MG

Produce

Coles Brand daily pasteurised milk and Devondale cheese, UHT milk, butter and spreads

Size

2460 dairy farmer suppliers

Number crunch

\$120 million

Investment in processing facilities in Melbourne and Sydney to meet demand for Coles Brand daily pasteurised milk

Approximately 50

New jobs created following the Devondale-MG partnership

20%

Proportion of Australia's daily milk production that goes into fresh milk products

Devondale-Murray Goulburn, Melbourne and Sydney

"A key part of our future success is working with the major retailers — not working against them. They play a huge role in the Australian market and, by partnering with them, we can take Devondale-MG to the next level." Gary Helou, Managing Director

A ten-year partnership to supply Coles direct will result in a better deal for thousands of Devondale Murray Goulburn dairy farmers, including higher farm gate prices.

The producer-owned co-operative will supply all Coles Brand daily pasteurised milk in Victoria and NSW, effectively cutting out the middle man and ensuring dairy farmer members get a share of the profit, Devondale-MG Managing Director Gary Helou said.

"A key part of our future success is working with the major retailers — not working against them. They play a huge role in the Australian market and, by partnering with them, we can take Devondale-MG to the next level," Mr Helou said.

The partnership has given Devondale-MG the confidence to invest \$120 million in

state-of-the-art facilities in Melbourne and Sydney — the most significant investment in dairy industry processing since its deregulation in 2000 — to increase production efficiencies and reduce costs.

"Without the 10-year commitment we would not have made this move," Mr Helou said.

The Coles partnership will lift farm gate returns through the delivery of premium pricing relative to Devondale-MG current product mix and promote the co-operative's own Devondale brand.

"It also adds a domestic income stream to reduce our earnings volatility in an attractive market. In other words, its locked-in premiums contribute to reducing the volatility of MG milk prices," Mr Helou said.

**HELPING
AUSTRALIA GROW**

That's why 100% of our Coles brand fresh milk is Australian milk.

"Having this arrangement also elevates our existing relationship with Coles to create further opportunities for Devondale-MG. We have seen this already with the renewed support from Coles for the Devondale brand, including Devondale cheese which was absent from Coles' shelves for nine years.

"Finally, the arrangement expends the scale and reach of our co-operative. The total daily pasteurised milk market accounts for about 20 per cent of Australian milk production. It makes sense then, as Australia's largest dairy company, that we have a share of this major sector."

Devondale branded fresh milk will be relaunched in Coles next year, providing customers in the eastern states with more fresh milk choice. Coles will also stock Devondale brand cheese from June this year.

The new processing facilities will result in an estimated 50 new jobs for the co-operative.

It also means the co-operative will be on the lookout for new dairy suppliers and helping their existing supplier base of 2460 farmers expand their operations to meet demand.

Like Coles' other fresh milk contracts, the new agreements will include rise and fall clauses to ensure the price paid reflects any changes to the farm-gate price.

In announcing the partnership, Coles Merchandise Director John Durkan said that by dealing directly with the farmer co-operative, the contract offered greater transparency in pricing, more long term security and better returns for farmers.

"Our customers want fresh Australian milk for their families and they want to know that the price will remain affordable in the future. Our job is to provide a quality product at a competitive price and at the same time ensure that the dairy industry supplying Coles is strong, innovative and customer focused. These new contracts with Australian farmer-owned businesses deliver on all these fronts."

q&a
with Gary Helou

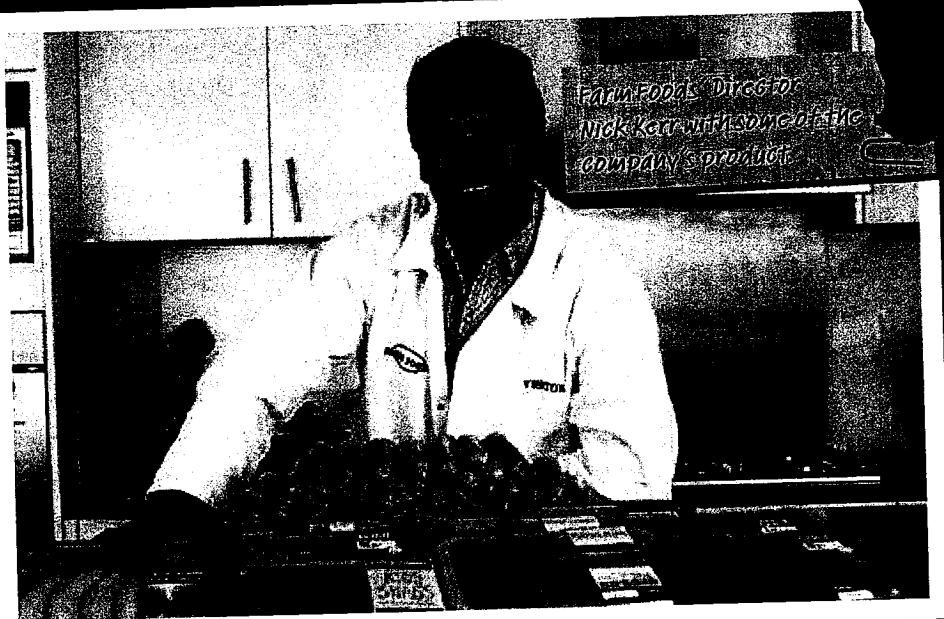
Q: What advantages are there in dealing direct with Coles?

A: This unique long term agreement with Coles gives us the confidence to invest in new state-of-the-art facilities that will enable us to drive down our production costs and be more efficient.



Red meat with innovation and attitude

PROUDLY
VIC



Snapshot

Business

Farm Foods

Location

Birregurra, Victoria

Owners

Nick and Richard Kerr

Product

Hamburgers, sausages, meatloaf

Number crush

100,000

The number of meals Farm Foods now produces weekly

60

The number of employees who will be based at Farm Foods new processing facility

500%

The extra capacity provided by Farm Foods' new facility

100%

The year-on-year growth Farm Foods is experiencing, with much of this built on the 38 per cent of product that ends up on Coles' shelves

Farm Foods, Birregurra, Victoria

"Good relationships are built on trust... we have a great understanding with our buyer and the whole Coles team."

Nick Kerr, Director

Constant product innovation and a strong relationship with Coles have seen Farm Foods double its growth annually.

This growth will see the company move to a new plant with the capacity to produce five times the volume of the current premises.

It all began a decade ago with the purchase of a quaint butcher shop in the picturesque town of Birregurra, in the heart of Victoria's Western District.

Eight years later, Farm Foods is a booming meat manufacturer, about to relocate into purpose-built premises with growth doubling year on year.

Directors Nick Kerr, and his older brother Richard, are the first to admit that much of their success has sprung from a strong relationship with Coles.

"It's a relationship of mutual respect, built on quality and innovation," says Nick.

The first Coles line was a solitary line of Certified Australian Angus Beef (CAAB) sausages. Sold initially in Victoria, the line was taken up nationwide.

"With a very small amount of waste product, Coles was happy to keep talking to us," says Nick.

"The business grew from there, and we now supply 100,000 plus meals weekly."

From good stock

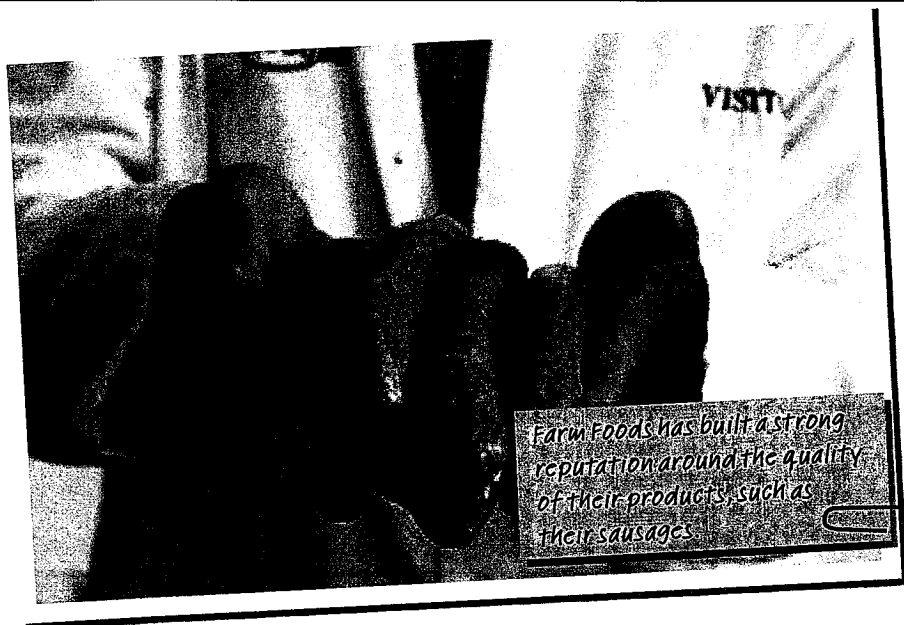
Born and bred in Victoria's Western District, it's not surprising that a love of red meat was in the brothers' DNA.

Richard initially followed his father into the livestock agency game, while Nick spent time as a boner in a meat plant so armed with this sound understanding of the livestock industry, the initial butcher shop had flourished.

Within a couple of years it had grown to a series of liquor/butcher/delis across Victoria's south-west in Birregurra, Hamilton, Queenscliff and Torquay.

HELPING AUSTRALIA GROW

That's why we are sourcing Aussie products from local companies like Farm Foods.



At the time, Farm Foods was also supplying a range of independent supermarkets with gourmet sausages in a natural casing.

"We were always looking for opportunity, and we were the first to do the natural casing. We were always thinking: where can we go from here?"

Around the same time as the first Coles order, the shops were sold, and the business consolidated at a rented processing plant in Geelong, and as time would tell, Farm Foods could go a fair way.

These days, the business supplies multiple lines into Coles under the Farm Foods, Outback Spirit and Coles branded labels. Hamburgers, sausages, meat loaf, and chevaps (a skinless sausage wrapped in a spicy crumb), distributed nationwide, are all manufactured at Farm Food's Geelong processing plant.

"Basically we're in the business of adding convenience and value to ground beef," says Nick.

