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HD **Leaving British supermarkets for dead: McLeod times his run to perfection**

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COLES has come from 20 years behind to be ahead of British supermarkets in terms of operating standards according to outgoing boss Ian McLeod.

The retailer still had a long way to go but in terms of basic presentation, service and availability he can't see anyone in Britain who does it better, he told The Weekend Australian.

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McLeod hands the keys to his No 2 John Durkan after June 30 and admitted ``the intensity of the competition has increased and in retailing there are always challenges''.

In a wide-ranging interview, McLeod said the proposed Myer-David Jones merger ``makes logical sense when you consider the head office expenses and market positions'', but declined to comment further and conceded he had no real understanding of any cultural differences.

The Myer camp is playing down reports of any increased offer just yet, saying DJs was getting its case together with a new chairman and advisory team and it was awaiting constructive talks.

McLeod welcomed the early comments from Competition Inquiry chairman Ian Harper about his productivity focus and stressed that while Wesfarmers was his primary focus, he had one or two other potential positions he was looking at. This week he joined the **board** of Dubai-based retailer Majid Al Futtaim, which is chaired by the legendary former Carrefour boss Daniel Bernard.

He said such roles were instructive when you consider the issues in dealing with operations in places like Jordan, Iraq and Syria.

On top of an expansion in his retail footprint, McLeod plans to increase his so-called super stores, which carry general merchandise such as clothes from 80 to 120 stores. This makes Coles another competitor to the struggling Target, which is still trying to find its fashion niche.

Coles is also trialling larger format Liquor Land stores in the Sydney suburb of Sans Souci, Werribee outside Melbourne and in South Australia as part of its attempt to take on Woolies' Dan Murphy stranglehold.

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McLeod says analysts' focus on liquor was misplaced given it is 10 per cent of the **business** -- to which analysts such as Merrill Lynch's David Errington respond it is more an issue of untapped potential when you consider Woolies liquor will earn about $550 **million** this year on $8 **billion** in revenues, against at best $70m from Coles on $3bn in revenues.

McLeod said liquor would get more focus.

What really concerns him is having come from a position where he confronted some challenges that Australia is losing its way after being shielded by the loss of competitiveness thanks to the resources boom.

Ironically, some -- but not McLeod -- would argue that Wesfarmers is hit by the same challenges when you consider its resources division with earnings of $114m on a capital base of $1.5bn returned just 7.8 per cent last year, compared to earnings of $915m on a capital base of $1.1bn and returns of 85.4 per cent in 2009.

The changes highlight the impact of a slowing **China** and some might rue the decision not to sell the operations at the height of the boom in part to maintain the cashflow for the $19bn Coles acquisition.

At a retail level McLeod challenged the status quo in many sectors, highlighting the fact some producers were charging what the market could bear as opposed to what it cost to produce them.

Ironically enough, new Coca-Cola Amatil boss Alison Watkins, who knows McLeod from past roles, has already telephoned him, yet her predecessor Terry Davis did not make contact with the Coles boss once in five years.

The reality facing Australia and the issues McLeod wants addressed by Ian Harper's review is that multi-factor productivity has fallen in seven of the past nine years.

Over the past 100 years, regulation has increased at 10 times the population. Australia has the sixth-highest labour costs in the world, and in New Zealand, which ranks 19, it costs $22.91 less each hour to produce the same product.

These figures explain why Australia's competitiveness has fallen one place to 21st in the world, while New Zealand has risen from 23rd to 18th over the same period and that just happens to be where many food manufacturers are taking their operations.

Some argue McLeod is stepping out at a perfect time, having almost doubled returns on capital to 10 per cent, narrowed the gap with rival Woolworths in terms of sales per square metre and outpaced its bigger rival in same store sales for 18 consecutive quarters.

Ironically, that is exactly the same term of Woolies outperformance against Coles before McLeod took over in May 2008.

McLeod has created renewed competition in the supermarket sector and in doing so has cut consumer prices. He understands Coles is a big **company** but said ``I underestimated just how hard it would be to change perceptions'' about the retailer.

At 18 **million** transactions per week, Coles is now getting ``four **million** more customers a week, we have created jobs, lowered the cost of living for all Australians, have jumped from the bottom to the upper echelon in supplier relationships yet questions are still being asked about market size''.

This week Coles and Woolies were before the Federal Court in the shopper docket cases with the Australian Competition & Consumer Commission; Coles is awaiting judgment on the alleged misleading claims case on **bread** baking, and still to come is the unconscionable conduct case from the ACCC.

Chairman and CEO Rod Sims says it may be a few weeks before the ACCC decides what action if any it will take after an investigation into supplier relations with the major supermarkets.

The battle facing Durkan is while Coles has lifted its game and will do more so with renewed focus on supply chain management, competitors are also moving.

Woolies has responded. Metcash's Ian Morrice is talking about cutting prices for the first time. Aldi, which has increased store numbers from three to 300 over the past decade, plans to open another 100 stores, which will mean it will be almost half the size of Coles's 756 stores.

Costco is moving into petrol and plans to lift its stores from three to eight. All of which means the game is not getting any easier for a supermarket boss, consumers should be better off and McLeod has timed his run to perfection.

ACCC unhappy

THE ACCC was happy to win the price-fixing case against Flight Centre but not so impressed at the $11m in penalties imposed when the new rules allow for much higher penalties.

Deutsche's Michael Simotas called the $11m fine for attempting to fix prices immaterial, which said it all, and the **company** says it will appeal.

The point of law according to King & Wood's Stephen Ridgeway is an important principle on agent-principal veil.

GrainCorp tied

QUBE'S Port Kembla, NSW, grain deal drew the normal accolades, but the guys who look really stupid are Joe Hockey and Barnaby Joyce.

Last November, when the Treasurer rejected the ADM bid for GrainCorp, the concern was that the east coast monopoly exporter was about to fall into the hands of a dastardly foreigner who could reap havoc with the wheat crop.

There is no monopoly and there never has been.

The regulatory handcuffs around GrainCorp while competition thrives around it is nothing short of a national disgrace.

The east coast wheat crop is typically about 18 **million** tonnes mark, of which about eight **million** is exported and 10 **million sold** domestically.

No surprises to see Cargill back the Port Kembla terminal. The Minneapolis-based **company** has no love for the Illinois-based ADM so rather than leave open the chance it may have to deal through ADM in the future, it has jumped into bed with Qube.

That terminal will be able to process 1.3 **million** tonnes of grain each year. Then there is the Queensland bulk terminal that can handle 500,000 tonnes, and the Newcastle terminal, backed by Glencore, Olam and CBH, which can handle one **million** tonnes.

Then there is the untold quantity of grain that leaves Australia in containers unregulated.

ADM, which owns just 20 per cent of GrainCorp, was bidding $13.20 a share for the **company** when Hockey intervened and the stock closed yesterday up slightly at $8.43.

While Hockey invited ADM to **buy** to 25 per cent, the US giant has yet to move -- no doubt waiting for the target's share price to fall.

Joyce laughably defended the decision this week as being just one out of more than 125 approvals and pointed to the speedy approval of the Saputo takeover of Warrnambool **Cheese** & **Butter** as evidence of the support for foreign investment in agriculture.

What the minister failed to register was that Australia's biggest **milk** co-op, Murray Goulburn, argues that very approval process left its bid for Warrnambool stranded.

The fault lies more with the Warrnambool **board**, but the point remains -- ad-hoc government has again diverted the rational working of the free market.

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