

Woolworths Group

**Submission to the ACCC Supermarkets Inquiry 2024-25
Public Response to the Interim Report**

29 November 2024

A. Introduction

1. In April 2024, in Woolworths' initial submission to the ACCC's current Supermarkets Inquiry, we recognised that:

"The Inquiry is taking place against the backdrop of millions of Australians experiencing cost of living pressures, amid significant economy-wide, and global, rates of inflation. We are acutely aware of the pressure inflation is placing on our customers, our teams and our suppliers. We recognise that our customers are experiencing pressure on household budgets across the board, especially housing, and that food (which accounts for approximately 10% of average household spend) is an important component of this".¹

2. In response, we have worked hard to deliver meaningful value for customers facing cost of living pressures. We confirm that "Australians are right to demand a grocery sector which both delivers compelling consumer value every day and ensures a sustainable, innovative and competitive industry ... [providing] consumers with the value, service and range they need".²
3. In October, as Woolworths announced its Q1 sales results and a lower earnings outlook for H1 FY25, we continued to emphasise and acknowledge publicly that, "Our customers remain under real cost-of-living pressure"³ notwithstanding inflation moderating.⁴ Further, in responding to this persistent cost of living challenge, Woolworths confirmed that "we delivered much needed value" to our customers by way of "... more specials with larger savings, increased shelf capacity of our more affordable Own Brands, [making] it easier to find the best unit prices, [and providing] extra value through Everyday Rewards".⁵
4. We are continuing to focus on serving our customers better, and to help them find great value at Woolworths, all in a very competitive grocery retail sector.
5. This Submission responds to issues raised in the ACCC's Interim Report, published in August. It is supported by a further Confidential Submission to be provided to the ACCC.
6. In the submissions below we, first, confirm the **fierce competition in grocery retailing** today, driven by factors such as:

- the ways in which Australians shop for groceries today - ways which were unimaginable during the ACCC's last Grocery Inquiry in 2008;

¹ Woolworths Group Limited (**Woolworths Group**), Submission to the ACCC Supermarkets Inquiry 2024-25, 9 April 2024 (**initial submission**).

² Initial submission.

³ Woolworths Group, First Quarter Sales Results and Trading Update, 30 October 2024.

⁴ Woolworths Group, 'Trolley Tracker - The State of the Australian Grocery Customer', November 2024, page 8:

https://www.woolworthsgroup.com.au/content/dam/www/media/WEV0053Woolworths-Trolley-Tracker-Report_OCT_OBER_2024_V4.4.pdf

⁵ Woolworths Group, First Quarter Sales Results and Trading Update, 30 October 2024.

- the impact of “hard discounting” by ALDI across approximately 600 stores today;
 - the extensive expansion into retail grocery products by non-supermarket retailers;
 - the potency of Amazon and its subscription offerings, among other online players, in Australia; and
 - the financial competitive incentives for Woolworths to compete for every item in the basket.
7. Secondly, we address the **profitability of our business** - the outcome of running an efficient and innovative business, investing to deliver improvements in our operations, and endeavouring to balance the interests of our customers, as well as our suppliers, our team and our shareholders, all in a fiercely competitive context. Our profits, as reflected in Woolworths Group’s FY24 NPAT margin of 2.5%, are modest proportional to the scale of our business, have been largely constant in recent years, and do not point to any “price gouging” conduct or substantial market power.
8. Thirdly, we respond to particular issues concerning our **customers** and our **suppliers**.
9. Lastly, in keeping with our ambition to learn and improve from the current Inquiry process, we have suggested **improvement opportunities** in 7 key areas.

B. Changes in competition and customer behaviour since 2008

10. In 2008, the ACCC found that “grocery retailing is workably competitive”.⁶ Since then, grocery retailing in Australia has changed unrecognisably - and is now fiercely competitive as a result. This is clear from the following factors, among many others.

B.1 The way consumers shop for groceries has fundamentally changed

11. In 2008, the ACCC found that:

“... consumers face difficulties in comparing prices across the range of items in their typical weekly shop. As a result, many consumers build up a picture of their regular supermarket’s price offer through their experiences over time. Immediately convincing those consumers of a superior price offer is likely to be difficult, even with extensive promotions and advertising”.⁷

12. In stark contrast, today the grocery shopping behaviour of consumers involves:
- a. **Comparing prices before and during grocery shopping:** grocery websites and apps have fundamentally changed the way customers shop. Prices and products across a wide range of retailers are completely transparent for customers, both

⁶ Report of the ACCC into the competitiveness of retail prices for standard groceries, July 2008, page xiv: <https://www.accc.gov.au/system/files/Grocery%20inquiry%20report%20-%20July%202008.pdf> (2008 Grocery Inquiry Report).

⁷ 2008 Grocery Inquiry Report.

online and in-store. Today 47% of customers compare prices “always” or “most times” before deciding where to buy grocery items, compared to 17% in 2008 and a further 38% do this “sometimes” or “very occasionally”, compared to 28% in 2008.⁸ Real time price and product comparisons are also commonly made by customers “in aisle” as they shop in-store or online, armed with a smartphone and free access to competitors’ apps and online (including some comparison websites). At Woolworths, there are approximately 19-20 million weekly visits to our Woolworths and Rewards digital properties, surpassing the number of visits to our physical stores.⁹ Importantly, price comparisons are now made instantly by customers at the individual product level - with separate purchase decisions for individual products made across a range of retailers. Woolworths’ customers report comparing prices across a range of retailers, including Coles, ALDI, Amazon, Bunnings, Chemist Warehouse, The Reject Shop, and others.

