

14 June 2011

Retail Industry Inquiry
Mr Phillip Weickhardt
Productivity Commission
GPO Box 1428
Canberra City ACT 2601

By email: retail@pc.gov.au

Dear Mr Weickhardt

Re: Economic Structure and Performance of the Australian Retail Industry

Woolworths Limited welcomes the opportunity to provide this submission to the Productivity Commission's Inquiry into the Economic Structure and Performance of the Australian Retail Industry. Woolworths believes this Inquiry provides an important opportunity for the Australian community to understand the significant contribution that the retail sector provides to the Australian economy, the challenges it faces, as well as the opportunities open to it in the coming years.

Operating some of Australia's leading retail brands, Woolworths is a company committed to serving the customer - to providing Australian customers with the best possible value, convenience and choice whether they are shopping in one of Woolworths' more than 3,100 "bricks and mortar" stores across the country or logging on and purchasing from our growing portfolio of online channels. A commitment to the customer is at the heart of everything Woolworths does, across all our business units and across all our retail formats and channels. Woolworths is also a company that makes a significant economic contribution to Australia's economy with annual sales of more than \$51 billion, a workforce of more than 170,000 team members across metropolitan and regional Australia and an annual indirect contribution to the economy that is estimated to be in excess of \$96 billion and 652,400 full-time equivalent jobs.

The Australian retail sector has changed considerably over recent decades with significant evolution in retail formats, the introduction of new, varied and innovative products, enhanced convenience and value and increased choice as to how, when and where to satisfy their retail needs. The key driving force behind these changes has been the evolving needs and expectations of Australian customers as their lifestyles have evolved, new technologies have developed and an increasing variety of products have become available. This is a trend that will continue - that is, customers and their changing behaviour will continue to determine the way in which Australian retail develops over coming years.

Notwithstanding these evolving customer preferences, there are some core customer expectations that Woolworths considers will not change - Australian retail customers are focussed on value, convenience and choice. That is, whilst customers will continually purchase different products or may shop via different delivery and store formats (such as online), they will still have a key focus and preference for retailers that deliver on these core retail expectations. A retailer that fails to deliver on these - regardless of the type of retail format or product sold - will fail to retain customer support in the competitive retail sector. This is as true now as it has ever been and will continue to be so into the future.

Woolworths believes that the Australia retail sector is highly competitive and serves the needs of Australian customers well. Woolworths has, however, ongoing concerns about the impact of excessive and inefficient regulation on the Australian retail sector and the way it hinders retailers' abilities to deliver value choice and convenience to customers. Of particular concern is that much of this regulation still relies on the notion that customers want to shop in "bricks and mortar" stores within a limited number of opening hours. This is no longer the case with Australians expecting to be able to access a full range of products at competitive prices 24 hours a day / seven days a week. These dated regulations also mean that Australians across the country are not being treated equally - their level of access, convenience and choice of retail offers differs depending on which local area, State or Territory a person lives.

Whilst these regulatory burdens are not new, Woolworths believes that now, more than ever, is the time for the Federal, State and Territory Governments to address them. A failure to do so now, in the face of growing international competition for the sector, will leave Australian retailers unable to respond to the pace of change in the way customers are looking to do their shopping. It will also mean that Australian retailers will have far less capacity to deliver the product innovation and variety at the internationally competitive prices that customers expect and are increasingly taking advantage of online. The net result of this is that the ongoing competitiveness and productivity of the Australian retail sector will be diminished and the extent of investment, employment and economic contribution made by the retail sector will decline in absolute terms.

Woolworths would be happy to provide further information to the Commission that would assist it with their Inquiry.

Yours sincerely

Nathalie Samia
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Woolworths Limited

WOOLWORTHS LIMITED

Woolworths Limited

**Submission to the Productivity Commission
Inquiry into the Economic and Structure and
Performance of the Australian Retail Industry**

14 June 2011

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1 Executive Summary

Woolworths Limited welcomes the opportunity to provide this submission to the Productivity Commission's Inquiry into the Economic Structure and Performance of the Australian Retail Industry. Woolworths believes this Inquiry provides an important opportunity for the Australian community to understand the significant contribution that the retail sector provides to the Australian economy, the challenges it faces, as well as the opportunities open to it, in the coming years.

Operating some of Australia's leading retail brands, Woolworths is a company committed to serving the customer - to providing Australian customers with the best possible value, convenience and choice whether they are shopping in one of Woolworths' more than 3,100 "bricks and mortar" stores across the country or logging on and purchasing from its growing portfolio of online channels. A commitment to the customer is at the heart of everything Woolworths does, across all its business units and across all its retail formats and channels.

