

Supermarket Pricing Inquiry

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Woolworths Group Submission Select Committee on Supermarket Pricing in Queensland

Executive summary

Woolworths Group welcomes the opportunity to make a submission to the Queensland Legislative Assembly Select Committee on Supermarket Pricing.

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 Queenslanders.

We understand the pressures that Queensland 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:

- Queensland has a **highly competitive grocery sector** - Over half of the Queensland supermarkets are independents (including Foodworks, Drakes and IGA). 78% of the population live in close proximity to Woolworths, Coles and Aldi. 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 **Queensland communities**, including regional and rural areas. We are a significant private sector employer with over 37,000 Queensland team members and have over 50,000 Queensland registered shareholders. In the last five years, we have paid over \$400 million in State taxes¹. In addition, we are a significant supporter of food relief and charity partners in Queensland, such as the Children's Hospital Foundation, which has seen Woolworths stores facilitating \$65 million in funds, the majority via customer donations, over the last 30 years in support.
- We are a significant **supporter of local businesses**, as we source from over 268 Queensland suppliers and in F23 we purchased \$3.2 billion of goods from them.

Attached is our February 2024 submission to the Commonwealth Senate Select Committee on Supermarket Prices (Appendix A). Appendix A provides empirical analysis of the competitive nature of the Australian grocery

¹ Includes payroll tax, land tax and some stamp duty. In F23, we paid approximately \$89 million in taxes.

industry, benefits 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 Queensland

We have a long and proud history in Queensland, having opened our first store in Queen Street, Brisbane in 1927. Almost 100 years on, we are proud to be a significant private employer in the State, with over 37,000 Queensland team members, including 12,500 in regional areas, working across our 257 Woolworths Supermarkets, 15 Woolworths Metro stores, 46 BIG W Discount Department Stores and 5 distribution centres.

We operate one of the largest supply chain and logistics networks in Australia and we have five Queensland based distribution centres, including the Brisbane Regional Distribution Centre at Larapinta and our Townsville Regional Distribution Centre. These centres underpin our 7-day-a-week delivery of groceries to communities across Queensland and our ability to respond quickly to natural disasters.

Competition in the Queensland Grocery Industry

We face robust competition, both in-store and online, from other major food and grocery retailers in Queensland. Independent grocers represent the majority (52%) of the store locations in the State. Significant operators in the State include IGA with 270 locations, Coles with 183 locations, Aldi with 116 locations, Foodworks with 107 locations and Drakes with 21 locations.

We also face strong competition on a local scale, with the average distance between a Woolworths store and its nearest major competitor in Queensland being 1 kilometre²³ - consistent with the national average. Using ABS metrics, Queensland has on average 12 supermarkets within a Statistical Area 3 Level (SA3), of which 5 are independents. 78% of all SA3s include a Woolworths, Coles and Aldi supermarket.

Queensland also has 3 of the largest and most efficient food and everyday needs retailers in the world competing to serve Queensland consumers - Aldi (global retail sales of A\$180 billion), 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 116 stores in Queensland.** It has 590 stores across every state and territory except Tasmania and the Northern Territory and an annual turnover of nearly \$12 billion in Australia. In the past 12 months, Aldi has expanded its operations into regional Queensland with sites opening in Townsville (1 open currently; 3 locations planned) and Mackay (1 to open in late May; 2 locations planned).
- In 2014, **Costco** opened its **North Lakes warehouse**⁴. The 65,000 sqm site is the first of three in Queensland (located in Bundamba and Coomera) and part of the national footprint of 15 Costco 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 their **Amazon Flex Warehouses in Pinkenba and Arundel** fulfilling QLD orders.

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.

² This excludes one outlier location, where the nearest competitor is >50km away

³ National average is 1,000 metres, excluding outliers where nearest competitor is >50km

⁴ Article, [Queensland's first Costco opening](#)

Delivering value for our Queensland customers

Queenslanders benefit from price transparency and local choice

The number of major competitors and independent retailers in Queensland makes it easy and convenient for many customers to switch all or parts of their shopping baskets between retailers. Customers in the State have taken advantage of this choice, with 86% of Woolworths customers also shopping across another supermarket in the past 12 months⁵. 1 in 6 customers have shopped with another grocery retailer the same day they visit Woolworths⁶.