- b. **Customers are increasingly shifting to online:** customers are taking advantage of online price and range transparency, ecommerce convenience and omnichannel shopping (combining physical and online retail). In 2008, around 95% of respondents said they had never purchased grocery items online.¹⁰ Today, approximately 15% of all of Woolworths sales are made online - and much higher levels of penetration are seen in bulky goods and other categories in which online/pick-up/delivery choices provide convenience. According to NielsenIQ data, more than half of Australian households have shopped at least once for groceries online in the last year.¹¹
- c. **Splitting grocery baskets and cross-shopping:** customers are making the most of transparent pricing information, choice and vigorous price and promotional competition across a range of retailers on a daily basis. This is resulting in increasing splitting of baskets and cross-shopping. Woolworths estimates that in FY25 Q1, of all customers who made a purchase at Woolworths, 21% also made a purchase at a competing supermarket in the 1.5 hours before the Woolworths purchase, and 16% also made a purchase at a competing supermarket in the 1.5 hours after the Woolworths purchase.¹² More broadly, over 87% of customers indicate they visit two or more grocery stores each week.¹³
- d. **Sourcing products for value and convenience:** customers’ price and product comparisons are also driving choices in which both price and convenience play a role. For example, bulky goods (toilet paper, soft drink etc) are conveniently and

⁸ Interim Report, page 153.

⁹ As of October 2024.

¹⁰ 2008 Grocery Inquiry Report, page 71.

¹¹ 52 weeks to 6 October 2024. Based on NielsenIQ Homescan data for Total Grocery according to the NIQ standard product hierarchy Copyright © 2024, Nielsen Consumer LLC.

¹² Based on 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. No adjustments have been made for cash transactions.

¹³ Interim Report, page 153.

cost-effectively purchased by customers in bulk online and delivered to the home, rather than purchased in-store. Also, regularly purchased products are increasingly purchased in a subscription offer at discounted prices, such as Amazon's "Subscribe and Save".

- e. **More purposeful shopping:** the world has moved on from the legacy "one stop shop" each week or fortnight. The share of customers saying they do one large shop only for the week has decreased from 38% in 2008 to 18% in 2024.¹⁴ In 2024, Shopper Intelligence reported a 14 percentage point increase over 2 years in the net number of customers agreeing with the statement that one of their main reasons for going to Woolworths was to buy a specific product.¹⁵ In Woolworths' long experience of examining customer shopping habits, shopping decisions are now made at the grocery category level, as well as at the individual item level.
13. These customer behaviours are driving competition in the grocery sector for every item in the basket. Customers are no longer dependent on a subjective impression of "their regular supermarket's price offer", as they were in 2008. Rather, the fundamental changes in the level and immediacy of price and product transparency for customers and the growth of online are giving customers abundant choice - literally, just a "click" away - well beyond the traditional catchment of a physical store.

B.2 ALDI

14. In 2008, ALDI was said to be "adversely affected" by consumers finding it "difficult to make comparisons between its exclusive, private label brands and proprietary branded products sold by other retailers", and "a lack of access to suitable sites".¹⁶ Even now, the Interim Report suggests that ALDI is only a "partial price constraint",¹⁷ due to its limited range, geographic scope and physical stores. These propositions are wrong in Australian grocery retailing today.
15. ALDI's "carefully selected"¹⁸ product range does not limit its effectiveness. While ALDI's total product range is smaller than Woolworths', ALDI offers one or more products across every key supermarket product category. On average, Woolworths customers buy only 71 unique products over a 6 week period, and 313 over a 12 month period. ALDI offers equivalent or very similar products to all of the products in a typical Woolworths

¹⁴ Interim Report, page 152.

¹⁵ FY22 Q2 to FY24 Q2; based on the average Net Favourable Score (number of customers who indicated they went to Woolworths to buy a specific product, less those who did not, akin to a Net Promoter Score methodology common in the industry) across categories, weighted by category sales: Shopper Intelligence State of the Nation Australia Grocery 2024.

¹⁶ 2008 Grocery Inquiry Report, page 166.

¹⁷ Interim Report, page 167.

¹⁸ See paragraph 16.

grocery basket and across those limited average product "repertoires".

16. Even in 2008, ALDI said that it had a "carefully selected range of 900 products, designed to match the needs of a consumer's weekly shopping requirements".¹⁹ Today, it has over 3,000 products in its core range in stores, including a much improved "fresh" offering.
17. ALDI's product range and simpler business model is, in fact, its strength - enabling it to offer "Australia's Lowest Prices". It competes as a "hard discounter", leading on price across its full range - with a predominantly "everyday low price" approach, and a lower cost base, driven by lower marketing and branding-related costs,²⁰ direct sourcing from manufacturers, a lean buying structure, smaller store footprints which are easier to secure and develop than larger supermarket premises, a smaller number of team members in store, and a strategic preference not to offer online sales.
18. ALDI's expanding store network is readily accessible, and very familiar to Australian grocery customers. ALDI now serves more than 5 million Australian households every month,²¹ across nearly 600 stores.²²
19. ALDI stores are now conveniently located across much of urban and regional Australia. 43% of all Woolworths stores have an ALDI store within 1km, 59% have an ALDI store within 2km and 80% have an ALDI store within 5km. The majority of all of Woolworths' customers live within these distances of a Woolworths store - and the local ALDI store.²³
20. Today, where a Woolworths store is located within a short distance of an ALDI store (or in the same centre), Woolworths' average basket size is materially smaller than where that is not the case, and there is significantly higher cross-shopping penetration within a short period of customers' shopping at Woolworths.
21. Even where there is no "local" ALDI store, consumers nevertheless benefit from ALDI's price competition with Woolworths, due to Woolworths' national pricing for packaged groceries, with only limited exceptions.
22. ALDI's focus on in-store shopping does not constrain its broad competitive impact. While around 15% of Woolworths' sales today are made online, approximately 85% of respondents to the ACCC's survey indicated that they continue to buy most of their groceries in-store in 2024.²⁴ But this does not constrain customers from cross-shopping

¹⁹ 2008 Grocery Inquiry Report, page 166.

²⁰ Oral evidence of Mr Jordan Lack, Managing Director of National Buying, ALDI at the ACCC Supermarkets Inquiry public hearing on 11 November 2024.

²¹ ALDI, Submission to the ACCC Supermarkets Inquiry 2024-25, 2 April 2024, page 2:

https://www.accc.gov.au/system/files/ALDI-Public_Redacted.pdf

²² ALDI, 'ALDI Locations': <https://store.aldi.com.au/>.