In serving an average of 26 million customers per week, Woolworths makes a significant contribution to the Australian economy with annual sales of more than \$51 billion and a workforce of more than 170,000 team members across metropolitan and regional Australia. Woolworths' annual indirect contribution to the economy is estimated to be in excess of \$96 billion and 652,400 full-time equivalent jobs. This forms part of the broader significant contribution that the retail sector makes to the Australian economy directly employing 1.2 million Australians and contributing to 4.6% of GDP.

The Australian retail sector has changed considerably over recent decades with significant evolution in retail formats, the introduction of new, varied and innovative products, enhanced convenience and value and increased choice as to how, when and where to satisfy their retail needs. The key driving force behind these changes has been the evolving needs and expectations of Australian customers as their lifestyles have evolved, new technologies have developed and an increasing variety of products have become available. This is a trend that will continue - that is, customers and their changing behaviour will continue to determine the way in which Australian retail develops over coming years.

Notwithstanding these evolving customer preferences, there are some core customer expectations that Woolworths considers will not change - value, convenience and choice. The retailers that have been successful in Australia to date - and will be successful into the future - are those that have a focus on proactively responding to changing customers needs whilst delivering on these core customer expectations.

In terms of the current structure and performance of retail sector, Woolworths believes that the Australian retail sector is competitive and Australian retailers work very hard to meet the needs of the Australian customer. Australian retailers do, however, face a number of key challenges and productivity in the sector has not kept pace with comparable international economies. This is both Woolworths' experience and the finding of Deloitte who has been commissioned by Woolworths to undertake a study to assist the Commission with its current inquiry (**Deloitte Report**). A copy of this report is annexed to this submission.

In summary, the Deloitte Report:

- finds that, taken as a whole, the Australian retail sector (particularly large retailers) is be subject to a significant degree of competition;
- highlights that, despite significant improvements in product variety for Australian customers, productivity growth in the Australian retail sector has stagnated;
- discusses the key challenge for Australian retailers arising from the pricing power of international suppliers. These suppliers often charge Australian retailers wholesale prices that are not only substantially higher than wholesale prices charged to overseas and online retailers but are often also higher than retail prices charged to consumers overseas and online; and
- concludes that the relatively poor productivity growth in the Australian retail sector is the result of the regulatory burdens that the sector faces including the regulation of trading hours, restrictions on labour flexibility, restrictions on transportation, inconsistently developed and implemented state-based regulation and inefficient taxation arrangements.

Woolworths has for a number of years raised its concerns about the impact of excessive and inefficient regulation on the Australian retailer sector and the way it hinders retailers' abilities to deliver value choice and convenience to customers. Of particular concern is that much of this regulation still relies on the notion that customers want to shop in "bricks and mortar" stores within a limited number of opening hours. This is no longer the case with Australians expecting to be able to access a full range of products at competitive prices 24 hours a day / seven days a week. These outdated regulations also mean that Australians across the country are not being treated equally - their level of access, convenience and choice of retail offers differs depending on which local area, State or Territory in which that person lives. One way customers are increasingly trying to get around these inconsistencies is through shopping online. These inconsistencies also mean that the retail employment opportunities available in local communities across Australia differ markedly.

Whilst these regulatory burdens are not new, Woolworths believes that now, more than ever, is the time for the Federal, State and Territory Governments to address them. A failure to do so, in the face of growing international competition for the sector, will leave Australian retailers unable to respond to the pace of change in the way customers are looking to do their shopping. It will also mean that Australian retailers will have far less capacity to deliver the product innovation and variety at the internationally competitive prices that customers expect and are increasingly taking advantage of online. The net result of this is that the ongoing competitiveness and productivity of the Australian retail sector will be diminished and the extent of investment, employment and economic contribution made by the retail sector will decline in absolute terms.

Woolworths therefore believes that Australian Governments at all levels need to urgently commit to a reform of trading hours regime, examine the need for increased flexibility in the General Retail Industry Award, focus on harmonising and reducing the current mix of inconsistently introduced and implemented regulation that impacts on the retail sector, and commit to further improving Australia's transport regulation and infrastructure.

Section 1 of this submission provides an overview of the Woolworths Limited business.

Section 2 examines the evolution of the Australian retail sector over recent decades as Australian customers have consistently sought value, convenience and choice and retailers have moved to respond to Australian's changing lifestyles. It also provides a view of what Woolworths considers the retail sector is going to look like in coming years.

