

## Woolworths Group Submission Senate Select Committee on Supermarket Prices

### Executive summary

Woolworths welcomes the opportunity to make a submission to the Senate Select Committee on Supermarket Prices. We are acutely aware of the pressure inflation is placing on our customers, our teams and our suppliers.

As a grocery retailer, Woolworths is at the front end of the fresh food and long-life grocery supply chains. As such, we are very mindful of our responsibility to balance providing value for our customers, paying our suppliers (including Australian farmers and growers) fairly for the goods they supply to us, providing security and meaningful employment for our team and delivering adequate returns for our shareholders (including Australian superannuation funds).

Given the importance of grocery shopping to household budgets, Australians are right to demand a grocery sector which both delivers compelling consumer value every day and ensures a sustainable, innovative and competitive industry. The empirical evidence demonstrates that Australian consumers enjoy high levels of supermarket competition and choice. The evolution of the market over recent years has intensified levels of competition from those observed in prior reviews.

Noting the Inquiry's Terms of Reference, we provide our submission in the context of the following guiding statements:

1. We are part of a **highly competitive and innovative grocery sector**. In 2008, the Australian Competition and Consumer Commission (ACCC) determined that the industry was 'workably competitive' and now it is much more so. With the arrival of three of the world's biggest and most competitive retailers (Aldi, Costco and Amazon) in Australia, consumers have even more choice. Being price competitive is critical in trying to win our customers' shopping basket.
2. **Australian consumers are savvy and have high expectations**. The vast majority of consumers shop across multiple retailers. The growth of online shopping and new digital tools are making it even easier for consumers to compare prices and cross-shop retailers.
3. Food inflation has been driven by cost increases from our supplier partners, and cyclical impacts in fresh food markets. Importantly, **food inflation is falling**. The rate of ABS in food inflation (0.6% in Q3'23; 0.5% in Q4'23) has been **lower than headline CPI** (1.2% in Q3'23; 0.6% in Q4'24) **for the past two quarters**.<sup>1</sup> The annual rate of food inflation remains much lower than the OECD average (8.8% OECD average v 4.8% in Australia Q3'23).<sup>2</sup>

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<sup>1</sup> Australian Bureau of Statistics (Dec-quarter-2023), Consumer Price Index, Australia, ABS Website, accessed 31 January 2024, OECD (2024), Inflation (CPI) (indicator). doi: 10.1787/eee82e6e-en (Accessed on 30 January 2024)

<sup>2</sup> Australian Bureau of Statistics (Dec-quarter-2023), Consumer Price Index, Australia, ABS Website, accessed 31 January 2024, OECD (2024), Inflation (CPI) (indicator). doi: 10.1787/eee82e6e-en (Accessed on 30 January 2024). N.B- OECD data only available to Sep-quarter 2023

4. Throughout this recent inflationary period, we have taken, and continue to take, **steps to provide affordable grocery products for all Australians**. These include:
  - Focusing our price investments into vegetables and protein - including our commitment to price Odd Bunch at 20% below comparable fruit and vegetable products, and dropping lamb prices by 20% in November 2023;
  - Holding our own brand products at low prices across pantry essentials, providing average savings of around 30% to equivalent branded products;
  - Providing over 6,000 meaningful weekly specials and ~4,000 products on our everyday low price programs 'Low Prices' and seasonal 'Prices Dropped';
  - Introducing a 'best unit price' filter on our website and app, so customers can easily find the best value in a category; and
  - Donating more than 34 million meals to our food rescue partners in F23.<sup>3</sup>
5. Grocery retail is a **high-volume, low-margin sector** and **Australia has one of the most efficient and productive grocery sectors in the OECD**. We make around 3.6c in every \$1 in our Australian Food Group. This is before our investment back into making our business (and indeed the Australian grocery sector) more resilient, innovative and efficient through our balance sheet.
6. **Woolworths plays a broad role in the Australian business landscape**. We are Australia's largest private employer and a vital participant in regional and rural communities. We have a proud history of working in partnership with suppliers to develop their businesses and play a critical role in building resilience in the Australian food supply chain. We support Australian retirement incomes through superannuation funds and provide a source of income through dividends for hundreds of thousands of Australian retail investors.

## 1. Introduction to Woolworths

Woolworths was founded in 1924 and has a history of serving Australian communities for almost 100 years. We are Australian-owned and listed on the Australian Stock Exchange (ASX).

We are Australia's largest private employer, with 176,000 hard working team members who serve more than 20 million customers a week across more than 1,250 Woolworths Supermarkets, Metro Food Stores and BIG W Discount Department Stores. We operate one of the largest supply chain and logistics networks in Australia with 32 distribution centres (DCs) across the country<sup>4</sup> which help to support food security for some of Australia's most remote and disaster-prone regions.

The shape of Woolworths Group has changed significantly over the past decade. In 2015, we exited hardware (Masters and Home Timber and Hardware) and in 2019, we sold the Woolworths Fuel and Convenience business to EG Group. In 2021, we demerged our drinks retailing and hotels business - Endeavour Drinks (including Dan Murphy's and BWS) into a separately listed ASX company, Endeavour Group Limited. We are now a more focused retailer, committed to meeting the food and everyday needs of Australians and New Zealanders.

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<sup>3</sup> [Woolworths Group 2023 Sustainability Report](#), p. 17

<sup>4</sup> 32 distribution centres of which 17 service Food & Liquor, 4 service Big W, and 11 are managed by third parties

## 2. The Australian grocery industry is highly competitive

There have been several parliamentary and regulatory inquiries concerning supermarkets over the past 20 years. The most comprehensive was the ACCC *Inquiry into the Competitiveness of Retail Prices for Standard Groceries* in 2008.

The ACCC received more than 250 submissions and “obtained vast quantities of data, information and documents” from industry participants, using its evidence-gathering powers. The ACCC concluded that “grocery retailing [in Australia] is workably competitive.” Further, the ACCC had “not identified anything that is fundamentally wrong with the grocery supply chain” in Australia.<sup>5</sup> Rather than attributing increasing prices to retailer profit margins, the ACCC found that “the vast majority of grocery price increases in Australia are attributable to other factors such as supply and demand changes in international and domestic markets, increases in the costs of production and domestic weather conditions.”<sup>6</sup>

Australia now has three of the largest and most efficient food and everyday needs retailers in the world competing to serve Australian consumers - Aldi (global retail sales of A\$180 billion<sup>7</sup>), Costco (global retail sales of A\$360 billion<sup>8</sup>) and Amazon (global retail sales of A\$660 billion<sup>9</sup>). All three have material positions in Australia and plans to expand further:

- In 2008, Aldi had about 170 stores in Australia, across four states/territories. Even then, the ACCC found that “Aldi has been a significant influence on Australian grocery retailing.”<sup>10</sup> Now, it has 590 stores, across every state and territory except Tasmania and the Northern Territory, and an annual turnover of nearly \$12 billion.<sup>11</sup>
- In 2009, Costco opened its first member warehouse in Melbourne. Costco has now expanded to 15 warehouses, located across every state and territory, except Tasmania and the Northern Territory. Notably, Costco is now “racing to \$5 billion in annual sales” with sales growth of “almost 20%” in 2023, and has “more than 1.5 million paid-up members.”<sup>12</sup> Costco is also the owner of one of the world’s biggest food and everyday needs private label brands ‘Kirkland’, which benefits from material 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. It now has eight large fulfilment centres across Australia, with a ninth planned. Amazon’s Kemps Creek distribution centre is within a 12-hour drive of 80% of the Australian population.<sup>13</sup> It has more than four million Australian ‘Prime’ subscription households.<sup>14</sup>

<sup>5</sup> [Report of the ACCC inquiry into the competitiveness of retail prices for standard groceries](#), July 2008, page xiv

<sup>6</sup> [Report of the ACCC inquiry into the competitiveness of retail prices for standard groceries](#), July 2008 page xiv. In its 2020 [Perishable Agricultural Goods Inquiry Report](#), the ACCC stated “Despite the high levels of concentration in the industry, supermarkets compete strongly on prices of certain products, particularly perishable goods”, (page xii).