²³ On average for Woolworths supermarkets, 42% of sales come from customers who live within 2km of the store, and 27% of sales come from customers who live between 2 and 5km of the store.

²⁴ Interim Report, page 154.

and checking prices. For customers shopping in-store at ALDI, they are still able to instantly compare the prices of Woolworths and other grocery retailers online. Further, while ALDI does not have all its prices across its range online currently,²⁵ customers shopping at any other grocery stores or online, can still compare with many of ALDI's prices, as it publishes details of its Catalogue, Special Buys and Super Savers in the ALDI mobile app and on its website, and customers can sign up to a weekly email newsletter and agree to receive ALDI notifications on Special Buys and sales within the app.

23. In this context, it cannot be correct that ALDI is only a "partial price constraint" on Woolworths and other grocery retailers.
24. To be sure, the ACCC has recognised that competitors need not be identical or similar to impose very effective competitive constraints. The ACCC's Merger Guidelines underline the importance of "maverick" firms, which drive significant aspects of competition, such as pricing, innovation and product development, even though their scale or market share may be "modest". Such competitors " ... deliver benefits to consumers beyond their own immediate supply, by forcing other market participants to deliver better and cheaper products. They also tend to undermine attempts to coordinate the exercise of market power".²⁶ ALDI is just such a firm - driving significant competition across all grocery retailing in Australia.

B.3 Competition from non-supermarket grocery retailers - range extension

25. As the ACCC is already aware, major Australian retailers outside of the supermarket sector, including such well established and resourced retailers as Chemist Warehouse and Bunnings, compete directly with Woolworths in the retail sale of many grocery products - particularly those in higher margin non-perishable categories.
26. By way of one example, in personal care and health & wellness, non-supermarket retailers hold approximately 67% share of sales in these categories.²⁷ In these categories, Chemist Warehouse is a clear leader and is the largest retail presence in pharmacy by revenue, with a significant online and ecommerce presence.²⁸ "Front of store" grocery categories such as personal care, over-the-counter medicinal, health & wellness, baby and household care

²⁵ ALDI has announced that it will have prices for its full range available on its website in the near future: ACCC Supermarkets Inquiry Public Hearing.

²⁶ ACCC, Merger Guidelines, November 2008, page 46, paragraph 7.56:

<https://www.accc.gov.au/system/files/Merger%20guidelines%20-%20Final.PDF>.

²⁷ Woolworths analysis: total market size based on 2023 mass personal care market (excludes premium), according to market report estimates (Euromonitor). Personal care is a large grocery category including personal wash, hair care, oral care, cosmetics, skin care, sun care, feminine care, men's toiletries & razors, deodorants and medicinal products. Health & wellness includes vitamins and diet & sport nutrition products.

²⁸ ACCC, Statement of Issues on Sigma Healthcare Limited's proposed acquisition of CW Group Holdings Limited, 13 June 2024, pages 14 and 17:

[https://www.accc.gov.au/system/files/public-registers/documents/Sigma%20Chemist%20Warehouse%20-%20State](https://www.accc.gov.au/system/files/public-registers/documents/Sigma%20Chemist%20Warehouse%20-%20Statement%20of%20Issues%20-%2013%20June%202024_0.pdf?ref=0&download=y)

products make up approximately two thirds of Chemist Warehouse's sales.²⁹

27. Across these categories, there is a substantial overlap between Woolworths' and Chemist Warehouse's ranges. For example, in personal care, health & wellness and baby, Chemist Warehouse sells between 45% to 55% of Woolworths' range (by exact SKU match), representing 50% to 65% of Woolworths FY24 sales in those categories.³⁰
28. Woolworths' initial submission also highlighted the significant range expansions of Bunnings into grocery products such as household cleaning products and pet-care - and similar expansions at The Reject Shop.³¹
29. These examples are clearly at odds with the ACCC's contention in the Interim Report, that non-supermarket businesses have not been close competitive constraints on supermarkets.
30. Even in 2008, the ACCC considered that "the major supermarket chains account for between 55 per cent and 60 per cent of consumer expenditure on grocery items" - such that around 40% of grocery sales occurred beyond the "supermarket" sector.³²
31. Today, it is clear that non-supermarket grocery retailers, including such major, well-resourced and capable retailers as Chemist Warehouse and Bunnings, are direct competitors of Woolworths. This is reflected in the reality of:
 - a. **How customers shop for groceries:** with high levels of immediate and comprehensive price comparison, cross-shopping and basket splitting across supermarket and non-supermarket retailers, both in-store and online.
 - b. **How Woolworths responds to these important competitors:** reflected in the daily commercial conduct of category teams who must monitor and constantly re-assess their offers as compared to all other grocery retailers, not just supermarkets.
 - c. **How suppliers experience the market:** negotiating the sale of the same grocery products to the commercial buying teams of non-supermarket retailers as those sold to supermarkets.

²⁹ James Thompson, 'Chemist Warehouse: A first look under the hood of Chemist Warehouse is striking', 21 March 2024, Australian Financial Review: <https://www.afr.com/chanticleer/first-look-under-the-hood-of-chemist-warehouse-is-striking-20240321-p5fe6e#:~:text=Sigma%20Healthcare%20gave%20investors%20a,The%20numbers%20are%20impressive>; Initial submission, page 27.

³⁰ Woolworths analysis, based on active SKU overlap as at 24/10/2024 and sales for the last 52 weeks to 24/10/2024. These range overlap figures are based on direct SKU matches and tend to understate the practically effective range overlap, as they do not capture different pack sizes of the same product. This may be a significant variance, as Chemist Warehouse tends to range bigger pack sizes.

³¹ Initial submission, pages 27-28, and 75-76.

³² 2008 Grocery Inquiry Report, pages 48-53.