Section 3 of this submission examines the challenges faced by the retail sector and sets out the reforms that Woolworths considers necessary to drive the future development of the Australian retail sector.

2 Overview of Woolworths Limited Business

2.1 Our Business

Woolworths Limited is a company committed to serving the customer - to providing Australian customers with the best possible value, convenience and choice whether they are shopping in one of Woolworths' more than 3,100 "bricks and mortar" stores across the country or logging on and purchasing from Woolworths' growing portfolio of online channels. A commitment to the customer is at the heart of everything Woolworths does, across all its business units and across all its retail formats and channels. Woolworths' stores serve an average of 26 million customers per week.

Woolworths operates, and has introduced to the Australian market, a number of Australia's leading retail brands many of which have a "bricks and mortar" and online presence including Woolworths and Safeway supermarkets, BIG W department stores, Dick Smith electronics outlets, Woolworths Petrol sites and Dan Murphy's and BWS liquor outlets. Late 2011 will also mark the opening of the first Masters store - a chain of large-format destination Home Improvement store being developed by Woolworths in conjunction with its joint venture partner Lowe's Inc of the United States. Woolworths has announced plans to secure 150 sites for these stores over the next five years.

In addition to Woolworths' Australian-based operations, Woolworths also operates internationally with a network of more than 200 supermarkets in New Zealand (which are being progressively rolled over to a single Countdown brand). Since September 2006, Woolworths has also been a joint venture partner in wholesale consumer electronics business servicing a network of 50 stores across India operating under the Croma brand.

Woolworths extensive store operations are supported by a network of Distribution Centres and support offices across Australia.

2.2 Our People

Delivering a world-class retail offer to customers can only be achieved through having the best possible team in place and investing in their ongoing development. In this respect, Woolworths is a major employer in Australia employing more than 170,000 employees across the country, 50,000 of whom are located in rural and regional Australia. Woolworths is also one of Australia's largest training organisations with over 5,000 trainees and apprentices as part of the Woolworths team. The majority of Woolworths employees are permanent full-time or part-time staff (approximately 70%) and women constitute 54% of the Woolworths workforce.

Woolworths also recognises that as a significant employer, it has an responsibility and capacity to provide flexible employment opportunities to suit the diverse needs of people across all parts of the community - such as working parents, indigenous employees and people living with a disability. Woolworths currently employs over 500 staff members who identify as having a disability with Woolworths being a gold member of the Australian Network on Disability (a group targeted at increasing employment opportunities for disability). Woolworths is also actively focussed on increasing indigenous employment opportunities with Woolworths being a partner in a number of indigenous pre-employment programs.

2.3 Our Communities

Woolworths is committed to being a leader in responsible and sustainable retailing, particularly where sustainability is becoming increasingly important to our customers. In 2007, Woolworths developed a comprehensive *Sustainable Strategy* in which it committed to a number of key environmental sustainability targets including:

- 40% reduction in carbon emissions on projected growth levels by 2015 (bringing emissions back to 2006-2007 levels);
- achieving a 200ML reduction in water use in our stores compared to 2007; and
- generating zero food waste in the general waste stream by 2015.

Woolworths' commitment to responsible retailing is not confined to environmental sustainability. To provide customers with confidence, Woolworths has in place responsible sourcing practices and is committed to upholding human rights with respect to its own employees and also in relation to its supply chain. This includes Woolworths Ethical Sourcing Policy which suppliers are expected to comply with and which addresses issues including bribery and corruption, labour rights, working conditions and environmental compliance.

As is discussed in further detail below, Woolworths is also introducing innovative product ranges to meet the growing customer demand for organic, fair-trade and sustainably and ethically sourced products across our business.

3 Australian consumers driving the evolution of the Australian retail sector

The Australian retail sector has changed considerably over recent decades with significant evolution in retail formats, the introduction of new, varied and innovative products, enhanced convenience and value and increased choice as to how, when and where to satisfy their retail needs. The key driving force behind these changes has been the evolving needs and expectations of Australian customers as their lifestyles have evolved, new technologies have developed and an increasing variety of products have become available. This is a trend that will continue - that is, customers and their changing behaviour will continue to determine the way in which Australian retail develops over coming years.

Notwithstanding these evolving customer preferences, there are some core customer expectations that Woolworths considers will not change - Australian retail customers are focussed on value, convenience and choice. That is, whilst

customers will continually purchase different products or may shop via different delivery and store formats (such as online), they will still have a key focus and preference for retailers that deliver on these core retail expectations. A retailer that fails to deliver on these - regardless of the type of retail format or product sold - will fail to retain customer support in the competitive retail sector. This is as true now as it has ever been and will continue to be so into the future.