<sup>7</sup> [Datacentre from IGD](#), Aldi Global Sales 2022

<sup>8</sup> [Costco 2023 Annual Report](#); Conversion rate from OFX as at 22 Jan, 2024; 1 USD = 1.515549 AUD

<sup>9</sup> [Amazon Q3 Earnings Release](#), 2023, page xiv, TTM 2022 global retail sales excl. AWS, Conversion rate from OFX as at 22 Jan, 2024; 1 USD = 1.515549 AUD

<sup>10</sup> [Report of the ACCC inquiry into the competitiveness of retail prices for standard groceries](#), July 2008, page xvi

<sup>11</sup> Carrie LaFrenz, [Meet the woman tasked with steering Aldi to new heights](#), Australian Financial Review, 10 August 2023

<sup>12</sup> Eli Greenblat, [Costco a new retail force as Australian sales race towards \\$5bn](#), *The Australian*, 1 January 2024

<sup>13</sup> Amazon press release – [Amazon Australia’s first robotics fulfilment centre in Western Sydney now open](#), 6 April 2022

<sup>14</sup> Sam Buckingham-Jones, [Aussies added 189,000 streaming services despite cost-of-living crunch](#) - *Australian Financial Review*, 2 May 2023

In addition to global competitors, we continue to face robust competition, both in-store and online, from long-standing rivals Coles, Metcash and the independent sector. On top of this, large national retailers such as Kmart, Bunnings, Chemist Warehouse, The Reject Shop and others compete vigorously in key long-life food and everyday needs products.

The impact of this increased competitive intensity has been to reduce grocery prices in real terms. As **Figure 1** shows, economy-wide inflation (ABS CPI) has increased 4 percentage points faster than food inflation (ABS Food and Non-Alcoholic Beverages) since the last ACCC Inquiry (September 2008-September 2023). Wages (ABS Wage Price Index) have increased 8 percentage points faster than food inflation over the equivalent period.

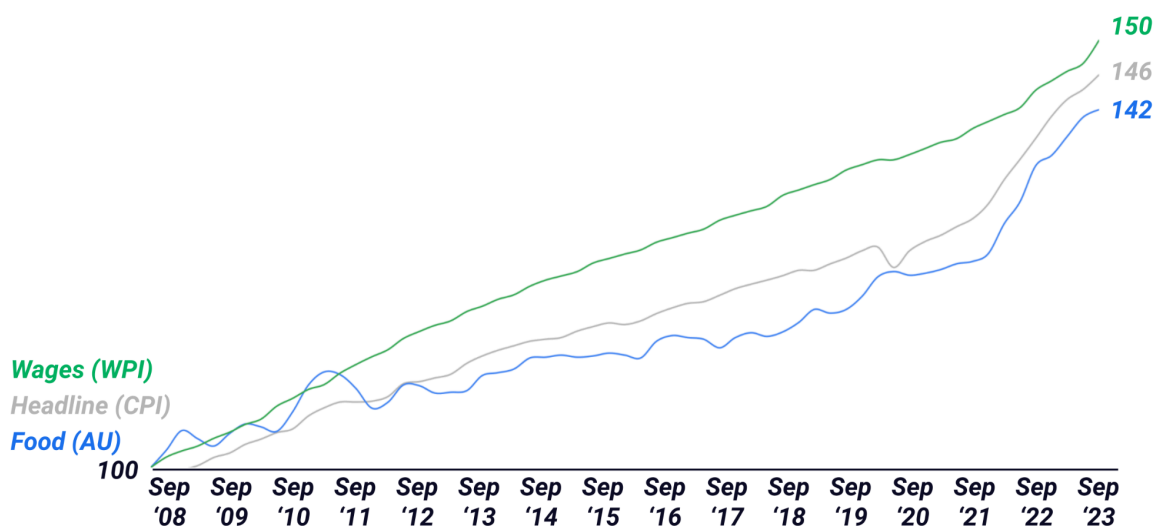


Figure 1. Australian Bureau of Statistics (Sep-quarter 2008 - Sep-quarter 2023), [Consumer Price Index, Australia](#), [Food Inflation Index](#) and [Wage Price Index, Australia](#) (indicator); (Note - WPI data only available to Sep-quarter 2023)

### 3. Australian consumers are savvy and benefit from price transparency and local choice

Australia’s competitive context and the high density of supermarkets<sup>15</sup> make it easy and convenient for most Australian consumers to switch between retailers. Woolworths stores typically have five competitors located within a short distance, including three competing Coles and Aldi stores.<sup>16</sup> More than half (55%) of the 479 shopping malls across Australia have at least two competing supermarkets located within them.

Customers have taken advantage of this choice, with 86% of Woolworths customers also shopping across Aldi, Coles and/or IGA in the last 12 months. Around one in six have shopped with another grocery retailer on the same day they visit Woolworths.<sup>17</sup> It is therefore critical that we offer the best possible value to our customers, as they can (and do) easily and readily shop elsewhere.

<sup>15</sup> In 2022, Australia had 193 grocery retail stores per million people. Canada had 117 and the US had 109 (Source: IGD retail database as at January 2024, Woolworths analysis)

<sup>16</sup> This is within 3km for city areas; within 5km for urban/ regional city/ town areas; and within 10km for small, medoum regional towns. (Woolworths geoanalytics, June 2023)

<sup>17</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 52W.