B.4 Amazon's online competition

32. Amazon is a potent retail competitor to Woolworths in Australia. Amazon's market capitalisation is US\$2.16 trillion.³³ Analysts have recently estimated its Australian gross merchandise value, which includes third party sales on its platform, is likely to be \$6.5 billion in the year to 31 December (30% increase vs the previous year) and that it is the second-largest online retail business in Australia.³⁴
33. Amazon Prime now has more than 4 million Australian members.³⁵ A 30 day free trial and a subscription at \$9.99 per month, gives a member free delivery on all Amazon products, and access to movies, music and books. A 2 year free DashPass is now also available to members - providing free delivery on grocery orders (including fresh food) from DoorDash partners, Coles and IGA. A Prime subscription provides a clear incentive for subscribers to consistently prefer purchasing grocery and other products from Amazon.
34. Amazon has stated that food groceries have become a significant growth opportunity for it in Australia and that it is focused on range and fast delivery fulfilment times in order to pursue that opportunity.³⁶
35. Amazon has already invested at least \$11 billion in its Australian operations since entering the market,³⁷ and following completion of its fully automated/robotic fulfilment centre at Cragieburn in 2025, Amazon will own Australia's two largest fulfilment centres (along with Kemp's Creek).³⁸
36. Amazon is already competing directly, and very effectively, with Woolworths across a substantial portion of Woolworths' business.
 - a. **Range overlap:** Excluding fresh food, Amazon sells 27% of Woolworths' FY24 range (vs 20% of the FY23 range), covering SKUs representing 39% of Woolworths' FY24 sales (vs 34% of FY23 sales) in these categories.³⁹ In personal

³³ At 27 November 2024.

³⁴ Carrie LaFrenz, 'Amazon is quietly turning into a major rival for Coles and Woolworths', 25 November 2024, Australian Financial Review: <https://www.afr.com/companies/retail/amazon-is-quietly-turning-into-a-major-rival-for-coles-and-woolworths-20241112-p5kpy0>.

³⁵ Sam Buckingham-Jones, 'Aussies added 189,000 streaming services despite cost-of-living crunch', 2 May 2023, Australian Financial Review: <https://www.afr.com/companies/media-and-marketing/aussies-added-189-000-streaming-services-despite-cost-of-living-crunch-20230501-p5d4j2>.

³⁶ Carrie LaFrenz, 'Amazon is quietly turning into a major rival for Coles and Woolworths', op. cit.

³⁷ Ibid. See also Sue Mitchell, 'Online battle gets serious as Amazon shifts gear', 24 November 2022, Australian Financial Review: <https://www.afr.com/companies/retail/online-battle-gets-serious-as-amazon-shifts-gear-20221121-p5c054>.

³⁸ Amazon, 'Construction has begun in Melbourne as Amazon Australia announces second robotics fulfilment centre', 9 August 2023: <https://www.aboutamazon.com.au/news/workplace/construction-has-begun-in-melbourne-as-amazon-australia-announces-second-robotics-fulfilment-centre>.

³⁹ Woolworths analysis; based on directly matching SKUs overlap.

care, as an example, Amazon sells 52% of Woolworths' FY24 range (vs 40% of the FY23 range), covering SKUs representing 68% of Woolworths' FY24 sales (vs 64% of FY23 sales) in this category.⁴⁰

- b. **Price and value:** Amazon dynamically matches the lowest price in the market, including those of supermarkets, across many grocery SKUs. Amazon's "Subscribe & Save" proposition offers an additional 10% price reduction (or 15% on, for example, certain Baby categories) for customers who are willing to commit to a certain volume of future purchases. Its Prime membership includes free delivery with no minimum order on eligible items.
 - c. **Delivery/convenience capability:** Amazon plans to offer same day delivery to every major Australian city by 2026,⁴¹ and currently offers next day delivery for items sold or fulfilled by Amazon AU to metro areas of Sydney, Melbourne, Brisbane, Adelaide and Canberra.⁴²
37. To address this competition from Amazon, Woolworths has already invested hundreds of millions of dollars in its customer digital experience, as well as our eCommerce fulfilment capability and capacity (through Woolworths' store network and customer fulfilment centers), including the same day and Delivery Now (under 2 hours) delivery capabilities. Woolworths' category teams closely monitor Amazon prices and have introduced products of larger pack sizes in order to compete with those offered by Amazon in certain categories.

B.5 Other competitive incentives of Woolworths

38. In addition to the many competitive constraints outlined above, Woolworths has clear financial incentives to compete to retain all of the items in every customer's basket, by setting competitive prices from week to week across its full range of products.
39. In its "high volume, low margin" business, with significant fixed costs, even the loss of just one item from an average customer basket, has a significant negative impact on the profitability of that basket for Woolworths.⁴³ As a result, Woolworths has a clear incentive to price all of its products competitively against the competing offers of all other grocery retailers - including those with a smaller range and those beyond the supermarket sector - so as to avoid that outcome.
40. It is for this reason that:

⁴⁰ As with the analysis re Chemist Warehouse above, this direct matching SKUs overlap analysis understates the effective range overlap as it does not capture different pack sizes of the same product. Amazon's range tends to have a bigger/bulk pack size focus.

⁴¹ Carrie LaFrenz, 'Amazon is quietly turning into a major rival for Coles and Woolworths', op. cit.

⁴² Amazon, 'Delivery speeds and charges for metro areas of Sydney, Melbourne, Brisbane, Adelaide and Canberra': <https://www.amazon.com.au/gp/help/customer/display.html?nodeId=GWPHU6Y3MV576ZH6>.

⁴³ This is even more the case, when the item "lost" is a higher margin product, such as those in personal care, baby, pet, household care, general merchandise and health & wellness products.

