# $A fall prompts cuts in overseas travel

Matt O'Sullivan

The number of international passengers passing through Sydney Airport fell last month, which analysts believe is a sign that the weaker dollar is curbing Australians' plans to travel abroad.

Australia's largest airport reported a 2 per cent rise in domestic passengers to 2.13 million in September, which helped to offset a 1.2 per cent fall in international passengers. Total passengers rose almost 1 per cent to 3.2 million.

The fall in international passengers was largely due to a 2.5 per cent drop in Australians travelling overseas via Sydney Airport in September, compared with the same month a year earlier.

Legg Mason research analyst Andrew Chambers said he believed there was a strong correlation between the value of the dollar and Australians' travel plans.

"Our thoughts are that [the decline in international passengers] is probably related to a drop in currency. The key noise over the previous few months has been the weakening of the Aussie dollar," he said.

"If it is more expensive to travel to the US or Europe, we are more likely to holiday at home."

However, travel companies such as Flight Centre have previously downplayed the impact of a weaker currency on Australians' travel habits.

Citi foreign exchange strategists expect the Australian dollar to drop to between 80 and 82.5 cents against the greenback by the end of the year. It was trading a 87.71 cents early on Monday.

A weaker dollar did appear to help boost the number of Americans travelling to our shores last month.

**Key points**

**Sydney Airport reported a 2 per cent rise in domestic passengers in September.**

**This increase helped to offset a 1.2 per cent fall in international passengers.**

American visitors to Sydney increased 3.3 per cent in September, in a month in which Qantas replaced Boeing 747 services to Dallas with larger A380 superjumbos.

International passengers are more than twice as valuable to airports as domestic passengers because they stay longer and spend more in duty-free shops.

Sydney Airport said the drop in international passengers reflected strong growth in the same month a year earlier, pointing out that the number of people travelling abroad was up 3 per cent so far this year.

Shares in the airport were unchanged at $4.22 on Monday. They have fallen 7 per cent since reaching an all-time high in March.

Melbourne Airport reported on Monday a 2.8 per cent rise in domestic passengers to 1.97 million in September, while international passengers rose by 6.5 per cent to more than 676,000.

The strength in internal travel will be a fillip for Qantas and Virgin Australia, which make the lion's share of their earnings from the domestic market. Qantas has frozen growth in capacity in the domestic market for the first six months of this financial year, while Virgin has also shown signs of moderating growth. Virgin does not reveal forecasts for capacity.

Sydney Airport is banking on budget airlines from Asia to continue to help boost growth in international passengers.

Last month Philippines budget airline Cebu Pacific began four weekly services between Manila and Sydney, which will be increased to five in December.

Low-cost carriers such as AirAsia X's offshoots in Thailand and Indonesia, and Thai airline NokScoot have also shown an interest in flying to Sydney.

# How grocery suppliers can cut the flab

Sue Mitchell

Data analyst Jelle de Jong says telling a food and grocery supplier their trade spend is out of control is like telling them they are overweight.

"They know you're right – everybody feels this is an area where they can do better, but it's like dieting," said Mr De Jong, managing director of data analytics company Lexia Analytics.

"Everybody feels it's something they should be doing but it's the least sexy thing in their work week," he said.

Australian food and grocery suppliers are handing over one-quarter of their annual sales to retailers in the form of rebates, discounts, promotional allowances and listing fees.

For many their annual trade spend budget is their single largest cost and exceeds their annual net profit.

However, few suppliers know what return they are making on their investment, Mr de Jong said.

As sales and margins come under pressure amid a price war between the major supermarket chains, independent retailers and discounters Aldi and Costco, reining in trade spending or getting a better bang for their buck may be the easiest way for suppliers to boost their bottom line.

Mr de Jong said that unlike marketing and advertising expenditure, which is relatively simple to track and measure, trade spend is fragmented and complex, dispersed across multiple accounts, outlets and products.

"You're not signing off a $100,000 ad campaign but you're signing off on $3 a case or a 1 per cent rebate – they're all tiny little bits and as a result they get lost quite easily," he said.

"Any monkey can hit his advertising and promotions [targets] and his overhead numbers – they're big chunks and you can control them quite easily.

"But to have good control of your trade spend is like landing a [Boeing] 747 on a postage stamp – it comes in so many small different packages but it carries such a big punch because it adds up to such an enormous number."

Lexia Analytics was established by Mr De Jong and his business partner five years ago to analyse and optimise trade spend by consumer goods companies. Based in Singapore, Dutch-born Mr de Jong says Australian consumer product companies now account for half the firm's business, prompting Lexia to open an office in Sydney.

"Everybody in the Asia-Pacific [region] really struggles with this," the former Unilever, Diageo and McKinsey executive said. "It's probably the main thing that keeps the average chief financial officer awake most of the night."

Amid the supermarket price war, reining in trade spending is a good way to boost suppliers' bottom line. PHOTO: LOUIE DOUVIS

Consumer products companies often lack the systems to accurately track trade spend and lack the technology and expertise to analyse the data.