Unlike many overseas markets, in Australia, we offer the same retail prices on our website and mobile app as we do in-store. 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 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)

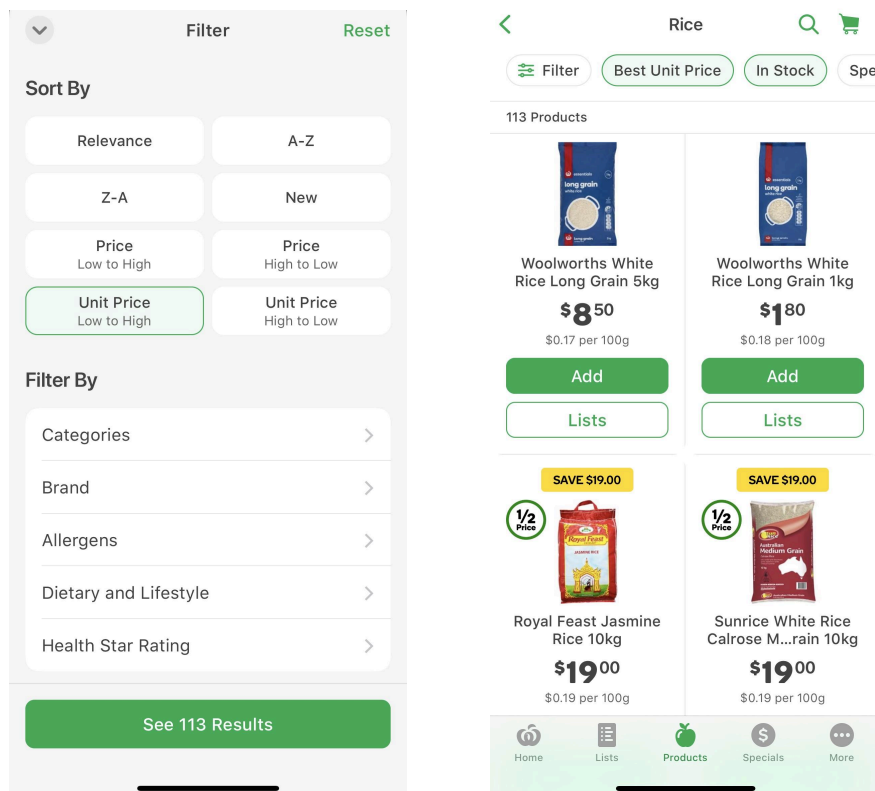


Figure 2: Woolworths App, Best Unit Price Search Filter, Accessed 1 February 2024

Our own brands drive further competition. We offer around 6,000 own brand products nationwide. The range is designed to give Australians quality products at prices that are competitive with the own brand products produced by global competitors such as Aldi and Costco. We typically make less margin on our own brand products, recognising the need to offer customers a low price option on non-discretionary food and everyday essentials.

#### 4. Grocery inflation has been lower than the rest of the world and is declining

While it is of limited comfort to Australian households, food inflation is not unique to Australia. As **Figure 3** shows, food prices across the OECD rose by 25% from September 2021 to September 2023. This is almost double the rate of food inflation seen in Australia through the same period (14%).

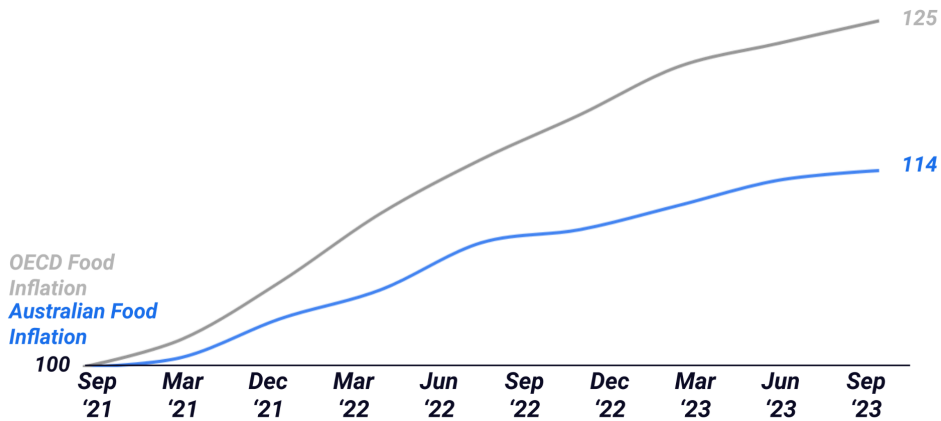


Figure 3. Australian Bureau of Statistics (Sep-quarter-2023), [Consumer Price Index, Australia](#) and OECD (2023), Inflation (CPI) (indicator); (Note - OECD data only available to Sep-quarter 2023)

As shown in **Figure 4** below, Australian food inflation at its peak was also considerably lower than the US, UK and Canada.

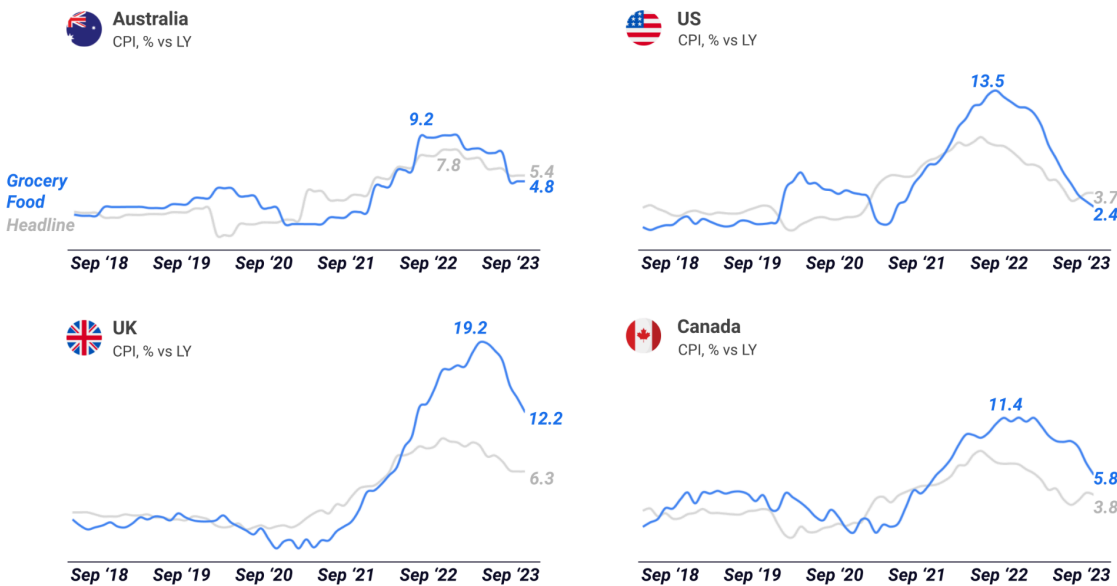


Figure 4. Australian, US, UK and Canadian Grocery Food and Headline inflation, % change vs LY<sup>18</sup>  
Sources: Australian Bureau of Statistics; Melbourne Institute; US Bureau of Labour Statistics; Statistics Canada; UK Office for National Statistics; Trading economics, Woolworths analysis

<sup>18</sup> Australian CPI % vs LY figures provided on quarterly basis to Sep '23 as per ABS table A2325846C; US, UK and Canadian inflation available using monthly data; Australian data to Dec 2023, US, UK and Canada data to Nov 2023

As **Figure 4** above shows, Australia’s period of relatively stable grocery pricing ended around the start of 2022. There have been markedly different inflationary drivers across different product categories in the supermarket over the past two years, which are outlined below: (a) long-life (packaged food and everyday needs); (b) fruit and vegetables; (c) meat; (d) dairy; and (e) bread.

Importantly, food inflation in Australia – and at Woolworths – has been moderating since January 2023, led by deflation in fruit and vegetables and red meat in particular. We are also seeing long-life inflation start to moderate, although as illustrated in **Figure 5** below, it remains higher than fresh food inflation.

