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Via email: [foodsecurityinquiry@parliament.vic.gov.au](mailto:foodsecurityinquiry@parliament.vic.gov.au)

## **Woolworths Group Submission Inquiry into Food Security in Victoria**

### **Executive summary**

Woolworths Group (Woolworths) welcomes the opportunity to make a submission to the Legislative Council Legal and Social Issues Committee's Inquiry into Food Security in Victoria.

We are acutely aware of the pressure inflation is placing on our customers, our teams and our suppliers. We are mindful of our responsibility to balance providing value for our customers, regardless of where they call home right across Australia, maintaining strong supplier relationships and continuing to provide meaningful employment for thousands of Victorians.

We understand the pressures that Victorian customers face, with increasing costs for housing (rent and mortgage payments), electricity, utilities, petrol and groceries placing pressure on household budgets. That is why we have taken steps to ensure that our pricing remains as competitive and affordable as possible given current inflationary pressures.

In the context of the Committee's Inquiry and terms of reference, our submission is focussed on the following key facts:

- Victoria has a **highly competitive grocery sector** - with independent stores comprising 46% of all supermarkets in Victoria, and IGA having the highest number of stores in the State of any supermarket. In addition, Victoria has the highest representation of Aldi and Coles stores in the country and in the past 12 months, 87% of Woolworths' Victorian customers also shopped at another supermarket. Customers have the ability to shop across multiple retailers - and take up this opportunity - to get the best possible value.
- Grocery retail is a **high-volume, low-margin sector** and Australia has one of the most efficient and productive grocery sectors in the OECD. Woolworths makes around 3.6c in every \$1 spent by customers in our Australian Food Group.
- We play a key role in many **Victorian communities**, including regional and rural areas. We are a significant private sector employer with over 40,000 Victorian team members, and we also have 110,256 registered shareholders in Victoria. Over the past three years, we have paid ~\$920 million in dividends to our Victorian shareholders. In the last five years, we have paid over \$470 million in State taxes<sup>1</sup>.
- We are also a significant supporter of **local businesses**, as we source from ~800 Victorian suppliers and in F23 we purchased ~\$10 billion of goods from them.
- We are a significant supporter of **food relief and charity partners** in Victoria, donating the equivalent of over 6.1 million in meals in F23 to food relief partners including Foodbank and \$300,000 towards school breakfast programs. In addition, since 1987, we've been in partnership with the Good Friday Appeal to benefit the Royal Children's Hospital Melbourne. Over those 37 years, through fundraising in our

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<sup>1</sup> Amount paid by Woolworths Group from F19 to F23.

Victorian and southern New South Wales stores, along with company contributions, we have raised over \$27 million to fund a range of support programs to make a difference for children and their families.

Attached is our February 2024 submission to the Commonwealth Senate Select Committee on Supermarket Prices (**Attachment A**). Attachment A provides empirical analysis of the competitive nature of the Australian grocery industry, benefits that customers experience as a result of price transparency, key drivers of food and grocery inflation, our supplier relationships and how we aim to deliver customer value.

### About Woolworths in Victoria

Woolworths has a long and proud history in the State, opening our first Victorian Store on Melbourne's Bourke Street in 1933. We have grown to become a significant private employer in the State, with over 40,000 Victorian team members working across our 273 Woolworths Supermarkets (inc Metro), 29 BIG W Discount Department Stores, 6 Distribution Centres<sup>2</sup> (DCs) and 2 Customer Fulfilment Centres (CFCs).

We operate one of the largest supply chain and logistics networks in Australia and our Victorian distribution centres include the Melbourne Fresh Distribution Centre at Truganina and state-of-the-art Melbourne South Regional Distribution Centre at Dandenong South. These centres underpin our 7-day-a-week delivery of groceries to communities across Victoria and our ability to respond quickly to natural disasters and other events.

### Competition in the Victorian grocery industry

We face robust competition, both in-store and online, from other major food and grocery retailers in Victoria. Significant operators in the State include IGA (supplied by Metcash) with 348 locations, Coles with 226 locations, Foodworks (supplied by Metcash) with 126 locations and Aldi with 163 locations.

We also face strong competition on a local scale, with Victoria featuring the shortest average distance (1km) for customers to travel between supermarket competitors in the nation. Using ABS metrics, Victoria has on average 17 supermarkets within a Statistical Area Level 3 (SA3), of which 7 are independents. 94% of all SA3s include a Woolworths, Coles and Aldi supermarket.