- a. Woolworths monitors competitors' prices closely, including Coles, ALDI, IGA stores, Chemist Warehouse and Amazon;⁴⁴ and
- b. Woolworths acts quickly to respond when it identifies instances when its pricing is uncompetitive.⁴⁵

B.6 Competitive factors - other observations and conclusions

41. Woolworths competes with many effective rivals in Australian grocery retail - including all of those referred to above, among many others.⁴⁶ It is wrong to characterise Woolworths as part of a "supermarket oligopoly" with limited incentives to compete vigorously.⁴⁷ All Australian supermarkets, such as Woolworths, Coles, ALDI, IGA, Costco and others, compete directly with, and are effectively constrained by, other major retailers of grocery products, both in-store and online - including those mentioned above.
42. Further, Woolworths rejects that "Australia's supermarket sector is highly concentrated".⁴⁸ A focus only on the "supermarket sector" is blind to highly effective competition and constraint from other "non-supermarket" grocery retailers.
43. As to barriers to entry, Woolworths acknowledges that supermarket retailing in Australia, with its widely dispersed population centres, is a capital-intensive business requiring significant investment. Nevertheless, recent history indicates that entry by ALDI, and easy expansion by established retailers such as Chemist Warehouse and Bunnings, into the Australian retail grocery market are realistic, viable and attractive, and sources of very effective competitive constraint.
44. As is playing out currently in Australian grocery retailing, to compete effectively, it is not necessary, or even sensible, to replicate the business models or assets of either Woolworths or Coles.
45. For example, in selecting sites, ALDI has focused on smaller premises than a "full line supermarket" would require, so as to maximise opportunities for its business. Amazon operates only online - without any need for retail stores. Among established retailers, very effective expansion into grocery retailing has involved no more than rearranging the layout of existing stores.

⁴⁴ Prices of other competitors, including Costco, are less readily followed and are monitored through spot checks and price collections.

⁴⁵ This is not indicative of a lack of competition. Rather, it is profoundly competitive behaviour, consistent with the impetus to take immediate steps not to lose sales.

⁴⁶ These include, obviously, Coles, IGA, Costco, other Metcash supported stores, Harris Farm, The Reject Shop and many others such as fresh food specialists (greengrocers, butchers, bakeries and delis) and fresh food markets.

⁴⁷ Interim Report, page 45.

⁴⁸ Interim Report page 145. In any event, as the ACCC acknowledges in its Interim Report, measures of concentration are not determinative of the level of competition in a sector.

46. As a result, access to suitable sites for stores has not been a significant barrier to entry or expansion into grocery retailing.
47. That this is the case, points away from Woolworths having any incentive to engage in “land banking” as described in the Interim Report. Indeed, Woolworths acquires relevant sites only with the intention to develop new stores (or expand or refurbish existing stores) or online fulfilment capacity for its own business, to drive growth and support Woolworths’ existing customer base or population growth. Woolworths does not acquire sites with the purpose of preventing grocery retail competitors from acquiring those sites.
48. Woolworths confirms however, that development of retail sites can have long and uncertain lead times - and in some cases, Woolworths has held development sites for longer than it had initially contemplated as a result. Delays and inefficiencies in zoning and planning processes across Australia have been repeatedly recognised by the Productivity Commission.
49. The timely delivery of stores and associated facilities by all retailers of groceries would benefit from improved planning processes. Woolworths **supports** initiatives that would improve productivity in planning and provide choice to more communities, including many of the recommendations that have been canvassed in Productivity Commission reports on the topic in recent years.

C. Profitability

C.1 Woolworths’ profitability and performance

50. The profitability of Woolworths Group, including its Australian Food business, is not unreasonably high, proportional to the size of our business, on any metric.⁴⁹ In FY24, the Woolworths Group NPAT margin was 2.5%. Woolworths’ Australian Food business achieves just 3.6 cents (approx) in NPAT, for every dollar that customers spend in the business.⁵⁰ From this, Woolworths invests back into its business, and pays dividends to its shareholders. There is no evidence of “price gouging” nor that Woolworths has, or is exercising, a substantial degree of market power. Further:

⁴⁹ Woolworths agrees with the ACCC’s observation that there are “various profitability metrics” and no “one size fits all” metric that will fit best for all entities, circumstances and purposes.

⁵⁰Woolworths Group does not typically report operating segment results to NPAT. This has been produced for illustrative purposes. The 3.6c in net profit is based on FY 2024. This net profit accounts for Australian Supermarkets and other Australian Food business units such as Cartology. In this calculation, 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.

- a. **There has been no material increase in Woolworths Group's EBIT margin over the past 5 years, when adjustments for the impact of AASB16⁵¹ are made.**
Modest EBIT margin growth for the Australian Food business during the same period was driven by a range of factors including customer shifts to new product categories, customers substituting into higher margin long life and chilled products, the significant decline in low-margin tobacco sales, the benefits of new, higher margin adjacent businesses such as retail media, and the benefits of the successful execution of customer and productivity initiatives. No evidence of "price gouging" is apparent.
- b. **Woolworths Group's NPAT margins have remained largely stable over the past 5 years, and are modest compared to other retailers and many grocery suppliers.**
NPAT is the profit measure that drives Earnings Per Share and dividends for shareholders, and is a more appropriate basis for international comparisons of profitability (vs EBIT), because interest costs and tax varies between jurisdictions.
- c. **Woolworths' Group's ROFE (pre-tax) has averaged around 15% (or approximately 10% post-tax), during the past 5 years.** The Group has invested around \$10 billion in capital expenditure back into the business over this period. Woolworths Group's Return On Capital, based on FactSet's standardised calculation, is average when benchmarked against other Australian retailers and global peers.⁵²

C.2 *International comparisons*

- 51. The ACCC observed in the Interim Report⁵³ that international profitability comparisons are challenging for a variety of reasons. Woolworths agrees with that observation. Such comparisons provide limited insights into the level of competition in Australia. This view is consistent with recent practice by competition authorities overseas (e.g. NZCC, CMA, Competition Bureau of Canada).

D. **Our Customers**

- 52. Woolworths is acutely aware of the impact of inflation across all of our customers and suppliers.

⁵¹ In 2019, the Australian Accounting Standard Board (AASB) issued a revised accounting standard, AASB16 - Leases. This changed the accounting treatment of an entity's operating lease activities. For Woolworths Group, the changes resulted in a rebasing of EBIT margins to a structurally higher level (e.g. 1% higher for Woolworths Group and 0.8% for Australian Food in FY19). This affects the comparability of pre 2019 and post 2019 EBIT margins (and other profitability metrics).