"If you're growing 25 per cent a year, trade spend is not something you worry about. But when your top line stops growing this is one of the last areas and most difficult areas to get under control," he said.

While the major supermarket chains account for the bulk of suppliers' trade spend in Australia, Mr de Jong said rebates, discounts and allowances paid to independent retailers were usually more opaque. "The supplier may agree to a promotion or rebates with the wholesaler but 40 per cent of the retailers may never get involved in the promotion even though they're buying at a discount," he said.

**To have good control of your trade spend is like landing a 747 on a postage stamp.**
Jelle de Jong, Lexia Analytics

Mr de Jong said there is scope for suppliers to spend less on rebates, discounts and promotions and lift sales and earnings by redirecting spending into areas that deliver the best returns.

"In our experience suppliers can expect to save about 5 per cent of trade spend on average and it would go straight to the bottom line," he said.

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## Coles, Woolworths face further losses

KPMG estimated trade spend now accounted for $1 of every $4 in supplier sales and now exceeded the cost of goods sold for many suppliers.

However, increased trade spending had failed to boost suppliers' sales, which have fallen 1.2 per cent a year over the last four years, while volumes have risen only 0.1 per cent.

For major domestic and multinational suppliers trade spend represented as much as 37.5 per cent of gross sales and trade spend with Woolworths and Coles accounted for 28.7 per cent of gross sales.

Coles and Woolworths previously reported income from rebates, discounts and promotional allowances in their annual accounts. But after a change in accounting standards under IFRS, trade spend is now netted off against their cost of goods sold.

Analysts say income from rebates, discounts and allowances remains a "big pot of money" for the retailers.

But as retailers come under increasing scrutiny over their treatment of suppliers and as suppliers' profits are squeezed, extracting more trade spend may prove increasingly difficult.

"Trade spend as a source of earnings growth is getting harder for the retailers to extract because of ACCC scrutiny and lower supply profitability," Citigroup analyst Craig Woolford said.

According to the KPMG report, suppliers' earnings before interest and tax to sales have fallen from 9.6 per cent in 2010 to 6.9 per cent in 2013 and are now well below those of their international peers, despite retailers' claims that some multinational suppliers are "over-earning" in Australia.

"Overall, trade spend was the key driver for the declining gross and EBIT margins," the KPMG report said.

Mr Dawson said the grocery code of conduct, which is expected to be introduced late this year or early next year, was founded on a reasonable sharing of risk and reward between retailers and suppliers.

Under the code, retailers would no longer be able to charge suppliers for products stolen from supermarkets or pay 100 per cent of wastage, over which they have little or no control.

Retailers will also be banned from varying supply agreements retrospectively and demanding payments for better shelf space.

"It's untenable to think they can transfer 100 per cent of the risk and none of the reward to suppliers," said Mr Dawson.

Last week, the ACCC accused Coles of unconscionable conduct against five grocery suppliers in 2011 by forcing them to plug gaps in its profits, pay for wastage in stores and pay fines for late deliveries.

Coles has rejected the allegations, describing its communications with suppliers as "normal topics for business discussions" between grocery suppliers and retailers around the world.

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## Ferrovial bids on Transfield

intends to provide only limited due diligence," the company said in a statement on Monday night. "Sufficient due diligence is required to enable Ferrovial Services to put forward a definitive transaction that can be considered by shareholders."

Ferrovial has four options. It could walk away, raise its offer and conduct full due diligence, study the limited information Transfield has agreed to hand over, or put the same proposal to the board again. It is understood Ferrovial is talking to key Transfield shareholders, which could pressure the board to open the books.

Transfield's share price has now almost doubled since the start of the year. Chief executive Graeme Hunt returned the company to a profit after winning a controversial $1.2 billion contract with the federal government to provide security and catering services on Nauru and Manus islands.

Mr Hunt told investors that the $1 billion offer was at a discount to where he believed the company would be valued further down the track. Transfield maintained its earnings guidance after a strong first quarter. He said there were no substantial contract renewals in the 2015 financial year.

**Transfield's share price has now almost doubled since the start of the year.**

"The ball is now in their court. This is not a case of the company looking to auction itself – far from it," Mr Hunt said.

"We are going to get on with life, it is business as usual. If they were to come back and improve their position sufficiently to get our attention, then that would take some time, I don't know. We don't want this to be disruptive."

It is understood that Transfield has not had any approaches from other interested parties.

Earlier this month, Ferrovial pulled out of the bidding for **Leighton Holdings**' services division, after putting in first and second round bids in an auction process being run by Leighton's new Spanish owners, construction giant ACS.

UBS is advising Ferrovial, while Flagstaff and Macquarie are advising Transfield.

The Belgiorno-Nettis family sold its remaining 11.3 percent stake in Transfield, which has the contracts to run Australia's offshore immigration detention centres, last month.