"Early on we used to slaughter, but five years ago we stopped boning our own, realising it was more efficient to procure the raw product."

Meeting consumer expectations

Richard says Coles understand — and encourage — the Farm Foods' attitude of keeping a step ahead of consumer expectations.

"The Coles commitment to Farm Foods has allowed us to flex in order to meet those changing consumer expectations," says Richard.

"Coles are looking for quality product, good management, regular and sure supply.

"But they want partnerships with companies that are focused on delivering choice for the consumer," says Richard.

The brothers don't dispute that meat processing is a low margin business, but remain adamant that it's up to the supplier to make their business profitable.

"It's up to us to make sure we're as efficient as possible, and we're producing something that people want to buy."

"We love what we do. We love producing interesting, fun, healthy food.

"And the opportunities are endless — there is no such thing as the finish line."

q&a

with Nick Kerr

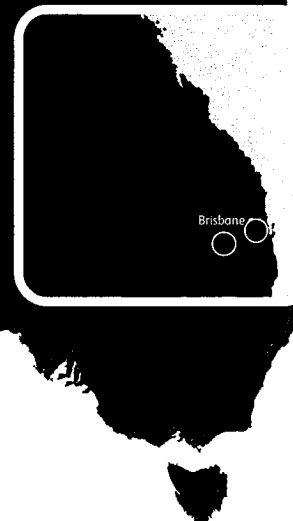
Q: How important is Coles' commitment to the development of your business?

A: Coles is an essential part of our business — we talk with them at least three times a week.

They're a fantastic retailer. The Coles quality assurance system is unrivalled and we're fortunate to work alongside them.

They're open to new ideas and initiatives that reflect the changing market — and that allows our business to grow and differentiate itself from competitors.

Family business grows with a new focus on citrus



Snapshot

Business

Grove Juice

Location

Mansfield and Warrick, Queensland and the Riverina, New South Wales

Owners

The Willis and Estens families

Product

Fresh juice

Crushing the numbers

300,000

Number of fresh oranges Grove Juice is squeezing every day

250,000+

Number of extra orange trees Dick Estens is planting to ensure consistency of supply

180,000

Number of fresh apples Grove Juice is squeezing every day

100%

The percentage of fruit that is grown by passionate Australian farmers

Grove Juice, Mansfield and Warrick, Queensland

"Our investment in our industry and desire to push regional development and vertical integration comes from being able to hang your hat on some critical mass. Coles has given us that opportunity."

Greg Willis, Managing Director

Since starting as a small home-delivery fresh juice business in 1969, Grove Juice is now squeezing 300,000 fresh oranges and pressing 180,000 fresh apples every day.

And they are proud to say every single one of those 480,000 fruit is Australian, all grown by passionate, Australian farmers.

"We grew from a small family business to a large business owned by two families," says Grove Juice's Managing Director Greg Willis.

"Having Dick Estens and his family as part of the business has provided a new dimension in establishing a vertically integrated group that understands the need for regional development and long-term sustainability," adds Greg.

"We feel our families' commitment and focus provides the confidence to invest in the future as well as highlighting the need to develop long-term partnerships."

Greg says the Australian juice industry is unique given the size of the country, population and logistical costs.

"To be competitive we must have the critical mass to drive investment and low cost production," says Greg. "This can only come from strong retail relationships. Coles has been a major catalyst in helping us develop long-term strategies for our company and the industry as a whole.

"At the end of the day, Coles has put their hand up and said we want to partner with you in that," says Greg. "And that's pretty exciting for us."

"Coles understand the need for long-term commitment in Australian agribusiness and the huge investment needed to provide year round quality products. Grove's vertical integration and family commitment fits well with their needs and Grove's capacity to deliver, given the inconsistency of year to year crop volumes."

HELPING AUSTRALIA GROW

That's why we are sourcing Coles Brand products from Aussie companies like Grove Juice.

Competing with the large multi-nationals

Grove Juice started supplying fresh juice to Coles' competitors with a very short shelf-life in the late 1980s, but found they couldn't compete with the big companies.

Greg says one of the biggest, overlooked issues in the Australian food chain is the tyranny of distance.

"We have fewer than 25 million people living on an island bigger than the United States of America.

"The logistical cost of moving raw materials and finished goods around this country is massive — it's not a UK, it's not a Europe," says Greg. "Without critical volumes our offerings become unaffordable.

"We see a trend by some to bash the big retailers — can I tell you, without the big retailers, a company like ours would not have the critical mass to distribute quality food throughout Australia. People forget about that."

After receiving the contract to provide Coles Brand fresh orange juice in 2007 Grove Juice grew, but faced a new threat to their business with the continuity of fruit supply, price and quality volatility.

"About five years ago we had spare capacity," says Greg. "But we needed to address our raw material issues before we could confidently grow the business."

"With some great support from local growers we established our own apple processing plant in Stanthorpe."

Appreciating the man on the land

"I didn't really realise until I was in a partnership with Dick, but the capital investment in either agriculture or horticulture in Australia and its risk value is outside any other parameters of any investment bank in the world," says Greg.

"I have a brand new respect for farmers in Australia after spending some time with Dick and seeing what they do and the adversity they go through, the highs and the lows.

"I've got to say it's a bit humbling."

This respect is why Greg is really passionate about working with Dick on regional development and re-engineering the citrus industry.

"Yes it is high risk, but after 30 years in a volatile industry, dominated by multinationals, it's more the sustainability than the financial rewards that keep you going," says Greg.

"We are now sustainable as a committed family entity, we are quick to react to our customers' needs and we are happy to invest with confidence.

"Coles has stood up and said 'Greg, Dick, we believe in what you're doing, how do we make this work?'"

Greg believes Grove Juice now has a great opportunity to not only grow their business, but with it the business of their citrus growers and the communities they support.

"Without the critical mass Coles can deliver we would not have that opportunity."

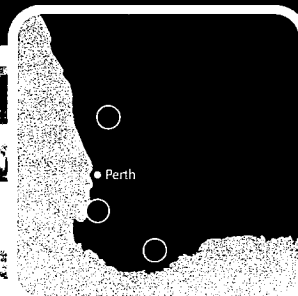
q&a
with Greg Willis

Q: What is the advantage of partnering with Coles?

A: One of the good things about working with Coles is that they're a demanding customer — and I think demanding customers make you a better supplier.



Animal welfare a focus for WA piggery



Snapshot

Business

Linley Valley Pork

Location

Albany, Gingin and Nambeelup in Western Australia

Owner

Craig Mostyn Group

Produce

Pork

Size

8500 pigs

Farm figures

1920s

When Craig Mostyn Group first began operating in Western Australia

400

The number of employees that Craig Mostyn Group employs

\$300 million

The annual sales for Craig Mostyn Group



Linley Valley Pork, Albany, Gingin and Nambeelup, Western Australia

The significant volume we now do for Coles allows us to take a longer-term view and plan for the future. It allows us to plan with our farms so they are sow stall free and maintain a high standard of welfare right across our operations.

Ron Penn, General Manager

Linley Valley Pork is sourced from a Western Australian family-owned business, which prides itself on having "Australia's most comfortable pigs", with animal welfare and health as a key focus.

Known as Craig Mostyn Group (CMG), the business has more than 8,500 sows at Gingin, Nambeelup and Albany in Western Australia and operates on three core principles: People, Welfare and the Environment.

The company's outdoor piggery at Narrikup, 30km north of Albany, is a 700 hectare site with a mix of outdoor and eco-shelters. The company also has a state-of-the-art processing works at Linley Valley, Wooroloo, where it processes the pork for Coles.

Sows all have access to wallows in summer and straw in winter to stay warm and are

protected from potential predators to avoid losses of piglets. The outdoor operation still manages to wean more than nine piglets per sow and there's no castration, teeth grinding or ear notching.

With only nine sows per paddock, each sow has its own hut from a week before farrowing. Piglets remain in the huts behind a metal fender for the first 14 days, after which time it's removed and they freely move around the paddock.

Paddocks are rotated every two years, and sown with canola or barley when paddocks are rested from pigs.

The company's close relationship with Coles began in 2008 when CMG bought the fresh pork business from George Weston Foods and almost immediately quadrupled the Linley Valley Pork sales to Coles.

HELPING AUSTRALIA GROW

That's why 100% of our fresh meat from the Meat Department is Australian Grown.

Linley Valley Pork

Gingin, Nambeelup and Albany, Western Australia



CMG Meat & Livestock General Manager Ron Penn said the relationship between CMG and Coles was based on mutual respect, communication and an ability for each party to deliver.

In January 2011, Coles, Linley Valley Pork and CM Farms (which is owned by CMG) agreed on timelines for the withdrawal of Paylean, which is a feed additive widely used in Australia to increase daily weight gains and more quickly finish pigs for market.

Acknowledging there would be a higher cost to produce Paylean-free pigs (due to the longer time to get pigs to preferred market specifications), Coles agreed to compensate CMG.

At the same time two years ago, CMG also met with Coles to discuss the controversial issue of sow stalls, agreeing to move to sow stall free.

And by October 2012 — well ahead of the industry target of 2017 — CM Farms and contract growers supplying Coles achieved Coles SSF (Sow Stall Free) accreditation.

"After all, any business relationship — whether it be Linley Valley Pork supplying Coles or our contract pig growers supplying us — is about mutual trust and satisfaction, ensuring that it's at a level that is sustainable and profitable for both parties," Mr Penn said.

q&a

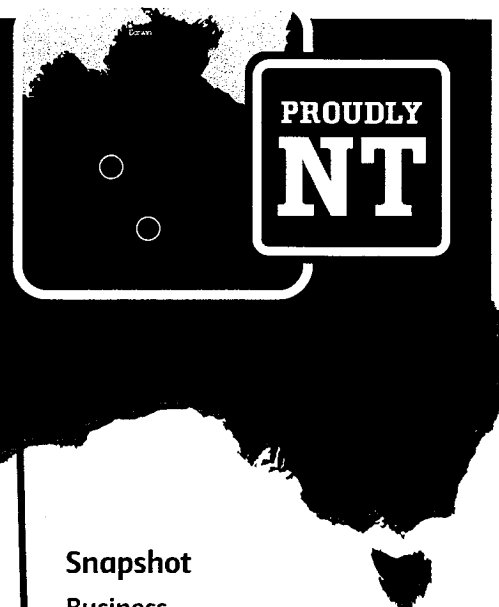
with Ron Penn

Q: How would you describe your relationship with Coles?