⁵² Initial submission, page 3

⁵³ Interim Report, pages 192 and 195.

53. In this environment, Woolworths continues to proactively seek ways to offer value to customers, help them track their spend, and be clear and simple about its prices and promotions. We are always seeking to improve in response to customer and other feedback.

D.1 Woolworths' focus on our customers

54. Where customers decide to shop is critical to our business. Customers base that decision on a range of factors, as illustrated by the ACCC's consumer survey,⁵⁴ and have, literally at their fingertips, many competitive alternatives available to them. To respond to this challenge, Woolworths has and continues to make significant investments⁵⁵ to attract customers and differentiate Woolworths' convenience, range, quality, value and experience. These include:
- a. Substantial investments in store refurbishments and formats to provide a compelling in-store customer experience.
 - b. Convenience solutions such as Direct to Boot customer propositions, and online delivery solutions through its customer fulfilment centres.
 - c. Significant investments in differentiating its range to offer customers greater quality and choice, including: developing over 1,500 new own brand products in FY24 (including local and multicultural ranges), and committing to growing the proportion of healthier choices in customers' baskets by 50 basis points each year.⁵⁶
 - d. Significant investments in Woolworths' digital and Everyday Rewards member experience, including web and app features aimed at helping customers find value and convenience.
 - e. Substantial investment in building a resilient and efficient supply chain that seeks to improve service, range and ensure availability for its customers - as well as responding to natural disasters effectively.
55. Other Woolworths initiatives have made it easier for customers to plan, shop and find value online and in-store.⁵⁷ These include:
- a. The **Best Unit Price Filter** on the Woolworths' website and mobile app enables customers to quickly and easily compare the unit prices for products in the

⁵⁴ Interim Report, page 13.

⁵⁵ Woolworths will invest approximately \$2 - 2.2 billion forecast capex in FY25, and has invested approximately \$10 billion capex over the last 5 years, the majority of which sits within the Australian Food business. Woolworths notes that the capital expenditure investment does not take into account the significant operating expenses in Woolworths' team required in order to enable all of the investment outlined.

⁵⁶ On a rolling 12 month basis, around 60% of Woolworths' sales and 70% of food sold by weight were Healthier Products (3.5 Health Star Rating and above).

⁵⁷ Initial submission, page 14.

range. Approximately 150,000 customers use Woolworths' Best Unit Price Filter each week.⁵⁸

- b. Customers can prepare **shopping lists**,⁵⁹ including products on special, before they shop in-store or online and whilst doing so, track their cumulative spend as they adjust product selections to fit their budget.
- c. **Watchlists** are a new digital feature allowing customers to select their preferred products and receive a notification when it is on special. Although Watchlists were only introduced in September 2024, more than 70,000 customers per week are using it to help manage their budget.⁶⁰

D.2 Pricing and promotional activities

- 56. We understand the importance of transparency and clarity to enable customers to make informed decisions about how and where they shop and the products they select.
- 57. The Interim Report noted that there is variable availability of pricing information on retailer sites and price comparison websites and apps, and inconsistency in pricing online and in-store. To address this:
 - a. Woolworths already makes its pricing and product information readily available to customers on its websites and apps and in store,⁶¹ and **supports** initiatives to ensure that retailers make pricing information available online, as well as on comparison websites, to the benefit of Australian customers.
 - b. Woolworths is committed to helping make promotions easy to understand for customers so that customers can readily and easily assess value - by providing guidance on its website (and prospectively on in-store signage) about the meaning of its different price and promotional programs.⁶²
- 58. Nevertheless, Woolworths considers that customers - as well as suppliers and retailers - would benefit from more detailed guidance on pricing and promotions.
- 59. The ACCC has sought feedback on 3 options concerning promotional pricing:
 - a. **Option 1 - Supplementing the ACCC's Advertising and Selling Guide:**
Woolworths has previously sought and **supports further guidance** from the ACCC that is specific and applicable to the grocery sector. A clear and level regulatory playing field is important for both competition and customers.

⁵⁸ Weekly active users using the Best Unit Price Filter on the Woolworths website and app in October 2024.

⁵⁹ 1.1 million weekly active users used shopping lists in October 2024.

⁶⁰ In October 2024.

⁶¹ Interim Report, page 82.

⁶² Interim Report, page 77 citing Woolworths, 'Helpful facts about your supermarket specials, tickets and promotions': <https://www.woolworths.com.au/shop/articles/value>.

- b. **Option 2 - Requiring supermarkets to publish information about their promotions:** Woolworths publishes guidance on its website about the meaning of its different price programs and promotions. Woolworths **supports requirements** that retailers publish explanatory guidance, provided the disclosure of competitively sensitive information is not required.
- c. **Option 3 - Regulating pricing representations:** Woolworths **supports consultation** concerning the possibility of further regulation in relation to pricing representations - but is uncertain at this point as to where that might be best focused.

D.3 Unit pricing

- 60. Woolworths continues to support the Unit Pricing Code and further clarity about the prominence and legibility requirements of the Unit Pricing Code.
- 61. The ACCC records, in the Interim Report, some concerns with the unit pricing regime and canvasses some options for improvement. Woolworths:
 - a. **Supports** the application of the Unit Pricing Code to all grocery retailers, with possible exemptions for very small retailers.
 - b. **Supports, in principle,** an audit of compliance with the Unit Pricing Code by the ACCC and/or bringing forward the next review of the Unit Pricing Code.
 - c. **Does not support** penalties for non-compliance with the Unit Pricing Code. The commercial and ethical incentives for doing the right thing in relation to unit pricing are already compelling.

D.4 Shrinkflation

- 62. A reduction in the weight or pack size of a product by its manufacturer, with no disclosure and/or equivalent reduction in price, is a concerning practice.
- 63. Woolworths considers that consistent statements of unit prices effectively enables customers to observe and understand the impact on pricing of changes to the weight or pack size of a product. Where retailers are failing to adhere to the Unit Pricing Code, targeted corrective measures are warranted.
- 64. Woolworths **supports** the introduction of a requirement that product manufacturers indicate on their products, where a product has reduced in size or weight (e.g. a callout on a QR code on product packaging).