Unlike many overseas markets, we offer the same retail prices on our website and mobile app as we do in-store with very limited exceptions⁷. 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).

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 Australia⁸. In fresh food, we have state-based pricing on fresh food, largely based on local supply.

99% of our Queensland locations carry national pricing 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 nationwide⁹.

Everyday Rewards

Queenslanders 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.

⁵ 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.

⁶ Same source as reference 4

⁷ Exceptions include a limited number of online only specials and selling by 'eaches' vs 'kgs'

⁸ 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.

⁹ 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 Queensland are informed by national and global factors. Importantly, food inflation in Australia - and at Woolworths - moderated with deflation in the 2023 calendar year, 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%¹⁰.

As explained in our submission to the Commonwealth Senate Select Committee on Supermarket Prices (*Appendix 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 *Appendix A*.

Consistently, a key driver of grocery inflation in long life categories 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 volumes¹¹. 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 cannot be 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 partnerships

We have a key role to play in supporting food relief partners, in addition to providing affordable prices in store. Last year saw our largest contribution on record to hunger relief charities in terms of volume and geographical reach in food and non-food donations to our major partners, and 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 F23, we donated \$11.8 million worth of food to 282 food relief partners or the equivalent of 7 million meals to Queenslanders through hunger relief programs, some of which go to school breakfast programs. A further \$300,000 direct donations from local stores is raised specifically for school breakfast programs across the State. This is in addition to the 7.2 million¹² pieces of fruit given away in Queensland stores in F23 through our *Free Fruit for Kids* program.

Our community support

We have been proud to provide care and support to Queensland community organisations over many years. Our community focus spans initiatives including health and wellbeing, natural disaster responses, drought support, environmental sustainability and animal welfare.

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

¹¹ 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

¹² Value: \$3.6 million in F23.

Since 1986, we've been in partnership with the Children's Hospital Foundation. Over those 30 years, our Queensland and Northern New South Wales stores have facilitated more than \$65 million in customer donations, which has supported cutting-edge equipment, vital research, and on-the-ground support for kids suffering from illness and injuries.

Our team is also passionately supportive of the vital work that the Royal Flying Doctor Service (RFDS) provides in regional and remote parts of Queensland. In 2015, we partnered with the RFDS, which facilitated donations from our customers of more than \$3.1 million to provide state-of-the-art equipment, aircraft and training for staff to help Queenslanders receive urgent medical care when they need it most.

Through the Woolworths Junior Landcare Grants program, in FY23 we provided over 195 grants to Queensland primary schools and early learning centres. 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 will be announced later this year.

Responding to natural disasters

As Queenslanders are aware, natural disasters have been increasingly disruptive for communities and for food and grocery supply chains. We play a key role in providing essential items to communities during these difficult times and work hard to plan and respond to these events.

For example, in 2020, we opened the \$12 million expansion of our Townsville Regional Distribution Centre, specifically to improve its resilience in responding to natural disasters. Spanning over 10,000 sqm, double its original footprint, the expanded DC has allowed for an additional 435 fresh food and essential product lines, including key contingency items such as tinned vegetables, toilet paper, nappies, baby formula and bottled water. Our Townsville DC services 39 supermarkets from Sarina to Weipa and has been crucial in providing ongoing supplies during natural disaster events, including emergency relief distributed through the Salvation Army and other charity partners.

Working with our Queensland supply partners

Partner of choice for Queensland 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 ~260 Queensland suppliers, in FY23 purchasing ~\$3.3 billion¹³ of goods from them. Of this, fresh food comprises ~\$2.6 billion of the spend, with ~\$700,000 on longlife goods. Our Queensland stores sell some of the State's most iconic food brands including Sunny Queen Eggs, Majans and Schultes Meat Tavern.

Local Sourcing

As one of Australia's largest domestic buyers of fresh food, agriculture plays a critical role in our business and we are proud of our partnerships with Australian farmers. We source 100% of our fresh beef, pork, lamb, poultry, seafood, milk and eggs and 96% of our fruit and vegetables from Australian grown.