Victoria also has three of the largest and most efficient food and everyday needs retailers in the world competing to serve Victorian consumers - Aldi (global retail sales of A\$125 billion<sup>3</sup>), Costco (global retail sales of A\$360 billion) and Amazon (global retail sales of A\$660 billion). All three have material positions in Australia and plan to expand further:

- **Aldi has 163 stores in Victoria.** It has 593 stores, across every state and territory except Tasmania and the Northern Territory, and an annual turnover of nearly \$12 billion in Australia.
- **Since 2009, Costco has opened four warehouses in Victoria, averaging 14,000m<sup>2</sup> per site,** located at Epping, Moorabbin, Ringwood and Docklands (which will relocate to Ardeer at the end of the year)<sup>4</sup>. These centres are part of Costco's national network of 15 warehouses, located in every state and territory, except Tasmania and the Northern Territory. Costco is also the owner of one of the world's biggest food and everyday needs private label brands 'Kirkland', which benefits from global scale in procurement and manufacturing.
- In 2017, **Amazon Retail** formally established operations in Australia. Amazon competes directly with Woolworths on around 6,500 long-life grocery and everyday needs products, with **two Amazon fulfilment centres operating in Victoria at Dandenong South and Ravenhall**, and a fully automated 209,000sqm centre opening at **Craigieburn** in 2025.

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<sup>2</sup> Includes one third party operated distribution centre.

<sup>3</sup> Aldi South Group only, as in FY22.

<sup>4</sup> Article [Docklands superstore Costco gearing up for closure as expenses skyrocket](#)

In addition, large national retailers such as **Kmart, Bunnings, Chemist Warehouse, The Reject Shop** and others are increasingly competing in key long life food and everyday needs products.

## Delivering value for our Victorian customers

### **Victorians benefit from price transparency and local choice**

The number of major competitors and independent retailers in Victoria makes it easy and convenient for many consumers to switch all or parts of their shopping baskets between retailers. Customers in the State have taken advantage of this choice, with 87% of customers in catchments that include a Woolworths store also shopping across another supermarket in the past 12 months<sup>5</sup>. At least one in five have shopped with another grocery retailer the same day they visit Woolworths<sup>6</sup>.

Unlike many overseas markets, we offer the same retail prices on our website and mobile app as we do in-store, with very few exceptions<sup>7</sup>. Customers can (and do) find and compare the lowest prices before and/or as they shop.

We have also developed online propositions and digital tools to help customers find more value and more easily manage their weekly budget, including helping customers in:

- Tracking their cumulative spend as they select products online (with a running total shown on screen), and adjusting product selections to fit their budget;
- Preparing their digital shopping list (including specials, seasonal Prices Dropped and Everyday Low Prices) before they go into store;
- Choosing the most cost-effective products by using our 'Best Unit Price' tool, which ranks products from lowest to highest price per unit (see Figure 2 below); and
- Easily searching all our specials every week (beyond those shown in the printed or digital catalogue).

### **Woolworths Supermarkets pricing**

One of the ways we provide consistent value for customers is through our national pricing strategy for packaged groceries which are sold at the same retail price in Woolworths Supermarkets across Australia<sup>8</sup>. In fresh food, we have state-based pricing on fresh food, largely based on local supply.

99% of our Victorian sales are on nationally priced goods for packaged groceries and state-based pricing on fresh food. Importantly, this means that regional customers benefit from competitive pricing, as we largely absorb the cost of distributing groceries to stores in rural and remote locations. Our Everyday Low Price, seasonal Prices Dropped and specials programs are consistent nationwide.<sup>9</sup>

### **Everyday Rewards**

Victorians are frequent users of our Everyday Rewards program. Members of the program are able to:

- Collect points on their everyday shops. Every 2,000 points can be redeemed for \$10 off a shop (which they can also bank for Christmas) or 1,000 Qantas Frequent Flyer Points;
- Access personalised offers and boosters; and
- Access our Everyday Rewards App, enabling them to easily see all their personalised offers and enjoy in app offers.

<sup>5</sup> Source: CommBank iQ banking transaction data based on de-identified, privacy treated CBA retail banking transactions including credit card, debit card and EFTPOS, normalised to be representative of the Australian population for the 12 month period to 31 December 2023. Percentage of customers is defined as the average proportion of the customers who shopped at other supermarket brands (e.g. Aldi, Coles, IGA, Harris Farms etc.) shopping at each Woolworths Supermarkets store across 52 weeks.

<sup>6</sup> Same source as reference 4.

<sup>7</sup> Exceptions include a limited number of online only specials and selling by 'eaches' vs 'kgs'.

<sup>8</sup> There are a limited number of remote locations, which do not have national pricing due to increased supply chain and logistics costs. These stores represent less than 1% of our footprint.

<sup>9</sup> There may be a limited number of exceptions based on Container Deposit Schemes across states, reflecting 1% of promotions.

## Drivers of food and grocery inflation

As the vast majority of our packaged grocery options are nationally priced, drivers of food inflation in Victoria are informed by national and global factors. Importantly, food inflation in Australia - and at Woolworths - has moderated with deflation in F24, led by deflation in fruit and vegetables and red meat.