A: Our relationship with Coles is based on mutual respect, communication, and an ability for each party to deliver.



Native bush food boasts a local flavour



Snapshot

Business

Outback Spirit

Location

Tanami Desert and Alice Springs, Northern Territory (with Indigenous suppliers across Australia)

Owners

Ian and Juleigh Robins & Ward Mackenzie

Produce

Outback Spirit chutneys, preserves, cooking sauces, sauces, dressings and native herbs and rubs

Size

12 employees

Crunching the numbers

300

Tonnes of Outback Spirit chutney produced annually

About 300

People from Indigenous communities across Australia involved in the Outback Spirit supply chain

1986

Year Outback Spirit was formed

10

Cents donated from Robins Foods and Coles to the Coles Indigenous Food Fund for every sale of a Robins Foods product

\$100,000+

Funds raised in 2012 through the Coles Indigenous Food Fund

Outback Spirit, Tanami Desert and Alice Springs, Northern Territory

"As a company we made up our minds that our point of difference was our use of Indigenous foods. But it seemed to us morally that as white Australians with a business in native foods, we needed to at least give something back to Indigenous communities."

Juleigh Robins, Co-founder

A sense of obligation to give something back to Indigenous communities means business will never just be about profits for Juleigh and Ian Robins.

The couple began producing native bush food in 1986 and feel indebted to Indigenous culture for their success.

"As a company we made up our minds that our point of difference was our use of Indigenous foods. But it seemed to us morally that as white Australians with a business in native foods, we needed to at least give something back to Indigenous communities," says Juleigh.

Outback Spirit was born when Juleigh and Ian decided to forgo sourcing ingredients introduced to Australia for their boutique catering business and specialty food store and instead use Indigenous plants and vegetables.

"When you are standing there just stirring a pot for ages, your mind wanders and it just occurred

to me one day that everything we made came from somewhere else," says Juleigh.

After many hours spent in the library and a visit to a bush food garden belonging to a Melbourne scientist, Juleigh and Ian tasted some lilly pillies, lemon myrtle, wattle seed and bush tomatoes from the desert.

"The cooks in us got very excited. The flavours were like nothing we'd ever tasted and we just wanted more," says Juleigh.

"And we just thought 'how come nobody is using these?' Nobody knew anything about bush food. Aboriginal people had been cooking with these ingredients for centuries but no-one was using them in commercial cooking."

The Robins formed a relationship with the Laramba indigenous community and, in 1990, placed their first commercial order for bush tomatoes.

HELPING AUSTRALIA GROW

That's why we are sourcing Indigenous foods from companies such as Outback Spirit.

"We really were expecting a parcel of bush tomatoes — say about two or three kilograms — so we got the shock of a lifetime because we found the Aboriginal women had managed to gather two tonnes of bush tomatoes," says Juleigh.

By 1999, the couple decided to develop their supply chain with Indigenous representation and ensure there were benefits for Indigenous people — a move that aligned the company with Coles' vision for the Coles Indigenous Food Fund.

"Coles was sourcing our produce because it was Indigenous but like us, they decided they wanted to give something back to Indigenous communities," Juleigh says.

For every Outback Spirit product that's sold in Coles, 10 cents goes back to the Coles Indigenous Food Fund — five cents from Coles and five cents from Robins Food.

A decade since its inception, the fund is still a core part of the arrangement between Coles and Robins Foods and in 2012 it raised more than \$100,000 to support Indigenous business development through bush food purchases.

At a community level, this assistance has helped establish horticultural projects and to counter shortages in bush tomatoes resulting from drought.

For both Coles and Robins Food, however, it's not just about ensuring supply.

Just as vital is their role in promoting Australian native foods to support the fledgling industry.

"Coles understands they need to create demand for bush foods through in-store promotions. They've been incredibly brave and committed and never wavered in their support," says Juleigh.

"Coles has been the catalyst for change in bush foods. No-one was able to get traction with bush food until Coles came along."

Today, Juleigh and Ian co-own Robins Foods with fellow Australian and family-owned food manufacturer, Ward Mackenzie.

Robins Foods employs 12 people, but they work with 20 suppliers, who collectively employ up to 300 Indigenous people in across Australia to source Kakadu plums, bush tomatoes, wattle seed, Davidson plums, lemon myrtle, mountain pepper, native mint, lemon aspen, rosella and quandong.

"We have a 20-year association with these Indigenous communities and they are not

relationships maintained over the phone. We need to show genuine respect for Indigenous culture," Juleigh says.

As a way of formally acknowledging these relationships while also maintaining profits, the Robins separated their commercial operations from their philanthropy by establishing the Outback Spirit Foundation seven years ago.

Now the Outback Spirit Foundation and Coles Indigenous Food Fund are working together to establish commercial plantings of bush tomatoes in central Australia tropical native foods like Kakadu plum in the Top End and Lemon Aspen in areas such as Cape York.

As Chris Mara, chairman of the Coles Indigenous Food Fund says, "we have similar objectives. We each want to promote and sell native foods to all Australians and make Australians proud of this cultural heritage."

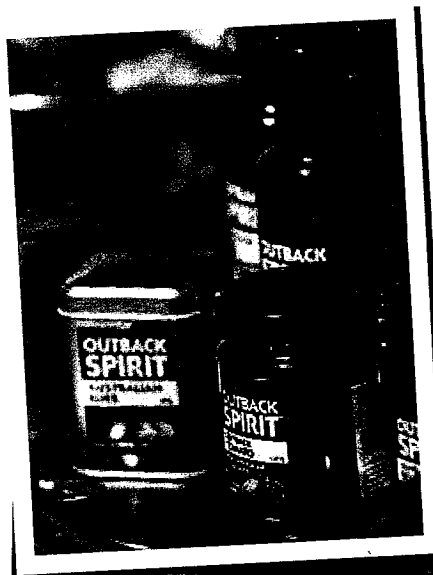
Robins Foods produces 300 tonnes of Outback Spirit product each year. Just under half is supplied to Coles, with sales growing 25 per cent last year across the entire range.

To this day, the bush tomato chutney remains Outback Spirit's most popular product.

q&a with Juleigh Robins

Q: How does your relationship with Coles help provide further insights into the needs of customers?

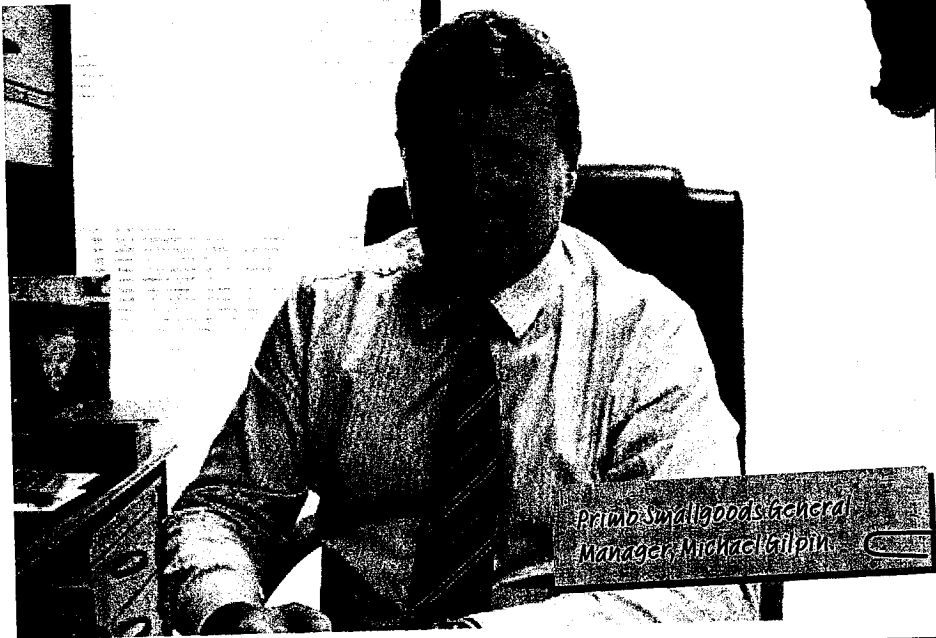
A: The Coles buyers certainly provide excellent feedback during the development and presentation of products. Often, as a more specialised or artisanal manufacturer, you can become very caught up in the merits of your own product and lose sight of the end consumer and the Coles people provide that very real perspective for us.



Indigenous Quandong fruit and some of the Outback Spirit range

Local sourcing replaces imports

PROUDLY
SA



Snapshot

Business

Primo Smallgoods

Location

Port Wakefield, South Australia

Owner

Primo Group

Product

Coles private label pork

Number chop

25 million

Kilograms of meat produced at Primo's Port Wakefield facility

680,000

Pigs processed at the Port Wakefield plant each year

280

People employed at Primo's Port Wakefield facility

45

Pig farming families that supply Primo

10

Years Primo has been supplying meat to Coles

Primo Smallgoods, Port Wakefield, South Australia

"Coles' concerted push to move away from imported meat products is a very important move for our industry. It supports us, and in turn supports the pig farming industry and Australian jobs."

Michael Gilpin, General Manager

Given half of Port Wakefield is employed by Primo Smallgoods, Primo's commitment to supplying Coles with sow stall-free pork to replace imported pork now and into the future is critical for the survival of the tiny town 100 kilometres north of Adelaide.

"Our Port Wakefield facility provides the town with a massive investment injection," says Primo's General Manager, Michael Gilpin.

"We employ 280 people in a town of a little less than 500 people. It keeps the housing and rental prices firm, it supports the petrol station and cafes... it certainly helps strengthen the local community."

Primo's community also extends to the many farmers who supply it and recently the company worked side-by-side with them and with Coles to introduce sow stall-free pork.

"We had a group of existing farms that were supplying traditionally farmed pork before Coles made the decision to go sow stall-free," says Michael.

"Coles talked with our farmers about applying a standard that was achievable."

Following this, Coles hosted nights to brief farmers on the final standards and work through the extra costs involved.