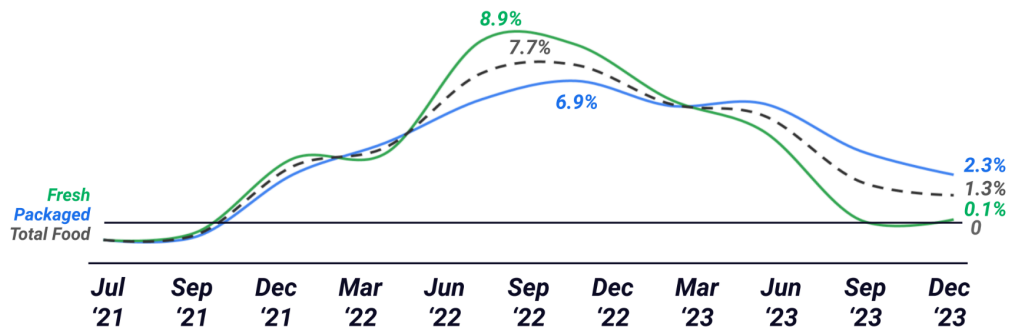


Figure 5. Woolworths Inflation, Packaged goods and Fresh products, Quarterly data, from July 2021 - December 2023

### 3a. Long-life products (packaged food and everyday needs)

A significant component of overall food and grocery price inflation in Australia is attributable to higher prices on packaged (*i.e.* non-perishable) groceries and everyday needs (>50% of the average weekly basket).<sup>19</sup>

Price inflation in long-life products is driven predominantly by the multinational consumer goods companies that supply Woolworths. We negotiate directly with them with the intent of trying to ensure that their price increases are reasonable and based on genuine changes in their cost. However, it is important to note that suppliers are not obliged to provide cost information to justify their increased prices to retailers under the Food and Grocery Code of Conduct. This limits our ability to test and verify the basis for a cost increase request.

Prices of packaged groceries are heavily influenced by global commodity prices and supply chain costs. Even long-life products produced in Australia are heavily dependent on a wide range of imports, including equipment, fuel, pesticides and fertilisers, ingredients and other critical materials such as food packaging.<sup>20</sup> While some of these costs have started to decline, many remain above pre-COVID levels.

With these large, high-volume long-life suppliers, we agree on a wholesale price for the cost of goods. Changes to our cost of goods are reviewed through a well-established ‘cost price increase’ negotiation process, which is commenced by a supplier submitting a cost increase request.

<sup>19</sup> For H1 F2024, packaged groceries comprised 56.8% of items sold, and 50.7% of sales (Woolworths Finance)

<sup>20</sup> In F22, Australia imported ~\$17.1 billion of goods for the purpose of food product manufacturing, equating to 16.2% of the total cost base of the food product manufacturing industry. However, the overall industry exposure to imports is likely to be much higher. The imports number does not include goods which are used in food manufacturing, but are not specifically imported in Australia for that purpose, e.g. fuel, vehicles, and other capital goods. [Sources: ABS, Australian Industry, 2021-22, Australian industry by subdivision; ABS, International Trade in Goods, October 2023, Table 35a. Merchandise Imports, Industry (ANZSIC 2006), Customs Value]

In the 14 months from November 2021 to January 2023, we received more than 1,800 cost increase requests from our long-life suppliers<sup>21</sup> with an average per month ~4.5x our pre-COVID volumes. As illustrated in **Figure 6**, towards the end of 2023, we started to see a reduction in the volume of cost increase requests although they remain at ~2.3x pre-COVID levels. The average cost increase request throughout this period has also generally been high relative to historical levels, at >10% on the existing cost price.

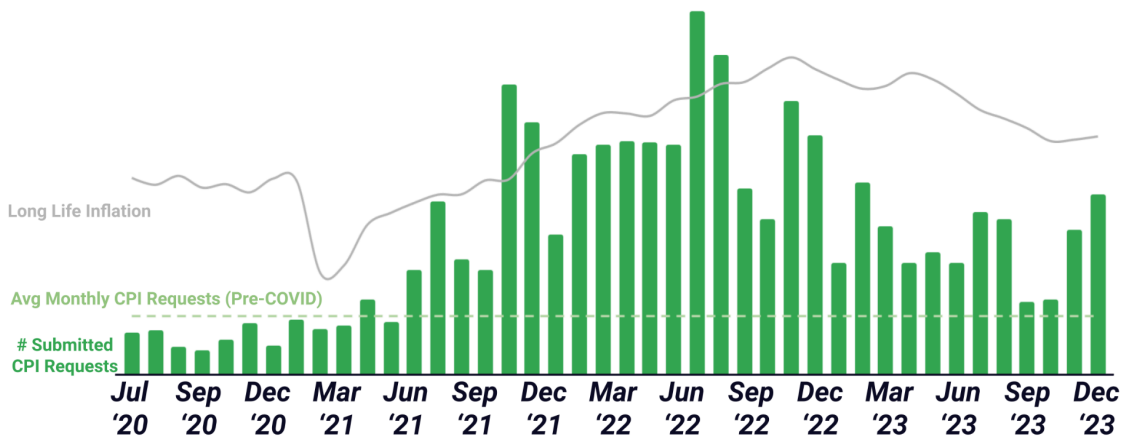


Figure 6. Woolworths' volume of supplier cost price increase (CPI) requests from Long-Life (LL) Suppliers,<sup>22</sup> total internal inflation on LL products (excl. Non Trade & Cigs), Monthly Data, Jul 2020 - Dec 2023

### 3b. Fruit and vegetables

The price of fruit and vegetables in Australia is primarily driven by supply and demand. This is heavily influenced by short and long-term growing conditions and extreme weather events. For example, in 2022, prices went up when heavy rain and low sunlight associated with La Niña reduced the available volume of fruit and vegetables on the market. Better growing conditions in 2023 improved availability, and fruit and vegetable prices have been in deflation since the middle of 2023.

We source around 96% of our fresh fruit and vegetables from Australian growers. Almost all our suppliers submit pricing quotes every week. This allows both parties to quickly and flexibly respond to the highly variable nature of fruit and vegetable supply volumes.

We predominantly buy from growers and grower/aggregators with whom we have long-term purchasing relationships. Many of these growers and grower/aggregators are given long-term forecast estimates to provide more certainty on the volumes we are likely to need. We then negotiate specific volumes and pricing with our supply partners each week. We supplement this with purchases from market agents (<10% of weekly purchases) to allow for additional variability in supply and demand patterns.

Products with less volatility in production, such as packaged salads or mushrooms, have contracted pricing in place to allow for longer-term planning with our supply partners and their suppliers.

<sup>21</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>22</sup> *ibid*



As shown in **Figure 7**, fruit and vegetable prices have fallen significantly over the year since October 2022. In the first quarter of F24, vegetable prices were down around 16.3% on average, and fruit was down 7.8%.