Queensland is an important growing region for our national operations, with large quantities of bananas, avocados, sweet potatoes, ginger, chillies, sweet corn, capsicums and mandarins along with beef being sourced from the State and delivered nationally.

Supporting Queensland farmers through grants

¹³ 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.

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. Many of our suppliers have been partners with Woolworths for over a decade and this partnership sees ongoing collaboration and dynamic working relationships to develop products and services fit for the evolving needs of customers.

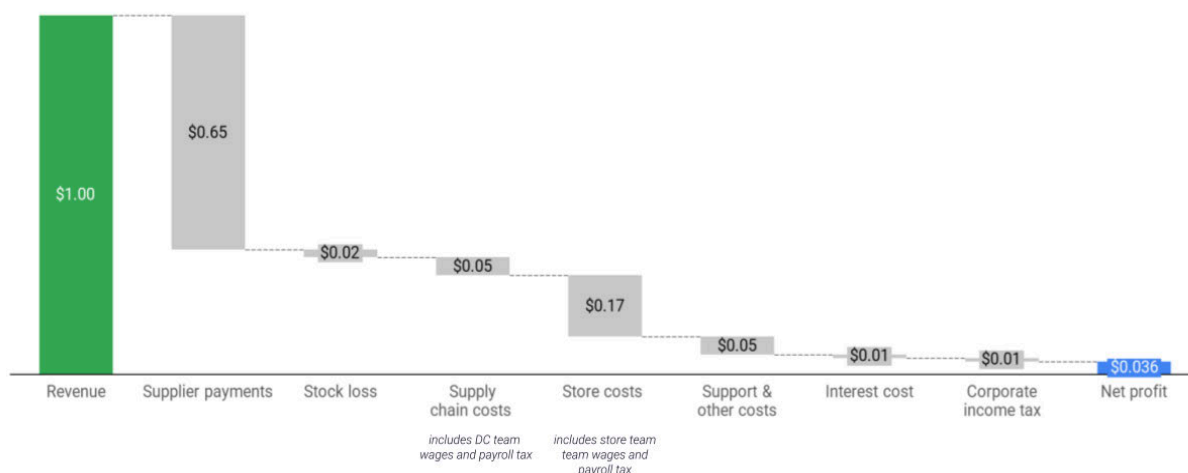
As part of our commitment to supporting farmers and industry, we established the Organic Growth Fund to support investments made by a range of farmers over the past five years. This has seen a \$350,000 grant provided to family owned and operated Bon Accord Organic Citrus to assist with the expansion of their orchard and to grow production levels including the purchase of equipment to improve product quality.

We have also supported industry through the Dairy Innovation Fund, which provided \$5 million in grants to almost 60 dairy farmers nationally. These include Kacey Walker from Walker Farm Foods at Cambroon, who was awarded \$80,000 to install an automated irrigation system to assist with energy efficiency on farm.

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.

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 revenue¹⁴.



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 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%. This is above international peers such as Walmart, Tesco and Loblaws, which ranged from 1.9% to 2.7%.

Our contribution to Queensland

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

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

Employment contribution

We have over 37,000 hard working Queensland-based team members, of which over 5,500 have more than 15 years of service. We also play an important role in providing first job opportunities, with around 39% of our Queensland team under 25 years of age. In FY23, we paid total wages of \$1.41 billion to our Queensland team.

Regional footprint contribution

We make a significant contribution to regional Queensland in particular. 107 of our Queensland locations (86 Woolworths Supermarkets and 20 BIG W Discount Department Stores) are in regional locations. These locations employ over ~12,000 team members, contributing almost \$435 million in wages in F23. Economic consultancy, Mandala, estimates we support an additional 27,800 jobs indirectly in Queensland and an additional \$1.67 billion supplier gross value add¹⁵.

Economic contribution to Queensland

Woolworths is Australian-owned and listed on the Australian Stock Exchange and we have 59,000 registered shareholders in Queensland. 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.

We are a significant contributor to the Queensland tax base. We have paid over \$400 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.

¹⁵ Mandata Partners research commissioned by Woolworths Group to support fact base of Woolworths Group Regional Report 2023