"It took some time to do but overall it was a successful conversion," says Michael.

He adds that sow stall-free pork was an area where the category needed to move.

"Animal welfare across all species is becoming more and more relevant."

**HELPING
AUSTRALIA GROW**

That's why we are sourcing Aussie products from local companies like Primo Smallgoods.

Primo Smallgoods, Port Wakefield, South Australia

PROUDLY
SA

Michael says Primo is glad to be working alongside Coles on sow stall-free pork following the supermarket's proactive record on HGP-free beef and removing all caged eggs from the Coles brand.

"Animal welfare is certainly part of Coles vision, which I think long-term will certainly have some benefits," says Michael.

"By working with a major retailer such as Coles, the transition to sow-stall free has been a lot easier than if individual farmers had been required to make the move on their own."

"By having a relationship with us and Coles, our farmers know that there will be long-term benefits and that Coles will continue to support them. As a result they can invest the capital they need to in order to change the way their production facilities are run."

Michael says that arguments about sow stall-free pork placing pressure on local producers competing against foreign imports are misconstrued.

"It couldn't be further from the truth," says Michael.

The standard that Coles operates in Australia is very similar to the British standard, and while lesser European standards apply to imported pork, none of that product gets even close to a Coles store, he says.

"Aside from this, Coles is looking to continually increase their supply from Australia — as quickly as we can lift our supply they'll replace anything that's imported with our product."

Michael says this initiative has largely gone unnoticed outside of the industry.

"Coles' concerted push to move away from imported meat products is a very important move for our industry. It supports us and in turn supports the pig farming industry and Australian jobs."

Over the next few years Michael expects the stronger emphasis on Australian product to continue.

"That's the very clear message we've got from Coles," says Michael.

"Coles long-term commitment enables us to forecast up to three years in advance and provides us with the certainty to invest back into the business — we're just about to invest a significant amount into a new boning room at Port Wakefield."

The long-term forecasts are also critical in terms of operating the business.

"If you said to us we want 1,000 more pigs, if we were to start now, by the time you breed and select them it'd take at least 12 months."

The reality makes it near impossible for a business to survive on short, one-year contracts.

"Our long-term contract with Coles is the only way to work. Otherwise no one would invest in growing their business," he says.

Such a relationship also brings tangible benefits to the farmer.

"Coles buys everything from our farmers every week — never half their pigs — so the farmer knows he's got a good base to work with," says Michael.

"If Coles wants more, we sit down with the farmer to see how we can help them grow their business and become bigger — another example of working side-by-side with them, which benefits everyone involved."

q&a

with Michael Gilpin

Q: What are the advantages of supplying Coles directly?

A: The certainty we receive by being guaranteed volumes each week allows us to improve our efficiencies and reduce our overhead costs.



coles

Premium product a perfect fit for Coles



Snapshot

Business

Red Kellys Tasmania

Location

Hobart, Tasmania

Owner

David Hales

Product

Red Kellys Tasmania branded salad dressings

Pouring over the numbers

1,000,000

Number of bottles of salad dressing Red Kellys Tasmania hopes to produce in 2013

750+

Number of Coles stores Red Kellys Tasmania supply

60

Percentage of Red Kellys product sold through Coles

Red Kellys, Hobart, Tasmania

"You need to do the volumes and have a branded product that is recognised – that is where the bulk of the value in the business comes from – and it became obvious that to achieve this, we needed to get our product where the bulk of population was shopping."

Leo Miller, Red Kellys General Manager

Red Kellys dressings have been a Tasmanian fridge staple for the past 20 years, but it wasn't until friends Leo Miller and David Hales took the label to Coles' stores nationally in 2011 that it found favour with Australian shoppers.

David bought Red Kellys Tasmania from the Kelly family in 2005 and promptly handed the running of the label over to his mate and long-time business associate, Leo.

An entrepreneur at 19, David has since gone on to own seven businesses including Red Kellys and employs more than 150 staff.

The pair had worked together, first on Hobart's docks selling fresh fish and then in David's own independent supermarket.

"That was before the global financial crisis, when people would happily spend \$7 or \$9 on a gourmet condiment," Leo said.

"We sold a lot of gourmet produce through that store and David identified the potential of the Red Kellys Tasmania brand off the back of its Tassie heritage and quality. It was often in and out of stock, but people loved it when they could get it."

The game plan was simple: ensure supply, redesign the packaging, iron out distribution and then look at expansion.

"It was a learning curve and it was steeper and longer than we anticipated. But, in conjunction with that, there was a slide in the gourmet market post-GFC and we saw an opportunity in what we call everyday gourmet — a unique

HELPING AUSTRALIA GROW

That's why we are sourcing Australian products from local suppliers like Red Kellys.

and quality product at a realistic price point that competes with generic products."

That was in 2008 and it quickly became apparent to the duo that they needed to go national if the brand was to flourish.

"You need to do the volumes and have a branded product that is recognised — that is where the bulk of the value in the business comes from — and it became obvious that to achieve this, we needed to get our product where the bulk of the population was shopping," Leo said.

"Coles met with us and we discussed products, price points and structure and came up with something that worked for everyone."

"We had the dressings certified gluten free, Halal, Kosher (lemon myrtle and traditional) and the Heart Foundation tick — everything we could to give the consumer confidence in a brand they had probably never heard of."

The product was already in Coles' stores in Tasmania when David and Leo took it on, but since arriving in Coles stores nationally, the label has grown in every way conceivable.

"In our first year in Coles nationally, our sales grew from about 300,000 to 500–600,000 units. This year we are on track to do 800,000, possibly one million, including some sauces and spices."

"We put in place a contract packer capable of doing 20,000–30,000 bottles a day and added new products and lines which worked really well — having more lines on the shelf improves the overall image of the brand and gives people more trust in the brand."

The Red Kellys Tasmania range has grown from five to nine dressings with varieties including lemon and oregano, basil and garlic, pepperberry (a Tasmanian native) and the overnight sensation, sweet chilli and lime. There are also four sauces, eight spices, five jams and a quince paste.

The products come in a distinct square glass bottle and contain no emulsifiers, fillers, thickeners or artificial colours or flavours and yet retail for less than \$4.

All of the ingredients and packaging are sourced from Tasmanian, or Australian, growers and suppliers wherever possible and the company remains proudly Australian owned and operated.

Red Kellys dressings are now produced and packed in a Melbourne factory with the capacity to supply 100,000 bottles in a week and there are long-term plans in place for a Tasmanian factory and restaurant or retail outlet.

Coles accounts for 60 per cent of all sales and, during promotions, can move 50,000 or more units in a week.

"Coles have certainly driven the majority of our growth by exposing the brand through 750-plus stores. Working with them has also allowed us to introduce scales of economy, such as buying our raw ingredients and packaging in bulk, to bring our production costs down," Leo said.

"Dressing is a slower moving line; it's not an impulse buy like soft drink or chocolate. It goes in the fridge and it might stay there for six to 12 uses. We can't justify a big advertising campaign on a slower moving product — that's why getting the product in front of people is so important for us."

"We feel we have added sales to the vinaigrette dressing category, rather than taking sales away from the competition, by capturing those people that may have made their own dressings or bought them from boutique stores."

Leo understands better than most the challenges in going from a cottage producer to a large, commercially viable business, but says some things will never change.

"Whenever we do new lines, I buy the materials, make it in the kitchen at home and test it on family and friends before doing a pilot run and going to a commercial scale. That's our unique point of difference; we are a 100 per cent Australian owned company, effectively run by one person in a category dominated by American company owned products."

q&a

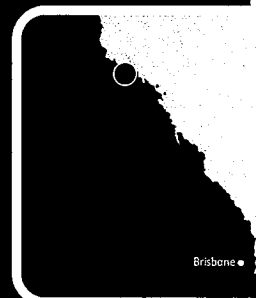
with Leo Miller

Q: What are the advantages of supplying Coles with a premium product previously available only through independent grocers and boutique stores?

A: The volume of product we are able to move, the exposure our brand gets, an assurance on shelf price, position and promotional activity and the added efficiencies in logistics and supply are some of the many advantages in supplying a big customer like Coles.



Business flourishes from dealing direct



Des Chapman and Paula Chapman on their Gumlu property

Rocky Ponds Produce, Gumlu, Queensland

"By dealing direct with Coles, we are assured we're going to sell our produce – and it's consistent. Coles gives us a number to grow to during the year and we work with that. And, if we get a bumper crop, we know it won't just sit there on shelves – they have the ability to move stock quickly."

Des Chapman, Owner

Gumlu, a small, single service station town 50 kilometres north of Bowen in Queensland, is undergoing a boom due to the opening of a nearby mine.

But gold and silver aren't the only things coming out of the ground that are booming.

On the outskirts of Gumlu is a farm by the name of Rocky Ponds, and thanks to the support of Coles, its capsicum trade is thriving.

Owners Des and Paula Chapman say that since the farm began dealing directly with Coles 12 years ago, rather than dealing solely with market agents, business has flourished.

"Our business with Coles has continued to grow since we've had a direct relationship with them and we've been able to deal with consistent volumes," says Des.

Knowing Coles will buy what they grow each week has provided the business with the confidence to invest \$2 million in expanding and upgrading their packing shed and machinery – just in time for harvest, which runs from the end of April to the end of November.

"Our new packing shed is 2200 square metres in size, which has allowed us to increase our capsicum business with Coles significantly, while having two colour vision grading machines allows us to also maintain and increase the production of melons," says Des.

Automated barcoding means each box is consigned directly from the packing line to the correct pallet ready for dispatch, reducing the risk of human error and saving time.

Snapshot

Business

Rocky Ponds Produce

Location

Gumlu, Queensland

Owner

Des and Paula Chapman

Produce

Capsicums, rockmelons, honeydew melons and pumpkin

Number crunch

57

Hectares of land when Rocky Ponds first began

283

Hectares farmed by Rocky Ponds today

500+

Trials for new varieties undertaken by Rocky Ponds yearly

40%

Proportion of Rocky Ponds Produce sold to Coles – a figure the business hopes to grow to 60%

\$2 million

Investment in new packing shed thanks to ongoing support from Coles

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That's why 100% of our fresh capsicums, rockmelons, honeydew and pumpkins are Aussie grown.