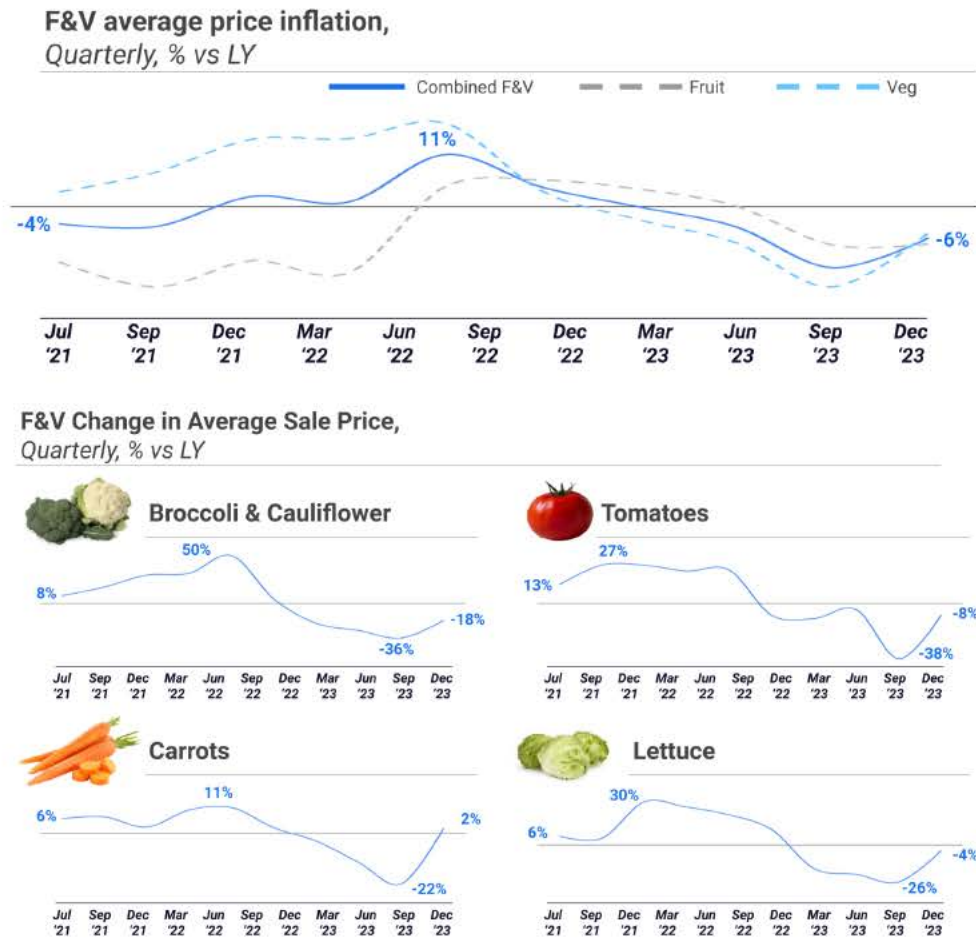


Figure 7: Fruit & Vegetable Supply, Average Price Inflation, and changes in Average Sale Price (ASP) for Select Vegetables, Quarterly, Woolworths Finance

We are invested in the success of Australian horticulture and provide support in a range of ways, including:

- Creating a multi-million dollar organic growth fund to provide interest-free loans and grants to growers to invest in equipment and infrastructure;
- Developing our Odd Bunch range to provide a market for crops that might not otherwise meet quality standards for the retail market;
- Providing quick 7-day payment terms to drive healthy cash flow; and
- Being flexible with specifications when growing conditions or weather events impact size or quality.

**3c. Meat (with a particular focus on red meat given recent commentary)**

We understand the importance of meat, as the ‘centre of plate’ for many Australian families. We work hard to provide affordable prices for our customers. Prices have been falling across beef and lamb products since the middle of 2023. We have dropped the price of ~80 red meat products over the last six months, including 20% off all lamb standard cuts in November 2023.

*Beef and Lamb*

Beef and lamb prices are heavily influenced by weather and export markets (~70% of Australia’s production is exported). Red meat costs increased due to supply constraints as farmers rebuilt herds following the 2018/19 drought and bushfires. Prices started to reduce in 2023 as seasonal conditions pointed to a drier season (**Figures 8 and 9**).

We purchase around 7% of Australia’s national beef production and 6% of lamb. For beef, by buying on forward contracts, we can offset some of the volatility in spot livestock markets, helping to smooth the peaks and troughs through the cycle for farmers and secure high-quality, year-round supply for our customers. For this reason, spot saleyard prices are not an appropriate guide to our costs. For example, in 2023, as spot market prices reduced to record lows, for cattle we continued to pay our suppliers in line with our settled forward contracts and worked with them to ensure sustainable pricing. For lamb, we continued to partner with our long-term suppliers paying above spot market rates to ensure they had the confidence to feed and manage their stock through the drier periods.



Figure 8. Change in Beef Average Sales Price, \$/kg, Monthly Data, % vs LY, July 2021 - December 2023.  
N.B: Beef Species includes Beef for Sausage goods etc., whilst Case Ready excludes this



Figure 9. Change in Lamb Average Sales Price, \$/kg, Monthly Data, % vs LY, July 2021 - December 2023.  
N.B: Lamb Species includes Lamb for Sausage goods etc., whilst Case Ready excludes this

## Pork and Poultry

Pork and poultry prices fluctuate in line with movements in feed costs (i.e. grain prices). Recent geopolitical conflict and weather impacts have seen the price of grain increase, creating upward pressure on pricing along with energy and labour. As with red meat, we have seen rising costs across the supply chain in processing, packaging, storage and transport of pork and poultry.

We purchase pork directly from a small number of primary processors that are vertically integrated (i.e. also producers) or source from other piggeries. We purchase poultry from a small number of vertically integrated primary processors and also buy a small volume of branded product. We typically enter into longer-term pork and poultry contracts where the price is reviewed based on movements of key inputs like feed.

### 3d. Dairy

Australian dairy prices are strongly influenced by global export prices. In F22/23, 30% of milk produced in Australia was exported while 42% of manufactured products, such as cheese and butter was exported.<sup>23</sup>

As **Figure 10** shows, Australian annual milk farmgate pricing remains elevated, driven by strong competition between milk processors to secure supply. In December last year, Dairy Australia noted, “The Australian dairy industry enjoyed record profitability last season and is still benefiting from high farmgate milk prices this season.”<sup>24</sup>

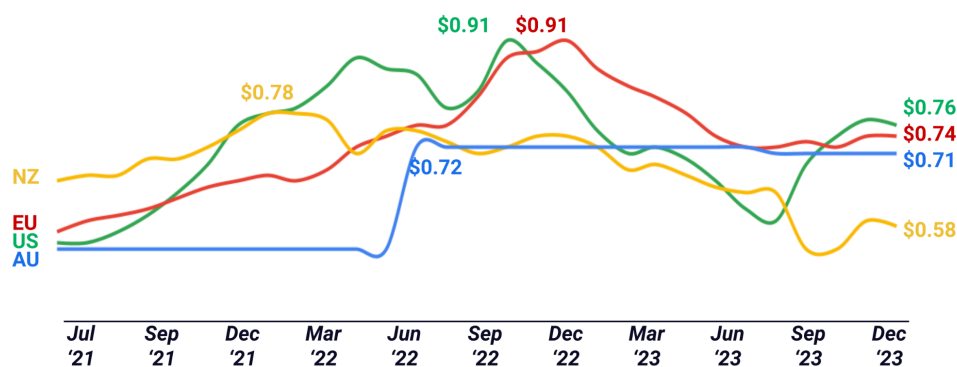


Figure 10. Global farmgate milk prices, AUD/litre, Jul 2021 - Nov 2023  
Source: Australian Dairy Products Federation, Milk Values in Other Markets ([link](#))

We enter into two kinds of milk supply contracts:

- Contracts with processors for our own brand (Woolworths) milk: we acquire a large volume of processed white drinking milk from dairy processors through a volume-based tender process. We do not have visibility of, or control over, dairy processors’ contractual arrangements with dairy farmers – including the price they pay; and
- Contracts with dairy farmers for the supply of Farmers' Own milk: we acquire raw milk directly from farmers. Farmers are paid a premium above the fresh milk farm gate price in each state at a

<sup>23</sup> Dairy Australia, [In Focus 2023: The Australian Dairy Industry](#), 15 November 2023

<sup>24</sup> Dairy Australia, [Situation and Outlook Report](#), December 2023

committed contracted volume. Farmers' Own milk gives farmers a longer-term contract that enables them to invest in and build their businesses. This is a relatively small, but important, part of our dairy offering.