E. Our Suppliers

- 65. Woolworths' working relationships with suppliers are vital to the success of our business.

66. Woolworths is concerned by reports that some suppliers apparently fear “retribution” if they raise issues with Woolworths. To be clear, Woolworths will not tolerate “retribution” against any supplier for raising issues with us - whether directly or through our Independent Code Arbiter.
67. Woolworths’ Trade Partner Complaints Integrity Policy provides for senior executive monitoring and accountability to ensure suppliers will not be subject to commercial detriment or any adverse consequences as a result of raising a Food and Grocery Code concern or complaint with Woolworths.
68. Woolworths **supports** the recommendation from Dr Emerson’s independent review of the Food and Grocery Code to establish an anonymous complaints mechanism to raise issues directly with the ACCC.

E.1 Woolworths’ supplier base

69. Generalised observations on supplier relationships are unhelpful. The clear differences between suppliers of packaged groceries, on the one hand, and suppliers of perishable agricultural goods (such as fruit and vegetables) on the other, underline this point.
 - a. **In packaged goods**, Woolworths’ supplier base is highly concentrated and weighted towards large multinational Consumer Good Companies, many of whom are significantly larger than Woolworths. As **Figure 1** below shows, 48 large Australian and foreign-owned multinational suppliers provided approximately 70% of Woolworths’ packaged grocery sales in FY24. These suppliers bring significant bargaining power to negotiations, selling into a great number of channels to market across a global scale.

Figure 1

48 Large Australian and Foreign-owned Multinational Suppliers Provide ~70% of Woolworths' Packaged Grocery Sales



% of WOW Packaged Grocery Sales ³	Market Cap	FY23 Group Revenue
Nestlé	\$388 billion	\$163 billion
Coca-Cola EuroPacific	\$54 billion	\$28 billion
Mondelez	\$140 billion	\$55 billion
Mars	Privately owned	\$72 billion ¹
Bega	\$2 billion	\$3 billion
Lactalis	Privately owned	\$45 billion
Associated British Foods	\$34 billion	\$39 billion
Unilever	\$232 billion	\$98 billion
Fonterra	\$6 billion	\$21 billion ²
KKR	\$188 billion	\$22 billion
Asahi	\$27 billion	\$28 billion
J.R. Simplot	Privately owned	\$15 billion
Reckitt Benckiser	\$66 billion	\$24 billion
PepsiCo	\$355 billion	\$139 billion
Kraft Heinz	\$63 billion	\$40 billion
Procter & Gamble	\$604 billion	\$125 billion

These 16 companies supply 370+ consumer brands and account for ~36% of packaged grocery sales

¹ FY22 revenue figure (unaudited)
² FY24 revenue figure
³ Excluding WOW own brand sales

Source: Company annual reports, company websites, stock exchange releases, Forbes
 Dollars are in AUD based on publicly available information and exchange rate around 31 October 2024. Numbers are rounded to the nearest \$1 billion.

- b. **In perishable agricultural goods**, Australian agriculture is consolidating and corporatising, improving its attributes as an attractive and investible industry that benefits from scale.⁶³ We estimate that today, 12 suppliers make up approximately 50% of fruit and vegetables sold in Australia. Within the rest of the horticulture industry, however, there is great diversity, with significant variability in the levels and consistency of supply across different types of fruit and vegetables. Compared to packaged goods, these supply chains are fragmented, and characterised by a large number of suppliers supplying the same or similar products, which are perishable to varying degrees.

E.2 Cost price increases

- 70. Woolworths understands that an area of concern for some suppliers of packaged groceries is whether they have an effective ability to negotiate cost price increases (CPIs) with supermarkets.⁶⁴ In response, we confirm that:
 - a. Woolworths negotiates with suppliers in good faith and in accordance with the Food and Grocery Code.
 - b. Woolworths has accepted the vast majority of the value of supplier CPI requests received in recent years in the context of sustained inflationary pressures.
 - c. In considering CPI requests, Woolworths does not require suppliers to provide commercially sensitive information.

E.3 Promotions

- 71. Woolworths does not require suppliers to provide promotional funding as part of their commercial trading arrangements.
- 72. In order to run successful promotions and to provide value to customers in a highly competitive market, Woolworths must collaborate with suppliers to ensure:
 - a. **Pricing will drive increased sales:** a compelling price point means the promotion results in increased sales volume for the supplier and Woolworths. Branded product promotions are often co-funded by Woolworths and the supplier, and, on average, result in a lower dollar margin per item for Woolworths. Woolworths almost entirely funds promotions on own brand products - with suppliers of these products benefiting from increased volumes.

⁶³ In its Interim Report at page 224, the ACCC acknowledges that “[similarly to the vertically integrated retailers] primary producers may also benefit from size and scale.” The ACCC at page 224 also cites ABARES Insights Issue 1, March 2024 which notes that “larger farms tend to be more profitable, invest more and generate higher rate of return on capital than smaller farms. Moreover larger farms have more capacity to reduce their costs through scale and a greater ability to invest in productivity-enhancing capital additions”.

⁶⁴ Interim Report, page 233.

b. **Sufficient stock must be available to meet expected increased demand:**

Woolworths engages with suppliers regarding the timing and timeframe of proposed promotions, including potential extensions of the promotional period, to ensure product availability for our customers, and to maximise promotional effectiveness.

73. Woolworths does not engage in “retribution” against suppliers who do not wish to participate in promotions.

E.4 Performance Incentives

74. Some suppliers have expressed concerns that the preservation of Woolworths’ margins governs negotiations with suppliers concerning ranging, CPIs and promotions because relevant Woolworths’ employees are incentivised by their remuneration arrangements to achieve particular margin outcomes.