Rocky Ponds Produce Gumlu, Queensland



"We want to supply the best produce at the best quality and keeping up with technology ensures we can make it happen. You cannot afford to stand still in this industry," says Paula.

It's an attitude that is paying off, but success hasn't come overnight for the couple who bought 56 hectares when they married 35 years ago.

"We bought here in Gumlu and thought we were going to be big farmers," says Des.

Despite having previously operated a successful start-up business, the couple found farming to be very, very hard — particularly with drought.

"We very nearly lost it all in the very early days," says Des.

Over time, Rocky Ponds was eventually able to secure its own water supply and things began to improve.

"Back then we could build dams and weirs to the two adjoining creeks," says Des.

"Now we store about 1400 megalitres of water and that replenishes our underground water supply which is estimated at another 1000–2000 megalitres."

On their initial 56 hectares, Des and Paula tried to grow everything.

"We did a lot of eggplant and cucumbers and didn't like either, so we ended up growing capsicums," Des says.

"We had an old Italian guy who taught us how to farm, because neither my wife nor I came from farming backgrounds."

Fast forward 33 years and the Chapmans now have adult children of their own who have returned to the family business after gaining university qualifications.

"Today we farm 700 acres (283 hectares) per year and have been supplying Coles for more than 20 years with rockmelons, honeydew melons, capsicums and pumpkins," says Des.

"Coles accounts for 40 per cent of Rocky Ponds' business. We would like to build that up to 60 per cent."

Des and Paula firmly believe their industry is one with a bright future for the next generation, but advocate a work-life balance.

"If required we can harvest a little bit later, but if not, we pack up and go fishing, before we start seeding again in the middle of January," says Des.

q&a
with Des Chapman

Q: How have you increased your capacity at Rocky Ponds?

A: Our new packing shed is 2200 square metres in size, which has allowed us to increase our capsicum business with Coles significantly, while having two colour vision grading machines allows us to also maintain and increase the production of melons.

coles

Family business benefits from dealing direct



Sally, Mike and Amy Calneggia

Snapshot

Business

Rosabrook

Location

Margaret River, Western Australia

Owner

The Calneggia family

Produce

Exclusive Label Wine

Size

170 hectares of vineyard is owned, managed, leased or contracted by Rosabrook

Number crush

8

The number of staff employed by the family-owned and operated, Rosabrook

\$15-\$20

The market pricepoint where Rosabrook and Coles saw an opportunity to produce a good quality wine from the Margaret River region

Rosabrook, Margaret River, Western Australia

"Coles has demonstrated a continuing and improving commitment to growing our business. Our relationship is interactive with two-way information, providing a platform for open discussion on how we might improve our collective business performance."

Mike Calneggia, Owner

A new arrangement to sell key varietals exclusively through Coles has paid dividends for WA family business, the Calneggia family.

Mike Calneggia, whose business is based in Perth with vineyards in Margaret River, says his arrangement with Coles to sell his Rosabrook key varietals range exclusively off-premise is fair and interactive.

"What's happened traditionally in the wine industry is people have almost delegated the responsibility to tell their own story to distributors. In 25 years in the wine industry, this is the only time that I've been able to sell wines directly to Coles – it was always through a distributor before," he says.

"If we were selling Rosabrook via the traditional distribution model, we would not have the direct interaction with the Coles team and possibly our message wouldn't be as easily transmitted.

"We know more about the wines than even the best trained distributor and can deliver the message with greater passion and clarity."

Rosabrook, which is named after one of Margaret River's hamlets, was established in 1978 but bought by Mike and Sally Calneggia in 2007.

"Up to 2007, we were primarily supplying grapes to other people but for lots of reasons we decided to become masters of our destiny and acquired Rosabrook," Mike says.

HELPING AUSTRALIA GROW

That's why we are sourcing Australian wine from local winemakers like Rosabrook.

Rosabrook Margaret River, Western Australia



Under the Calneggia family's ownership, Rosabrook's key estate fruit source was changed to a long established, premium vineyard located in the north-western end of the Margaret River wine region, overlooking the Indian Ocean and Geographe Bay.

The ideal climatic conditions with warm days and cool nights, combined with the surrounding ocean, results in slow, mild ripening conditions, which in turn produce grapes of terrific intensity and flavour.

Leading up to the establishment of Rosabrook as an exclusive Coles brand, Mike, Sally and their daughter Amy, who is marketing manager, spent a significant amount of time and effort to redesign and reposition the label.

"Rosabrook was one of the pioneers in the Margaret River region but over time it had a few different owners and label changes and lost direction a bit. We wanted to pull it back to being a classic, traditional Margaret River brand and winery," Amy says.

"The wines are very much a regional expression of Margaret River. Our winemaker Brian Fletcher has quite a minimalist winemaking philosophy so it's all about vineyard expression and then with the label something that is timeless yet edgy."

Now three years after establishing the exclusive arrangement for Rosabrook, Sally says the benefits of dealing directly with Coles are obvious.

"It means we can get our message across to them about where we are going and what we're doing and we work with them as a team," she says.

For Coles, the Calneggia family are proactive, hard-working, adaptable and passionate business people. Critically, they also produce excellent wine under the creative direction of award-winning winemaker Brian Fletcher.

Streamlining the business

Mike says the reality of the wine industry over the past 10 years is that it has been beneficial to streamline their business, have fewer staff, own less land, supplement their supply of grapes by buying from other growers in the region and use an external facility for winemaking.

"The fact that Margaret River is a large area - stretching some 120 kilometres north to south - means that we can move up and down the region to get better quality fruit, depending upon the vintage conditions," Mike says.

Through its umbrella business Wine Shack, the Calneggia family now employs eight staff, manages about 170 hectares of vineyard at Margaret River and produces several wines in addition to Rosabrook.

Viticulturalist Murray Edmonds says Wine Shack's streamlined structure and access to fruit helps to counter the traditionally high production costs for Margaret River as a region.

"We can produce high quality wine and still compete on price because we don't have crazy overheads and we have a good core supply of vineyards to source grapes from," he says.

Brian Fletcher says flexibility and adaptability is a critical factor for the company and this has flow-on benefits for Coles.

"The influence of NZ wines has impacted on Margaret River's white wine popularity but there is a real opportunity to make something that is in the \$15-\$20 price bracket of good, consistent quality. That's where Rosabrook comes in. It's what the region needs — good, solid, approachable, mid-range wines," Brian says.



q&a with Mike Calneggia

Q: Does your relationship with Coles help provide further insights into the needs of customers?

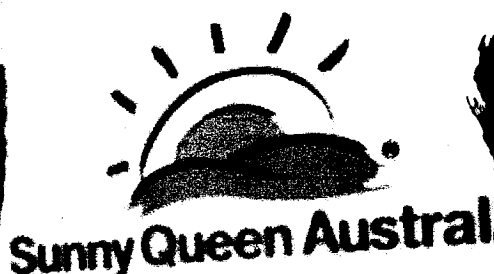
A: Yes, we receive good data from Coles which allows us to look at developing trends.

Also the broad geographical spread of the Coles outlets across Australia provides us with an overall understanding of the market.

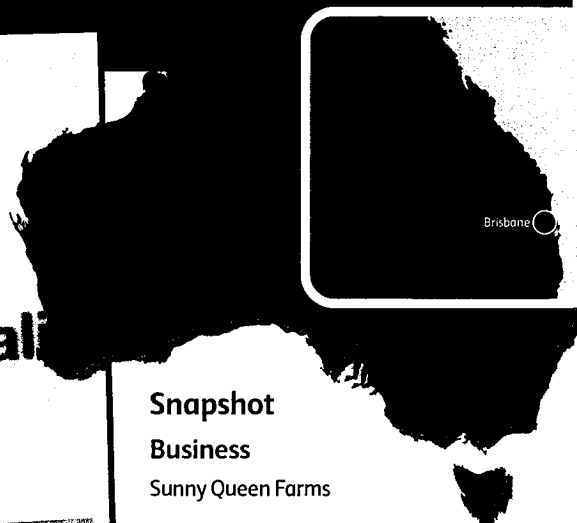


coles

Cage-free eggs help industry grow



John O'Hara, Sunny Queen
Managing Director



Snapshot

Business

Sunny Queen Farms

Location

Head office in Brisbane, with eggs sourced from farms along the Eastern Seaboard

Owners

Queensland's Hall and McLean families

Product

Fresh eggs, including cage-free and free-range

Hatching the numbers

6.9 million dozen

The number of Sunny Queen branded eggs supplied to Coles in the past year

100%

The percentage of Sunny Queen's eggs supplied for the Coles Brand that are cage-free

320

The number of people employed by Sunny Queen Farms

210

The number of eggs the average Australian eats each year

Sunny Queen Farms, Brisbane, Queensland

"There is a challenge in keeping eggs at a competitive price while maximising the welfare for the birds. We have taken the approach of stepping the consumer through the various production options – barn, cage free, free-range and organic free range."

John O'Hara, Managing Director

It's a simple yet highly effective approach to doing business — find out what the consumer wants, then work out a way to provide it.

And it's the philosophy that has underpinned the significant success of one of Australia's largest egg producers, Sunny Queen Farms.

Founded in 1930 by Queensland's Hall and McLean families, Sunny Queen Farms is now one of Australia's largest egg producers, supplying almost 7 million dozen Sunny Queen eggs each year — or over 226,000 eggs per day — to Coles alone.

It is big business and it's grown nearly 40 per cent in the past 12 months as a result of increased sales of cage-free lines and new pack sizes including 18 packs, says managing director John O'Hara.

Sunny Queen's two main production sites are in Queensland on the Darling Downs, and in regional Victoria at Strathbogie. A number of contracted farms along the Eastern Seaboard also contribute to Sunny Queen Farms' production.

Mr O'Hara says Australians love their eggs and consumption over the past decade has been on the increase. AZTEC Synovate figures show more than 122 million dozen eggs were sold in Australian supermarkets during the last 12 months, revealing an increase of more than 4 million dozen on the previous year.

The growth of the Sunny Queen Farms business has reflected growth in egg consumption and a commitment to produce a top quality product in a way that consumers demand.