We also sell branded milk supplied by a range of firms including smaller, local dairies in each state. We provide customers with low prices on our own brands in dairy, and as **Figure 11** shows, have worked to minimise own brand milk price rises despite rising wholesale costs.

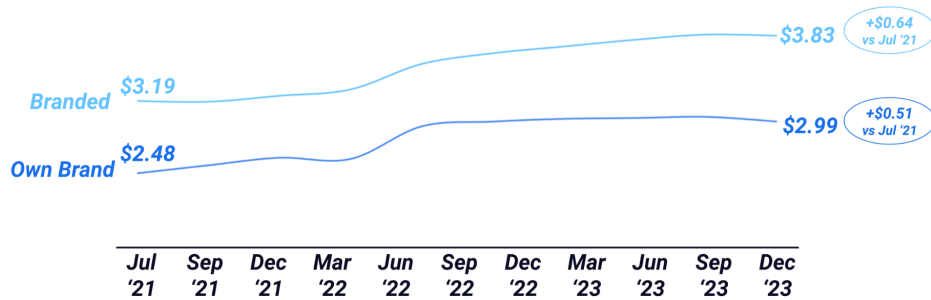


Figure 11: \$ Average Sell Price Branded vs Own Brand Milk products (all sizes); Woolworths Supermarkets Finance, Data from Jul 2021 - Dec 2023

### 3e. Bread

The key driver of bread cost and price is wheat and, to a lesser extent, fertiliser, labour and freight. Australian wheat prices peaked in 2022, driven by the impacts of local weather on supply and heightened export demand as a result of global events (e.g. the war in Ukraine).

At Woolworths, national brands account for ~82% of packaged bread sales, with our own brand bread making up the remaining ~18%. We sell both in-store baked bread and packaged bread which includes both branded and own brand products. As shown in **Figure 12** (below), the price of several key lines of bread went up \$0.50 across the industry in the first quarter of 2023, due to wheat shortages and higher input costs.

We deliver value to our customers through our in-store bakery and own brand packaged bread pricing, which is materially lower than national brands and specialist bakeries (e.g. Brumby's, Bakers Delight).

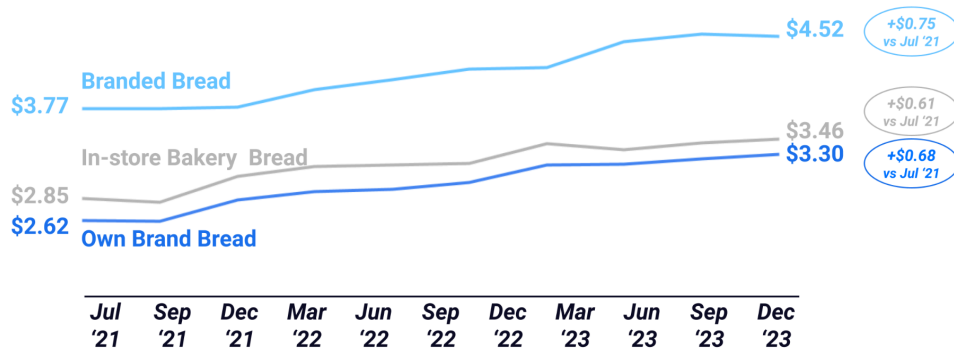


Figure 12. Average Sale Price (ASP) for Woolworths Own Brand (OB), Woolworths In-Store Bakery (ISB), and Branded Bread, Quarterly, Jul 2021 - Dec 2023, Woolworths Finance

## The outlook for grocery inflation

While the market dynamics and cost drivers for long-life, meat, fruit and vegetables, dairy and bread are all different, in the last two to three years we have seen many of the drivers of higher costs coincide. This drove a marked step-up in overall food inflation in Australia and the cost of groceries and everyday needs for Australians.

However, overall grocery inflation moderated significantly throughout 2023. Recently released December quarter ABS CPI shows the rate continues to decline.<sup>25</sup> Fresh inflation continues to ease – driven by fruit and vegetable and red meat deflation. While long-life remains elevated, and suppliers are continuing to request cost price increases, the global forces driving higher costs for commodities and the supply chain are moderating and this is playing out across the globe.

## 4. Working with our supply partners

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 a subset of our stores.

We know that for smaller suppliers, working with large businesses like Woolworths can be challenging and we need to invest in ways to simplify and streamline how we engage. Since June 2023, we have had a dedicated team in place to support small supplier onboarding and in their first months partnering with us. This complements an onboarding guide and training modules to help guide small suppliers.

We particularly understand the importance of prompt payments for small Australian suppliers and growers. In F23, we paid \$3.2 billion to suppliers within 30 days of invoice or less. For the six months ended December 2023, Woolworths Supermarkets will report to the Payment Times Reporting Regulator that more than 97% of invoices (by value) and 96% (by volume) from small suppliers were paid on or within 30 days. We are working hard with our small suppliers to drive further improvement as we aim for 99%+ on time payment.<sup>26</sup>

Based on feedback we have received from the Food and Grocery Code of Conduct Independent Reviewer, Chris Leptos, we recently launched a Supplier Commercial Performance Report for our smaller suppliers. This provides small suppliers with data insights to help grow their business and the report is free for the first 12 months.

We have also offered financial support to a range of small suppliers over the past five years, including:

- \$6 million in grants and \$2.2 million in loans to farmers through the Organic Growth Fund;
- \$5 million in grants to almost 60 dairy farmers through the Dairy Innovation Fund; and
- \$5.2 million in funding to SeedLab small business incubator (established in 2021), to help small innovative Australian suppliers become retail ready.

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<sup>25</sup> Australian Bureau of Statistics (Dec-quarter-2023), Consumer Price Index, Australia, ABS Website, accessed 1 February 2024

<sup>26\*</sup> Woolworths Supermarkets has some of the highest 30-day payment rates in the retail industry. The majority of invoices not paid within 30 days are due to delayed issuing of invoices by the supplier, or delay in the receipt of goods delivered directly to stores.

## 5. 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 is a range of costs associated with getting products into stores and selling product 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.

**Figure 13** shows how revenue from sales is distributed for our Australian Food Group, where we make around 3.6c for every \$1.00 of revenue.