Over the last four years, prices for food and non-alcoholic beverages increased in Australia by 18.8%, which is lower compared to New Zealand, the UK, Canada and the US, as well as the EU, where prices increased between 23-31%<sup>10</sup>.

As explained in our submission to the Commonwealth Senate Select Committee on Supermarket Prices (*Attachment A*), there have been markedly different inflationary drivers across different supermarket product categories over the past two years. These can be grouped into (a) long-life (packaged food and everyday needs); (b) fruit and vegetables; (c) meat; (d) dairy; and (e) bread, which are explained in further detail in pages 6-13 of *Attachment A*.

Consistently, a key driver of grocery inflation in long life categories<sup>11</sup> has been the higher prices we are paying to suppliers. In the 14 months from November 2021 to January 2023, we received more than 1,800 cost increase requests from our long-life suppliers with an average per month ~4.5x our pre-COVID volumes. During this period the average value of those requests was higher than headline CPI for that period of time. Suppliers have been citing higher input costs from increasing commodities and supply chain costs in making those requests.

It is important that our trading relationships are sustainable for our suppliers and that our retail offers deliver value and meet our customers' needs. Suppliers are not obliged to provide cost information to justify their increased prices to retailers under the Food and Grocery Code of Conduct. This can limit our ability to test and verify the basis for a cost increase request for the benefit of our customers.

### **Our food relief and charity partnerships**

We have a key role to play in supporting our food relief partners, in addition to providing affordable prices in store. Last year saw the largest contribution on record to hunger relief charities both in terms of volume and geographical reach of food and non-food donations to our major partners, as well as more than 700 local community partners nationwide.

Last year, we announced an additional \$7.6 million donation to OzHarvest, Foodbank and FareShare. This was in addition to the \$75 million worth of food provided to hunger relief partners across our network in Australia and New Zealand. In F23, we donated over \$11.5 million worth of food to 187 food relief partners or the equivalent of some 6 million<sup>12</sup> meals to Victorians through hunger relief programs. This is in addition to the 5.9 million pieces of fruit given away in F23 through our Free Fruit for Kids program and \$300,000 worth of food donated directly to local school breakfast programs.

Through the Woolworths Junior Landcare Grants program, we've provided over 1,430 grants to Victorian primary schools and early learning centres over the past six years. The grants, of up to \$1,000 each, focus on projects such as sustainable food production, improving waste management practices and recycling and enhancing native habitats. The next round of grant recipients were announced last month.

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<sup>10</sup> Australian Bureau of Statistics submission to the Senate Select Committee on Supermarket Prices, 2024.

<sup>11</sup> Long-Life incl. Pantry, Drinks & Snacking, Health & Wellness, Frozen, Baby Needs, Pet Needs, Household & Personal Care, Home Essentials; Excl. Meat, Fruit & Veg, Chilled, Bakery, Deli, Charities & Donations, Tobacco & Cigarettes, Mobile

<sup>12</sup> 2.097 million in F23

## Working with our Victorian supply partners

### ***Partner of choice for Victorian suppliers***

We seek to be the long-term partner of choice for suppliers. Our suppliers range from large, well known multinational consumer goods companies supplying large volumes of products across the entire Woolworths (and broader global) retail network, through to small Australian family-owned operations supplying products to some of our stores.

We work with ~800 Victorian suppliers and in F23 we purchased ~\$10 billion of goods from them<sup>13</sup>. Our Victorian stores sell some of the State's most iconic food brands including Bertocchi / San Marino, Josh's Eggs, and Nuttelex, as well as well-known everyday needs brands including White King and Natures Organics. We also partner with local suppliers from growing regions including Goulburn Valley, Sunraysia and Yarra Valley, and source dairy products from the Central Highlands and Gippsland regions.

### ***Supporting Victorian farmers through grants***

The ongoing strengthening of relationships with suppliers and the agricultural sector is core to our business and our ability to serve Australia into the future. This ongoing collaboration and dynamic working relationships are vital to developing products and services fit for the evolving needs of customers.

As part of our commitment to supporting farmers and industry, we have established the Organic Growth Fund to support investments made by a range of farmers over the past five years.

One example is Kalafatis Fresh Produce, a recipient of a Woolworths Organic Growth Fund grant of \$500,000 for organic pear and plum production. Established in the early 1950s near Shepparton, Victoria, today, the company has more than half a million fruit trees across more than 800 hectares of orchards, employing more than 80 permanent staff and more than 300 casual employees during harvesting season.

Our relationship with Kalafatis Fresh has spanned more than five decades, as they have supplied pears and plums to Woolworths over this period. The grant funding will go towards the purchase of orchard infrastructure for the purpose of setting up for the production of organic pears and plums, with the correct infrastructure critical to maintaining a sustainable organic growing system.