75. Those concerns are unfounded. Margin is just one of a number of factors that is taken into account in relation to product performance and ranging. Further, the remuneration incentives for Woolworths category managers and buyers do not incentivise the types of practices identified in the ACCC’s Interim Report.⁶⁵

E.5 Other Woolworths services

76. We neither require nor expect suppliers to acquire other Woolworths services, such as those offered by Primary Connect and Cartology, as part of their commercial arrangements with Woolworths.

E.6 Fruit and vegetable suppliers

77. Woolworths strives for stable and sustainable relationships with our fresh produce suppliers. Approximately 80% of Woolworths’ fruit and vegetable suppliers have supplied Woolworths for over 10 years, and approximately 15% of the suppliers have supplied Woolworths for over 30 years.

78. Woolworths is just one of many channels to market for growers, accounting for approximately 15% of Australian fruit and vegetable production by volume (or approximately 20% by value).⁶⁶ It follows that not all fresh produce and supplier concerns can be attributed to the conduct of Woolworths.

⁶⁵ Interim Report, page 247. At Woolworths, category managers and buyers are assessed and encouraged to perform against a balanced scorecard of individual performance, customer, supplier and financial parameters, and to contribute to the overall performance of the Woolworths Group, as well as demonstrating core values such as “always doing the right thing” and ways of working and positive supplier, customer and team feedback.

⁶⁶ Hort Innovation, ‘Australian Horticulture Statistics Handbook 2022/23’: <https://www.horticulture.com.au/growers/help-your-business-grow/research-reports-publications-fact-sheets-and-more/australian-horticulture-statistics-handbook/>; Woolworths data and analysis.

79. Woolworths sources fresh fruit and vegetables from approximately 350-400 suppliers (among several thousand across Australia), with:
- a. the vast majority of the volume coming from businesses that aggregate and pack supply from others, as well as grow the produce;
 - b. a smaller proportion of the volume coming from businesses that focus on growing their own produce at scale; and
 - c. the remaining volume (less than 10%) being sourced from wholesalers and market agents. This consists of daily top-ups for fruit and vegetable categories with more volatile daily fluctuations.
80. Many of the concerns raised in the Interim Report reflect the inherent volatility associated with the growing of fresh produce, due to factors such as a geographically dispersed and fragmented grower base, weather, seasonality, pests and disease, and demand elasticity.
81. Woolworths' fruit and vegetable pricing and volume arrangements necessarily allow flexibility for growers and buyers to work effectively in responding to rise and fall in a volatile supply and demand market model. Volume forecasts provided by Woolworths to suppliers are provided in good faith but are fundamentally an estimate. Woolworths is however, currently exploring improvements in its data and analytics capability to enable more accurate forecasting.
82. Woolworths' price negotiations with suppliers are conducted in good faith. Woolworths does not "retaliate" or put suppliers "on holiday" if Woolworths and a supplier are not able to arrive at a mutually acceptable price in a given week. Woolworths recognises, however, that there should be greater wholesale pricing transparency in the fruit and vegetable supply chain. Woolworths **supports** establishing an end to end wholesale price transparency industry project by a trusted, independent body. Woolworths has publicly committed to supporting Hort Innovation in this work.
83. The quality of fresh produce is important to our customers and a key driver in their choice of grocery retailer. Woolworths does not use its quality standards or assessment process as a means to manage supply. Only a very small proportion (less than 2%) of fruit and vegetables delivered to Woolworths' DCs is rejected. Woolworths strives to work with suppliers to make more acceptable produce available to customers, and adjusts its published specifications to help suppliers in challenging supply conditions through agreed variations.
84. Woolworths generally applies its own brand or supplier branding to packaged fruit and vegetables, but loose fruit and vegetables are unbranded. A similar approach is taken by many other grocery retailers such as independent greengrocers and farmers markets.

Woolworths considers this approach ensures customers are given a consistent, convenient and easy shopping experience.

F. Suggested improvements

85. Woolworths supports improvements in the supply of groceries for the benefit of customers and suppliers, including in relation to the following 7 issues raised in the Supermarkets Inquiry:

Issue	Woolworths' supported initiatives
<i>Price comparability</i>	<p>Woolworths supports initiatives for all retailers:</p> <ul style="list-style-type: none"> • to disclose online their current pricing information; and • to make their current pricing information available to comparison websites.
<i>Promotional pricing</i>	<p>Woolworths supports the ACCC's 3 options concerning promotional pricing as follows:</p> <ul style="list-style-type: none"> • supplementing the ACCC's Advertising and Selling Guide to provide further guidance from the ACCC that is specific and applicable to the grocery sector; • requiring grocery retailers to publish clear guidance on their websites about the meaning of different price programs and promotions, provided the disclosure of competitively sensitive information is not required; and • consultation concerning the possibility of further regulation in relation to pricing representations, applicable to all grocery retailers.
<i>Unit pricing</i>	<p>Woolworths supports:</p> <ul style="list-style-type: none"> • the application of the Unit Pricing Code to all grocery retailers, with possible exemptions for very small retailers; and • in principle, an audit of compliance with the Unit Pricing Code by the ACCC and/or bringing forward the next review of the Unit Pricing Code.
<i>Shrinkflation</i>	<p>Woolworths supports:</p> <ul style="list-style-type: none"> • the introduction of a requirement that manufacturers indicate on their products where a product has reduced in size or weight (e.g. a callout on a QR code on product packaging).
<i>Supplier complaints</i>	<p>Woolworths supports:</p> <ul style="list-style-type: none"> • the recommendation to establish an anonymous complaints mechanism in the Food and Grocery Code for suppliers to raise issues directly with the ACCC.

Issue	Woolworths' supported initiatives
<i>Planning processes</i>	<p>Woolworths supports:</p> <ul style="list-style-type: none"> initiatives that would improve productivity in planning and provide choice to more communities, including many of the recommendations that have been canvassed in Productivity Commission reports on the topic in recent years.
<i>Price transparency for fruit and vegetables</i>	<p>Woolworths supports:</p> <ul style="list-style-type: none"> establishing an end to end wholesale price transparency industry project by a trusted, independent body. Woolworths has publicly committed to supporting Hort Innovation in this work.