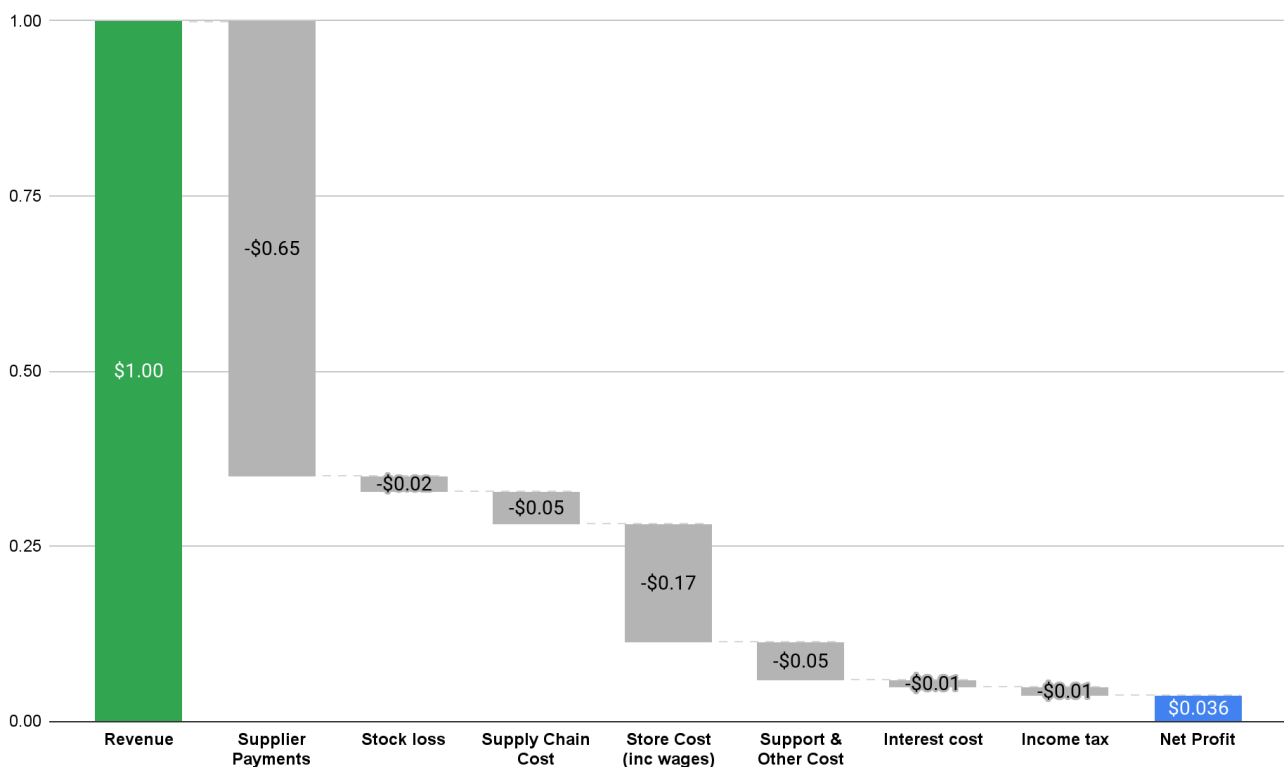


Figure 13 Woolworths AU Food Costs and Profit expressed as cents in every \$1 of Revenue, F2023 P&L<sup>27</sup>

As an ASX-listed company, we publish detailed audited financial accounts every six months. This provides a high degree of transparency both to our investors and the broader public on the financial performance of our business. Our previously published figures for the whole Group, including NPAT and EBIT, can be found in the Appendix set against similar retail businesses.

Our published accounts show that we make reasonable returns on capital for our investors, while reinvesting significantly back into our business for the benefit of our customers, our team and the broader Australian economy.

<sup>27</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'. Stockloss excludes markdowns and clearance.

The grocery industry has become increasingly capital intensive with investment in modern and resilient supply chains, a shorter store refurbishment cycle, the growth of online shopping, and the investment in technology platforms with shorter useful lives. Within this context, we have reinvested more back into the business than most of our domestic and international peers. In F23, our capital expenditure/sales ratio was 3.3%, with Coles at 3.2%. This is above international peers such as Walmart, Tesco and Loblaws, which ranged from 1.9% to 2.7%.<sup>28</sup>

This capital investment has delivered many benefits for our customers, including more convenient shopping experiences, improved product availability and fresher produce.

The table below highlights Woolworths Group's return on funds employed (ROFE) over the last five years. ROFE is the key metric Woolworths Group measures to determine the return on its capital investments. ROFE has been relatively stable in the mid-teens. It should be noted that Woolworths Group ROFE is reported on a pre-tax basis. After applying the 30% corporate tax rate, post-tax ROFE has averaged around 10%.

	F19	F20	F21	F22	F23
ROFE (pre-tax)	14.1%	13.7%	16.9%	13.7%	14.9%
ROFE (post-tax)	9.9%	9.6%	11.8%	9.6%	10.4%

Note: ROFE is calculated as EBIT/ average funds employed. Funds employed is capital employed excluding tax balances. F19 is normalised for the adoption of AASB 16 and the 53rd trading week.

We believe it is appropriate to consider ROFE at a Woolworths Group level given there are costs and assets that are not allocated to business segments.

## 6. Our contribution to Australia

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

### **Employment**

We are Australia's largest private sector employer with 176,000 hard working Australian-based team members, of which over 25,000 have more than 15 years service. We play an important role in providing first job opportunities to young Australians, with around 20% of our team under 21 years of age. Every year we invest heavily in training and development for our team (\$57 million in F23, \$63 million budgeted for F24). In July 2023, we increased wages for all our retail team members by 5.75% and lifted superannuation contributions – maintaining above award rates of pay for our store teams.<sup>29</sup>

<sup>28</sup> Based on the most recent financial year

<sup>29</sup> A total of 6.25% including the 2023 increase in the superannuation guarantee

### ***Technology in stores and its impact on employment***

As customer buying habits have shifted, we are seeing more frequent, smaller basket sizes, and a strong customer preference for a quicker and easier self-serve checkout experience. For a basket with 20 items or less, 83% of our customers choose self-service checkouts, whereas for a basket with more than 20 items, the majority (66%) of our customers select a staffed checkout. As a result, we have rolled out self-serve checkout options to 98% of our stores. All stores continue to offer our customers the choice to be served through a staffed checkout across all our opening hours.

We understand that some in the community were concerned about job losses from the introduction of self-serve checkouts. This has not happened. With the growth in online shopping changing the nature of work in our stores, we now employ 30,000 more store team members than we employed in 2009. This includes almost 22,000 personal shoppers to pick online orders, a role that did not exist in 2009.<sup>30</sup> We have also invested in multi-skilling our existing team members to work across different departments in line with changing customer preferences. All new team members in supermarkets are now multi-skilled and trained in the key areas of serving customers, picking online groceries and filling shelves with products.

### ***Contribution to the broader economy***

Over the past five years, we have invested around \$10 billion in capital expenditure back into our business. This is almost double the amount paid to investors in dividends over the same period (\$5.7 billion). These investments have allowed us to strengthen our supply chain resilience with new and expanded distribution centres, build new stores and upgrade existing ones, and deliver better online shopping experiences with new customer fulfilment centres.

Our supply chain handled 164 days of disruption in F23 as a result of floods, rail derailments, cyclones, and fires. We have established disruption management measures for higher risk stores to continue delivering essential supplies to regional and remote communities in the event of disruption. These measures include increased inventory holdings ahead of seasonal weather events, use of alternative transport modes and road routes, and pre-positioning of contingency stock for essential items in areas subject to floods and cyclones.