HELPING AUSTRALIA GROW

That's why we are sourcing Aussie eggs from local companies like Sunny Queen Farms.

Sunny Queen Farms Brisbane Queensland



But Mr O'Hara says a decade ago the industry was facing significant discussion about what the future for egg production in Australia would look like.

"There was a lot of robust discussion in that period. We had to come up with a solution that made sustainable changes to the caged-farming system.

"Some took up this challenge early and Sunny Queen Farms was in this group. We began to move a proportion of our production to a barn production system, and then free-range and organic."

In 2009, Sunny Queen looked at the research and realised that the term 'cage-free' resonated much more with consumers than the term 'barn'.

"So we launched a cage-free product, which soon became the number one branded product in the market."

Mr O'Hara says Sunny Queen's philosophy fits well with the strategic direction of Coles which in October 2010 announced its intention to move away from the sale of caged eggs.

"We worked with Coles to develop the Coles standard and required protocols for farm assessment. We're an industry that requires a heavy capital outlay so the shift in production systems has meant significant investment and restructuring of our business but it is a path we're committed to and reflects the demands of the market.

"But like all systems, it has to be profitable. We have built two new farms, as well as upgraded a number of our existing farms, to facilitate the transition."

Mr O'Hara says Sunny Queen is proud of its long-standing relationship with Coles — having supplied Coles supermarkets across the country for the past 10 years — and feels confident about approaching Coles with innovative product offerings.

"The relationship is two way. We were the first to go to Coles with a housebrand offering, and when they did a vegetarian barn line, we were able to supply it. It's about working with them, keeping the communication open."

It's this proactive attitude that saw Sunny Queen Farms selected as overall winner of the 2013 Coles Brand Supplier of the Year along with two other major Australian egg producers.

The award recognised the leadership Sunny Queen Farms had shown by making the move with Coles to cage-free production.

While Mr O'Hara says the cost of producing cage-free eggs is higher than that of caged eggs, it is about meeting consumer demands.

"There is a challenge in keeping eggs at a competitive price while maximising the welfare for the birds. We have taken the approach of stepping the consumer through the various production options — barn, cage free, free-range and organic free range."

The innovation of Sunny Queen Farms does not stop at the farm gate. For the past couple of years, the company has been producing value-added egg products into the health-care and food service sectors.

Pre-cooked and packaged omelettes, poached eggs and other egg breakfasts are a staple in the supermarkets of North America, says Mr O'Hara.

"The Australian market has a way to go. There is enormous potential in these value-added products. It's a case of 'watch this space' here."

q&a

with John O'Hara

Q: What has made Sunny Queen's relationship with Coles a success?

A: A clear communication of issues from both businesses, a commitment to work together to resolve barriers and a shared passion for putting the customer first.



coles

New yoghurt contract boosts growth



Snapshot

Business

Tamar Valley Dairy

Location

Launceston, Tasmania

Managing Director

Archie Matteo

Product

Yoghurt (branded and private label)

Size

340 tonnes of yoghurt produced each week

By the numbers

40

The percentage increase to the retail side of Tamar Valley Dairy's business, which was generated by the Coles private label contract

3

The number of people first employed by Tamar Valley Dairy 16 years ago (Archie, his wife and an apprentice)

165

The number of people employed now at Tamar Valley Dairy

68

The number of additional people employed as a result of the Coles private label contract

360,000

The number of litres of Tasmanian milk the company uses each week

Tamar Valley Dairy, Launceston, Tasmania

"The relationship has grown so much stronger in the past few years, when Coles' concept of doing business with its partners changed. Our relationship has been getting stronger and stronger since." Archie Matteo, founder and Managing Director

When Coles approached Tamar Valley Dairy to produce its private label yoghurt, there was one thing that caught the attention of the company's founder and Managing Director Guaraci "Archie" Matteo.

"They were prepared to negotiate a price around quality," says Archie.

"Previously, most private label negotiations were based around price and then they deducted the quality."

Archie says in the latest contract negotiation, Coles was prepared to pay a price based on the quality of the product.

"They have been very reasonable in paying a higher price to get a higher quality product."

Coles' private label will account for about 40 per cent of the projected increase on the

retailing business of Tamar Valley Dairy – a company Archie modestly describes as "a small family dairy business".

"We started here in Launceston in 1996. It was a very small concern, employing three people to begin with and only producing about half a tonne of yoghurt," says Archie.

Since then, the company has grown to employ 165 people and now produces over 340 tonnes of yoghurt per week.

A company of opportunity

Staff and management at Tamar Valley Dairy have created a supportive environment within their workplace and in 2005 they won the Prime Minister's Employer of the Year Award (Medium Business) for its ongoing commitment to employing people with disabilities.

HELPING AUSTRALIA GROW

That's why we source Australian dairy products from companies like Tamar Valley Dairy.



"We've got a very strong focus towards staff and towards employing people with disabilities and impediments and giving them an opportunity," says Archie.

Tamar Valley Dairy is a strong supporter of local industry, relying on Tasmanian grown produce for its ingredients. It is also the only Tasmanian company exporting yoghurt to mainland Australia.

"When we first started we were only supplying Tasmania," says Archie.

"Then we moved into Melbourne and as the product proved itself in Victoria, we expanded into the other states."

Coles is one of Tamar Valley Dairy's biggest clients.

"Of course, like everyone, we started slow with small amounts of product," says Archie.

As the product gained popularity, the relationship grew.

"The relationship has grown much stronger in the last 12 months when Coles' concept of doing business with its partners changed. And our relationship has been getting stronger and stronger since," he says.

"Our company has spent a lot of money in the last 16 years, working hard to make the Tamar Valley synonymous with quality."

"If you go back to 1996 when we started, the Tamar Valley as a brand name was fairly unknown," says Archie.

Having invested a lot of money in this pursuit, the results are starting to appear, with a number of businesses taking advantage and using the Tamar Valley name.

"Hopefully we'll see the Tamar Valley have a name like the Margaret River in terms of quality — for yoghurt, for cheese and for wines, and we're not far from it," says Archie.

"And the contract with Coles can only help."

Coles Merchandise Director John Durkan says one of the reasons Tamar Valley Dairy was chosen as a supplier for Coles was that they are innovative.

"We wanted someone who was able to not only produce great quality products, but was also a supplier passionate about growing their business," says John.

Customers have been telling Coles they want clean and natural products. The products launched with Tamar Valley dairy have no artificial colours or flavours and are gelatine-free.

In addition, the products will be made with Tasmanian milk.

"Yoghurt is a market with strong growth and therefore we need a supplier who can grow with us and Tamar Valley Dairy is keen to do this," says John.

"Archie and his team have a great attitude, are passionate about producing yoghurts and will go the extra mile to produce products that customers think taste great.

q&a with Archie Matteo

Q: Has the Coles' private label contract given you more confidence to invest in the future of your business?

A: Tamar Valley Dairy has built a new factory and invested about \$20 million on this and new equipment. The Coles contract has definitely made this project viable and as a direct result, 68 new positions have been created.

Innovation redefines humble potato

PROUDLY
SA



Snapshot

Business

Mitolo Group

Location

Multiple locations including Virginia, Waikerie and Pinnaroo in South Australia

Owners

The Mitolo Family

Product

Potatoes, onions and olive oil

Size

19,520ha

Number mash

47,000

Tonnes of potatoes sold by Mitolo Group in 2011-12

11,388

Tonnes of onions sold by Mitolo Group in 2011-12

300

People employed by the Mitolo Group

100

Tonnes of onions that can be packed each day

45

Tonnes of potatoes that can be packed each hour

The Mitolo Group, Virginia, Waikerie and Pinnaroo South Australia

"In the last four or five years with Coles' customer focus, we've worked a lot closer with its business managers on planning ahead. The result of that has been innovation and R&D — new potato varieties, new packaging, new customer marketing and a \$5 million investment in new machinery."

Frank Mitolo, Sales and Marketing Director

As staple foods, potatoes and onions certainly have a reputation for being cheap, accessible and long-lasting.

And until recently, innovation was not something associated with the humble potato or onion.

But, thanks to a truly innovative approach by South Australian company, the Mitolo Group, the future for potatoes and onions is changing.

The leading potato and onion business was established 40 years ago but, in the past five years, a keen focus on innovation and development of new products has resulted in major changes. The Mitolo Group has even been credited with changing consumer eating habits and increasing consumption.

"In the last four or five years with Coles' customer focus, we've worked a lot closer with its business managers on planning ahead."

The result of that has been innovation and R&D — new potato varieties, new packaging, new customer marketing and a \$5 million investment in new machinery," sales and marketing director Frank Mitolo said.

Of these changes, the development of the low GI potato variety, Carisma, is the most profound for the Mitolo Group.

Carisma is the only potato in Australia to carry the official low GI symbol from the Glycemic Index Foundation and provides a healthier option for people on diets or with Type 2 Diabetes.

The GI of a Carisma potato is 55 — about 30 per cent less than that of other potatoes — and delivers a slower, smaller rise in blood glucose for more sustained energy.

Such has been the success of the Carisma variety that sales reached 4,000 tonnes through Coles supermarkets in the past year.

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That's why 100% of our fresh potatoes and onions are Australian-grown.

The Mitolo Group, Virginia, Waikerie and Pinnaroo, South Australia

PROUDLY
SA

It has also won a series of awards including the innovation title at the 2011 South Australian of the Year Awards and the 2011 AUSVEG National Excellence Awards.

Production of the Carisma potato, grown on the Adelaide Plains, at Waikerie in the Riverland, Pinnaroo in the Mallee, in Western Australia and Tasmania, nearly doubled last year.

Experience shows that economies of scale are crucial for innovation to translate to success.

The Mitolo Group's farming operations, which were established in 1989, now consist of 19,520 hectares, with about 1,627 hectares of potatoes and 244 hectares of onions.

The company employs 300 people and has a daily packing capacity of 500 tonnes at its potato facility in Virginia on the rural outskirts of Adelaide. At the Mitolo Group's onion processing line — also at Virginia — around 100 tonnes of onions can be packed each day.

A \$5 million investment in new packing equipment, which weighs and packs potatoes and onions, was also made October 2012, with parts sourced from both Germany and Denmark.