Another example is Peninsula Fresh Organics, who operate year-round with weekly planting and daily harvesting on the Mornington Peninsula. Our Organic Growth Fund grant of \$500,000 allowed them to expand their organic vegetable farm and purchase new harvesting equipment. Since 2009, their business has grown significantly from a farm of three acres which supplied local farmers markets, to their operations today which span 200 acres.

We have also supported the dairy industry through the Dairy Innovation Fund, which has provided \$5 million in grants to almost 60 dairy farmers nationwide.

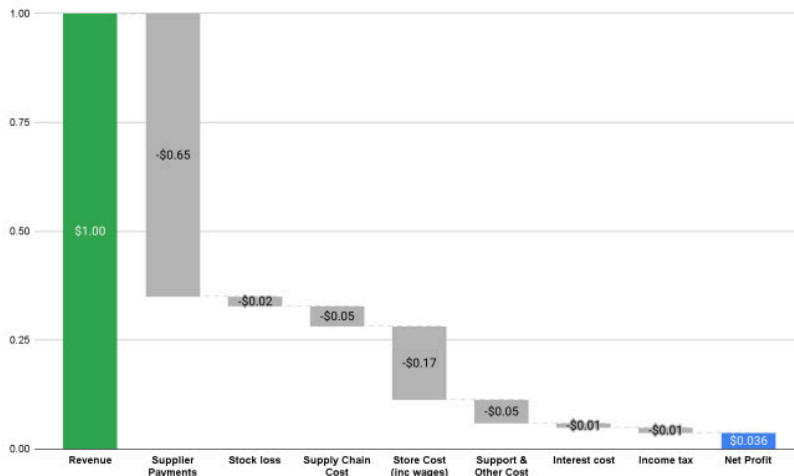
## Our financial performance

Grocery retail is a high turnover, low margin business. Critically, **the difference between our shelf prices and the price paid to farmers (or other suppliers) does not constitute our net margin**. There are a range of costs associated with getting products into stores and selling products to our customers, including supply chain (including freight and distribution centres), stock loss (including spoiled stock and stock adjustments), store costs (including wages, rent, utilities and payments), support costs and interest and tax.

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<sup>13</sup> Analysis excludes suppliers traded below \$1k in the last 12 months, and reflects spend based on suppliers nominated address in Woolworths systems rather than state operation.

**Figure 1** shows how revenue from sales is distributed for our Australian Food Group, where we make around 3.6c for every \$1.00 of revenue<sup>14</sup>.



The grocery industry has become increasingly capital intensive with investments in modern and resilient supply chains, a shorter store refurbishment cycle, the growth of online shopping, and investment in technology platforms with shorter useful lives. Within this context, we have reinvested more value back into the business than most of our domestic and international peers. In F23, our capital expenditure/sales ratio was 3.3%. This is above international peers such as Walmart, Tesco and Loblaws, which ranged from 1.9% to 2.7%.

### Our contribution to Victoria

We contribute billions in economic activity across Victoria every year through a mix of capital investments, wages, dividends and taxes.

#### Employment contribution

We have over 40,000 hard working Victorian-based team members, of which over 14% have more than 15 years' service. We also play an important role in providing first job opportunities, with around 42% of our Victorian team under 25 years of age. In F23, we paid total wages of \$1.4 billion to our Victorian team.

#### Regional footprint contribution

We make a significant contribution to regional Victoria in particular. 75 of our Victorian Supermarkets and BIG W Discount Department Stores are in regional locations, where we employ over 9,400 team members, who were paid a total of \$332 million in wages in F23.

In addition, we plan to invest more than \$90 million in regional property projects in Victoria over the next five years, supporting an additional 753 full time equivalent construction jobs<sup>15</sup>.

#### Economic contribution to Victoria

Woolworths is Australian-owned and listed on the Australian Stock Exchange and we have 110,882 registered shareholders in Victoria. Over the past three years we have paid ~\$920 million in dividends to our Victorian shareholders. We have a dividend payout target of 70-75% of our net profit after tax. This means that of every dollar of profit we make, around three quarters is paid to our shareholders in dividends, with the balance reinvested back into our business.

<sup>14</sup> Note: 'Interest' includes a proportional allocation of Group interest costs to the Food business and interest from leases (per the Lease accounting standard requirements); 'Income tax' is calculated by applying the Group's effective tax rate'. Stock loss excludes markdowns and clearance.

<sup>15</sup> Mandala Partners research commissioned by Woolworths Group to support the *Woolworths Group Regional Report 2023*.

Woolworths is also a significant contributor to the Victorian tax base. We have paid over \$470 million in State Government taxes over the last five years, primarily through payroll tax contributions.

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Thank you for providing the opportunity to make this submission and we look forward to assisting the Committee. We are committed to playing our part to improve the affordability of groceries for all Australians.