### ***Regional investment***

We make a significant contribution to the community and regional Australia in particular. Economic consultancy, Mandala, estimates we support as many as 57,000 regional jobs on top of our direct employment footprint.<sup>31</sup> Approximately 16,000 jobs are indirectly supported through the billions of dollars we spend with suppliers every year, including \$5.7 billion for fresh Australian meat, fruit and vegetables grown on regional farms. A further 40,000 regional jobs are estimated to be supported by the \$1.6 billion in wages we pay regional team members each year.

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<sup>30</sup> Across Supermarkets, Metro, and CFCs, an additional 35,000 team members in Supermarkets are multi-skilled as personal shoppers

<sup>31</sup> Woolworths Group 2023 Regional Report p.6 ([link](#))



We are working to expand our economic contribution in regional Australia even further. Woolworths has committed \$330 million of investment over the next five years to improve shopping experiences for our regional customers.<sup>32</sup> This investment will support ~1,800 construction jobs and create opportunities for smaller retailers and hospitality operators who co-locate in the new shopping centres we develop.

### ***Tax and dividends***

We have paid over \$5.1 billion in federal and state taxes over the last five years.<sup>33</sup> In addition, we have paid \$5.7 billion in dividends to shareholders over the same period.

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.

The majority of our dividends are paid to Australian shareholders who own around 70% of our shares either directly or via their superannuation funds. This contributes directly to the retirement incomes of millions of Australians. Retail shareholders directly own approximately 40% of shares.

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

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<sup>32</sup> Woolworths Group [2023 Regional Report](#) p.7

<sup>33</sup> Cumulative total of corporate income tax, payroll tax, customs/duty, fringe benefits tax and other

## Appendix - Detailed Financial Metrics

For F23, Woolworths Group reported a Net Profit After Tax (NPAT) of \$1,618 million (\$1,721 million before significant items) on sales of \$64,294 million - a margin of 2.5% (2.7% before significant items). Our NPAT margin has been consistently around 2.6% since 2020 and is in line with the period before the inflation outbreak (*i.e.* in F18 was 2.8%). The tables below provide a historical perspective compared to other retailers.

Due to the implementation of the lease accounting standard (AASB 16) in F19, the table below provides financial metrics for the last four financial years (to enable comparability of information).

EBIT Margin (%)					
Retail Group	F20	F21	F22	F23	4 Year Average
<b>Grocery retailers</b>					
Woolworths Group	4.7%	5.0%	4.4%	4.8%	4.7%
<i>Australian Food</i>	5.3%	5.5%	5.3%	6.0%	5.5%
Coles Group	4.7%	4.9%	4.9%	4.8%	4.8%
<i>Coles Supermarkets</i>	4.9%	5.0%	5.0%	5.0%	5.0%
Metcash	2.6%	2.8%	3.1%	3.2%	2.9%
<b>Simple average</b>	<b>4.0%</b>	<b>4.2%</b>	<b>4.1%</b>	<b>4.3%</b>	<b>4.1%</b>
<b>Other Retailers</b>					
Wesfarmers	8.1%	10.3%	9.3%	8.4%	9.0%
<i>EBT<sup>1</sup> Margin by Division</i>					
<i>Bunnings</i>	12.2%	13.0%	12.4%	12.0%	12.4%
<i>Kmart Group</i>	4.4%	6.9%	5.5%	7.2%	6.0%
<i>Officeworks</i>	7.1%	7.0%	5.7%	6.0%	6.4%
<i>Catch</i>	-	-	(17.3%)	(46.0%)	(31.7%)
Premier Investments	15.4%	21.1%	22.4%	21.7%	20.1%
JB Hi-Fi	6.4%	8.3%	8.6%	8.0%	7.8%
Harvey Norman	19.3%	24.6%	21.7%	17.6%	20.8%
Super Retail Group	9.4%	13.8%	11.2%	11.5%	11.5%
Endeavour Group	8.6%	8.0%	7.8%	6.9%	7.8%
<b>Simple average</b>	<b>11.2%</b>	<b>14.3%</b>	<b>13.5%</b>	<b>12.3%</b>	<b>12.8%</b>

NPAT Margin (%)					
Retail Group	F20	F21	F22	F23	4 Year Average
<b>Grocery retailers</b>					
Woolworths Group	2.4%	2.7%	2.5%	2.7%	2.6%
Coles Group	2.6%	2.6%	2.7%	2.6%	2.6%
Metcash	1.5%	1.8%	2.0%	1.9%	1.8%
<b>Simple average</b>	<b>2.2%</b>	<b>2.4%</b>	<b>2.4%</b>	<b>2.4%</b>	<b>2.3%</b>
<b>Other Retailers</b>					
Wesfarmers	6.7%	7.1%	6.4%	5.7%	6.5%
Premier Investments	11.5%	18.2%	18.2%	16.3%	16.1%
JB Hi-Fi	4.1%	5.7%	5.9%	5.4%	5.3%
Harvey Norman	13.0%	16.9%	14.7%	10.8%	13.8%
Super Retail Group	5.2%	8.9%	6.9%	7.2%	7.0%
Endeavour Group	3.1%	3.8%	4.3%	4.5%	3.9%
<b>Simple average</b>	<b>7.3%</b>	<b>10.1%</b>	<b>9.4%</b>	<b>8.3%</b>	<b>8.8%</b>

Source: Company reports, FactSet, Visible Alpha. Based on the individual company's financial year-end. Where available presented on a normalised and continuing operations basis

<sup>1</sup> Earnings Before Tax and after interest on lease liabilities

**Return on Capital<sup>1</sup> (%)**

Retail Group	F20 <sup>2</sup>	F21	F22	F23	4 Year Average
<b>Supermarkets</b>					
Woolworths Group	11.8%	11.9%	13.0%	12.3%	12.3%
Coles Group	18.6%	13.8%	13.9%	13.5%	14.9%
Metcash	15.7%	14.9%	18.0%	18.4%	16.7%
<b>Simple average</b>	<b>15.4%</b>	<b>13.5%</b>	<b>15.0%</b>	<b>14.7%</b>	<b>14.6%</b>
<b>Other Retailers</b>					
Wesfarmers	16.7%	18.5%	16.9%	19.4%	17.9%
Premier Investments	12.0%	18.0%	17.7%	17.1%	16.2%
JB Hi-Fi	33.2%	42.0%	44.7%	42.3%	40.5%
Harvey Norman	15.0%	20.3%	16.4%	12.1%	16.0%
Super Retail Group	15.1%	21.5%	17.8%	18.1%	18.1%
Endeavour Group	N/A	10.2%	10.0%	10.5%	10.2%
<b>Simple average</b>	<b>18.4%</b>	<b>21.8%</b>	<b>20.6%</b>	<b>19.9%</b>	<b>20.2%</b>

**Source: Company reports, FactSet, Visible Alpha. Based on the individual company's financial year-end**

<sup>1</sup> Return on capital calculated as Factset standardised pre-tax operating income / total capital including leases. The calculation may differ from the company's reported return on capital metric

<sup>2</sup> Comparability of F20 metrics may be impacted by the implementation of AASB 16 (lease accounting standard)