"We've been able to invest in new machinery because of the size of the operation. You can't afford to invest unless you've got the scale and can pay for it. If you are a small producer, you just can't do it."

Crucial to its investment in equipment and product is the Mitolo Group's new approach to marketing and packaging to grow the category.

Adopting a move which has been highly successful overseas, the Mitolo Group has introduced a 750 gram pillow pack which holds different varieties of potatoes, such as little whites, little reds, little blues, purple flesh and goldfinger varieties, and can be found in Coles' fridge section.

"The 750g pillow pack of baby spuds comes in an attractive chip packet style so customers can just cut the bag open, tip them out and cook them. It's big in the United Kingdom and the United States and we've bought a special piece of equipment to pack them," Frank says.

"It's a longer term investment, which is about working together with Coles to grow the category rather than just sell potatoes and onions."

Frank also credits Coles with giving the company the confidence to invest in R&D,

and the consumer insight to understand what the customer is seeking.

"The commitment with Coles enables us to fast track the development phase and have the confidence to commit on a bigger scale."

To attract the eye of customers and increase consumption, the Mitolo Group is also designing its own recipes to attach to bags of potatoes and onions, and developing special tags for one-month promotions.

As a supplier of potatoes, onions and olive oil, the Mitolo Group also strives to include all three products in its recipes.

"We're doing a lot of innovation with different types of packaging. For example, we are developing special tags for one month promotions. We'll have a recipe and quite attractive visuals on the tags."

"The first one we did was with a roasting onion recipe attached to a bag of piccolo onions with a oil sachet inside it. We sold a million units in a month which we thought was impressive. Since then, we've designed tags for piccolo onions with an Italian recipe, salad recipes using potatoes and onions, and we've produced low GI recipes with Carisma."

"Sometimes we think the tag itself is a bit of a driver of impulse purchases. We try to do things a bit differently to drive success."

q&a

with Frank Mitolo



Q: How does Coles' commitment help the Mitolo Group to be at the forefront of new products?

A: It normally takes three or four years to develop a new product and work up to producing commercial volumes. But, because we are working so closely with Coles now, we can get new products off the ground much more quickly. The commitment with Coles enables us to fast track the development phase and have the confidence to commit on a bigger scale.



coles

Local crackers take on multinationals

PROUDLY
SA



Snapshot

Business

Tuckers Natural

Location

Seaton, South Australia

Owner

Sam Tucker

Product

Tuckers Natural Gourmet Crackers, Dessert Biscuits, Multi-fibre Snacks, Gourmet Bites, Wholegrain Bites

Number crush

8

People employed when Tuckers Natural began seven years ago

15

People employed by Tuckers Natural today

\$500,000

Value of stock moved by Tuckers Natural on the back of a week-long catalogue promotion by Coles

10

Different products that Tuckers provides Coles stores in South Australia

Tuckers Natural, Seaton, South Australia

"The only way you can make a go of a niche product and build a national brand is through a supermarket such as Coles. In recent times, what Coles has done very well is support local businesses – particularly in South Australia."

Sam Tucker, Managing Director

Seven years ago, qualified chef Sam Tucker was hiding away in the proprietary cake aisle at Coles with a range of kids' gingerbread products that had established him as a national supplier but were nearing the end of their life cycle.

It was around this time he saw growth in the premium crackers market and launched Tuckers Natural Gourmet Crackers.

Since then he has armed himself with a Master of Business Administration qualification and seen his work recognised at the 2010 SA Premier's Food Awards when he was named the South Australian food industry's Young Visionary Leader.

This, along with the support of Coles, has him well placed to play alongside some of the multinational brands in the main biscuit aisle with a homemade range of crackers that have a flavour, texture and quality that sets them apart from machine-made varieties.

Sam says trying to fill niches and be creative yet compete in the main biscuit category has been an interesting journey as a small brand.

And while an adventurous and innovative approach is the hallmark of the brand, Tuckers Natural has on occasion found itself slightly ahead of the market.

An example of this is the company's recent move into the healthy snack area, where it launched a multi-fibre range.

"Again, being innovative and unique, we were a bit ahead of the pack when we brought it to market three years ago," says Sam.

"While health was a topic then, we took it to where the trend has only now arrived, providing a snack with tangible nutritional benefits, high in fibre, no trans fats, low sugar and lower sodium content."

Now that consumers are transitioning to healthy snacks and their palates are getting used to the taste, the company is in a strong position.

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That's why we are sourcing Aussie products from local companies like Tuckers Natural.

Coles' support has played an important role in this.

"Three years ago we managed to get this range into the health section at Coles," says Sam.

"There we were able to make a home for it and grow it – and now it's starting to fit the consumer's expectations for a healthy product for the main biscuit aisle."

But the positive relationship with Coles pre-dates its support for Tuckers Natural's multi-fibre range.

"Our relationship with Coles as a brand has been there from day one," says Sam.

"This has been really positive and we are constantly looking for more opportunities to build our brand within Coles."

Sam says Coles' strategy of buying local has been welcomed in South Australia.

"It's been great for us as a brand as our entire product range is on the shelf in South Australia and we've seen great sales results and growth."

Sam believes the strong support the brand receives in its own state provides a platform for growing the brand nationally.

"Part of our thinking is if we can work with Coles on new products at a state level initially, then work on building some solid evidence, it's got legs on a national scale."

Sam says Coles promotes Tuckers Natural in South Australia as a local brand, with dedicated bays for South Australian growers and businesses, as well as shelf-talkers that identify a product as local.

"That's been really effective and the store management have got right behind it as well," Sam says.

Tuckers Natural already has runs on the board from promoting its brand within Coles.

"One thing we did that was hugely successful for the range — and not usually afforded to smaller companies — was a national half-price promotion with Coles," says Sam.

The one-week promotion with catalogue support saw Tuckers shift \$500,000 worth of stock from their warehouse.

"It created an awareness for the brand and bumped sales up right across the board," says Sam.

"These volumes also provided Tuckers with efficiencies across the business and provided an insight into the advantages that multinational companies we regularly compete with enjoy."

"It was a fabulous opportunity and one we're hoping to have again — it provided a great platform for an up-and-coming Australian brand."

Sam says his positive relationship with Coles has been reinforced by the supermarket's commitment to sourcing local product.

"A good example is providing shelf space for products and brands that are strong in local areas," says Sam, "and providing more choice for the consumer."

Sam believes nothing shouts as loudly as a big display in-store — that and a heaving trophy cabinet.

Tuckers Natural was awarded three silver and two bronze medals for their products at the 2013 Royal Sydney Fine Food Show.

"Other than that, you're forking out big bucks for television and hoping you hit your audience," says Sam. "This is something the multi-nationals can afford, but not a local supplier like us."

Today the company also exports some of its product, but Sam says this is something the company would not be able to do without a strong home base.

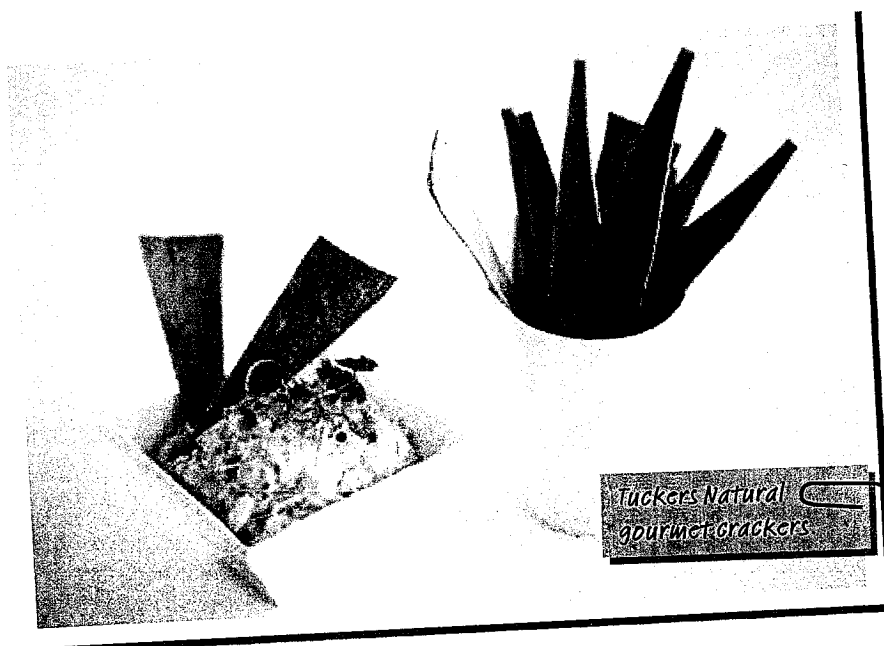
"It's nice to have export as an additional market, but your home turf is critical — particularly your own state."

q&a

with Sam Tucker

Q: How important is Coles in growing the Tuckers Natural Gourmet range?

A: You need distribution and availability to make anything work. Coles has stores all over Australia that provides the platform to grow the brand.



A collaboration from the word go

PROUDLY
VIC

The Great Family are one of the south west dairy farming families supplying milk for the Great Ocean Road range



Snapshot

Business

Warrnambool Cheese and Butter

Location

Allansford, Victoria

Product

Great Ocean Road milk and cheese

Number crush

500

The approximate number of people employed by Warrnambool Cheese and Butter, making it the third largest employer in the region

\$200,000

The amount the company donated to the South West Healthcare Equipment Appeal last year

50,000,000

The number of extra litres of milk to be sourced from Victoria's south west for the Great Ocean Road brand

Warrnambool Cheese and Butter, Allansford, Victoria

"People are concerned about the commoditisation and mass production of food, where it doesn't matter what region or who produced it. It's good to see consumers pushing back and saying it does matter where my food has come from and how it's produced. And I think Coles is very much ahead of the game in recognising this."

David Lord, Chief Executive Officer

Coles and Warrnambool Cheese and Butter joined forces last year to create a new Australian dairy brand.

The new brand, *Great Ocean Road*, is sold exclusively through Coles stores and will comprise a range of high quality cheeses and fresh milks.

Warrnambool Cheese and Butter Chief Executive Officer David Lord estimated the *Great Ocean Road* partnership with Coles will see the company source an additional 50 million litres of milk from dairy farmers each year for the five years of the contract.

"This is the start of a new strategic relationship which is good for Coles and good for Warrnambool Cheese and Butter," says David.

"We've very much worked alongside Coles on this from the beginning," says David.

"It's been a collaboration right from the word go."

The five-year deal represents a critical stage in building Warrnambool Cheese and Butter's consumer-branded business.

"*Great Ocean Road* is a major step forward for us," says David.

"What you need is the capability and capacity to be able to service the Australian market.

"We knew we had the technical knowhow, but how do you apply that into a framework that meets the requirements nationally — that includes logistics, back-office and packaging."

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That's why we are sourcing Aussie products from local companies like Warrnambool Cheese and Butter



q&a
with David Lord

Q: How important is the Coles partnership in launching the Great Ocean Road brand?

A: The best way to phrase it is when both parties have some 'skin in the game', that will help make it successful. We both believe in the product and what it's offering. This makes it a lot easier as we're both on the same page.

It's not one party trying to push a product onto the customer, and it's not the customer asking for something we can't produce — it's a true collaboration.

David says that while the business of Warrnambool Cheese and Butter's own brand has only been around for about six years, the company has been making cheese for 125 years.

During this time the company has built an outstanding reputation and the *Great Ocean Road* brand pays tribute to this long history within the region.

"Warrnambool Cheese and Butter has been based at Allansford on the Great Ocean Road for 125 years," says David.

"This new dairy brand brings that provincial story to customers, with a great-quality, great-value dairy range that will prove a great success with Coles' customers."

The *Great Ocean Road* brand launched in Coles with Tasty, Extra Tasty, Vintage, Colby and Light 500g cheddar cheeses, and a Tasty and Light 500g Shredded cheese launching early June. Tasty, Extra Tasty and Vintage 2kg blocks will be available in Coles delis at the end of April.

Great Ocean Road also provides a full range of fresh milks across Victoria, including full cream, light, skim and flavoured.

"The five-year agreement gives us some assurance around the success of the range and we hope it will expand," says David.

Investment and jobs

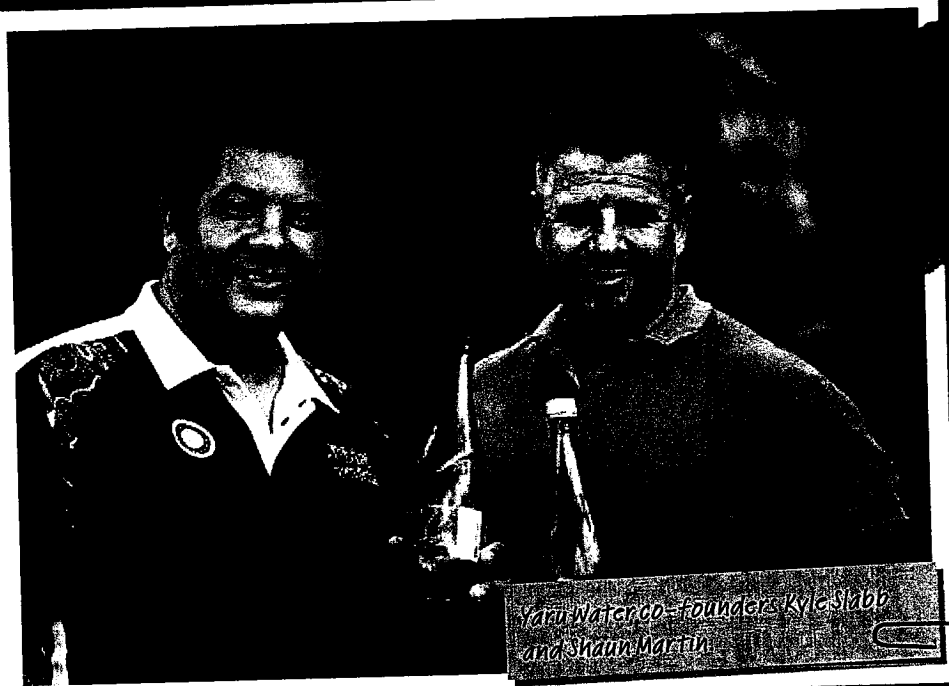
For Warrnambool Cheese and Butter, the partnership with Coles with the *Great Ocean Road* brand requires additional production.

This means new investment and jobs for the region. Currently Warrnambool Cheese and Butter employs close to 500 people, and behind the hospital and university is the biggest employer in the region.

"We've got a lot of people involved at the company by extension," says David.

"If you take the leveraged employment of the industry — logistics, fertiliser, contractors and the like, it is the biggest employer in the region.

Indigenous company breaks new ground



Yaru Water, Tweed Valley, New South Wales

"Coles has offered us assistance beyond the product. They have offered support with production, distribution and packaging. For almost any challenge we have, Coles has offered to help and we are absolutely humbled by their support."

Kyle Slabb, Founder

Australia's first Indigenous premium bottled water is being produced by Tweed Valley business Yaru Water from a large underground reserve at the foothills of Wollumbin-Mt Warning.

The water is sourced from land which is home to the Bundjalung people to which Yaru Water's founder, Kyle Slabb belongs and co-founder Shaun Martin's family has farmed for over one hundred years.

For their people, the water has been a precious water source and is believed to have natural cleansing properties that are considered to be life giving.

"Water means life to us and in our cultural stories and in that context it is very significant

for us. But water is life for everybody and part of Yaru's aim is to share that life and understanding of what the earth has," says Kyle.

For the first time in Australia, the indigenous bottled water is on sale for customers at Coles stores across NSW and, in the future, both companies hope to offer the product range across Australia.

Coles was introduced to Yaru Water through Supply Nation, a regulation and certification body for Indigenous businesses, and has since established agreements to stock Yaru products in stores across New South Wales.

In early February, Yaru products were rolled out across 160 stores and following a positive response, Coles has now committed to stocking



Snapshot

Business

Yaru Water

Location

Wollumbin-Mt Warning, Tweed Valley, north of Byron Bay, NSW

Owners

Shaun Martin and Kyle Slabb

Product

Still and sparkling bottled water

Size

Production capacity of 84,000 bottles each week

Number flow

4.4 million

The approximate number of bottles the plant can currently produce per year

10

Yaru Water wants to increase its production by ten-fold by 2015

200

The number of Coles stores stocking Yaru Water products in NSW

9

The number of employees at Yaru Water

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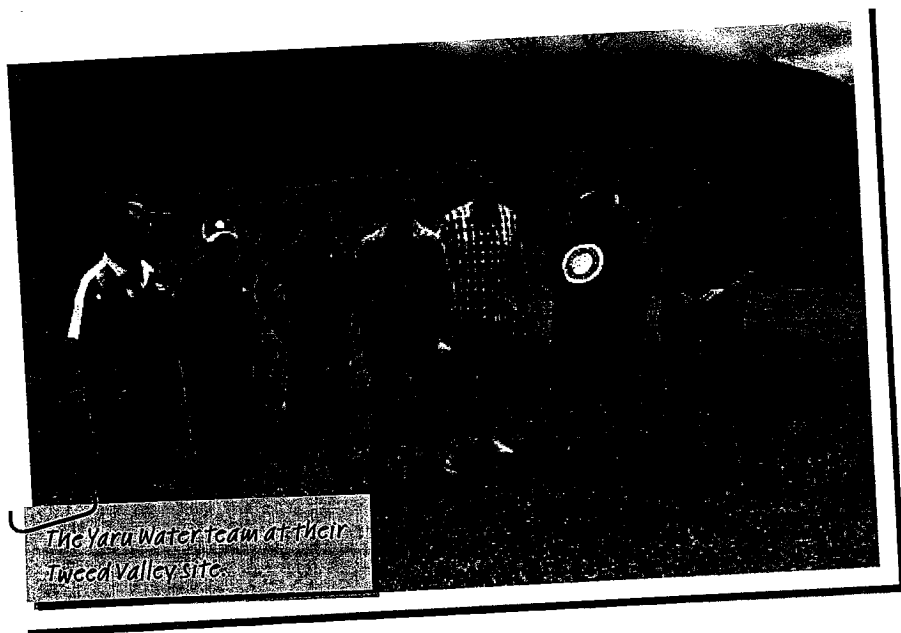
That's why we are sourcing Aussie products from indigenous companies like Yaru Water.

q&a

with Kyle Slabb

Q: Why does Yaru Water want to sell through Coles?

A: Supplying to Coles gives us the ability to increase volume significantly and through that gain economies of scale. Being a new business, we want to build credibility for our product and this is what Coles brings with it. We know Coles' business will help open many doors for us in the future.



the product range in a further 40 stores across the state.

Kyle believes the company's partnership with Coles has been an excellent fit.

"Coles has offered us assistance beyond the product. They have offered support with production, distribution, packaging, almost any challenge that has come to us Coles has offered to help," he says.

Kyle believes Yaru Water's success can be accredited to the support they have received in its development as well as the quality of their product.

"We are lucky to have a high quality alkaline water that is high in minerals."

Building a sustainable future

Beyond its commercial initiatives, Yaru's principles stem from a great respect for the land and its people.

The company is dedicated to 'closing the gap' on disadvantage in indigenous communities and Kyle is actively engaged in Indigenous leadership program, D12.

Kyle believes the success of Yaru Water has been an inspiration to the indigenous youth and encourages them to believe in their own dreams for the future.

"We have had some preliminary discussions with the Coles team about the possibility of integrating our indigenous youth training with already existing Coles programs," Kyle said.

Yaru Water has also shown its commitment to environmental sustainability by working with the Carbon Reduction Institute to ensure all their products are certified carbon neutral.

Growing the business

With a weekly production capacity of 84,000 bottles and a team of nine people, the plant is a boutique operation but with Coles support, Yaru Water plans to carry out a three-phase expansion to increase production by ten-fold by 2015.

The first phase of the expansion is currently underway and will increase production capacity to 122,000 bottles per week. The second upgrade is to be completed at the end of this year and will further increase production to three times the current capacity.

The final phase will involve the construction of a second production facility by April 2015 and is expected to increase production to 880,000 bottles per week. The second facility will feature more efficient processing methods and environmentally-sustainable initiatives.