From Woolworths' perspective, therefore, the retailers that have been successful in Australia to date - and will be successful into the future - are those that have a focus on proactively responding to changing customers needs whilst delivering on these core customer expectations. These are the retailers that have introduced new and varied products lines, have created and adapted their retail formats over time, embraced new technology and invested in their supply chain to ensure they are able to provide customers with products when and at a price they want. As is explored below, this can only be done where the Australian regulatory landscape enables them to do this efficiently and effectively.

This section examines the customer driven changes in Australian retailing that have been seen in recent years as well as highlighting the retail trends that Woolworths expects to see in coming years as Australian retail continues to evolve with the customer. In particular, this section will highlight how Woolworths and the Australian retail sector has evolved to provide customers with value, convenience and choice. The following section examines some the challenges and increasing difficulties that the Australian retail sector faces delivering on these customer expectations.

3.1 Delivering Value to Customers

Woolworths believes that the Australian retail market is very competitive and becoming more so. The high level of competition and low barriers to entry are specifically noted in the Deloitte Report with Australian Bureau of Statistics (ABS) data showing that, with the exception of the financial and insurance sector, large retailers face the strongest competitive environment in Australia.

Over recent decades, Australian customers have been able to have their grocery, household and personal shopping needs met by an increasing number and variety of retailers of all sizes and formats. For example, the Australian supermarket industry has seen the recent substantial entry of international supermarket brands and the revitalisation of the independent supermarket, greengrocer and specialty foodstore sector. In terms of discretionary spending, the last decade has seen a new breed of medium to large format "category killer" retail outlets emerge that compete aggressively on the basis of range and price with the department store, discount department stores as well as the specialty retail sector. Most recently has been the emergence of online retailers located both in Australia and overseas who are now actively targeting the growing number of Australia customers who are willing to purchase goods online.

A. How do Australian retailers provide customer value?

In the environment of strong competition, Australian customers have been and continue to be strongly focussed on value - in Woolworths' experience they are willing and able to shop around to ensure that they are getting the best product that suits their needs at the best possible price. As has been widely reported,

the Australian customer focus on getting the best possible value has become even more pronounced in the aftermath of the Global Financial Crisis (GFC). It is also worth noting another trend that Australian retail has seen in recent years with customer perceptions around what constitutes value having changed with significant flow on effects for discretionary retailers such as BIG W. Previously, “value conscious” or “value focussed” customers shopping at discount department stores such as BIG W were willing to purchase “basic” or unbranded products largely on the basis of price and utility. What has changed in recent years is that those same customers now want to purchase products at the same competitive prices but they want these products to include a mix of popular branded or brand label products. That is, Australian customers now increasingly expect being able to purchase key branded items at lower prices and factor this into their equation of whether they are getting value when they shop in “bricks and mortar” stores or online.

From Woolworths’ perspective a focus of its business for many years, therefore, has been to invest in delivering value to customers across all our business. The key to this has been Woolworths’ significant investment in improving the efficiency and cost-effectiveness of the logistics and supply chain across the business. For example, in the last five years alone Woolworths has invested close to \$7.8 billion over on plant, property and equipment investment as part of efforts to create a world-class store, logistics and replenishment network. This network is crucial in enabling Woolworths to deliver products to customers as quickly and efficiently as possible so it is available when they want it at the best price possible. This is not an insignificant task considering the significant distances involved, as Woolworths is delivering goods to its stores which are located in communities across the full length and breadth of Australia. Initially focussed on supermarket business under the title Project Refresh, Woolworths continues to rollout supply chain innovations across its other business divisions with innovations including:

- automated stock replenishment systems that forecast customer demand to ensure the right amount of product is delivered to store and on show for customers when they want it;
- automated distribution centre facilities enabling faster, efficient and more cost-effective product selection to ensure stock gets to store more efficiently;
- the development of integrated processing and distribution facilities for fresh products such as meat and produce; and
- the deployment of industry leading transport capacity, planning, optimisation and freight tracking systems.

This investment in a world class supply chain has been complemented by a very strict focus on cost control across the entire Woolworths business - Woolworths has an annual target of reducing its cost of doing business by 20 basis points. As is canvassed in the Deloitte Report, however, minimising operational costs is particularly difficult in light of the significant regulatory burden that Australian retailers face at all levels of the supply chain.

A further crucial element in providing customer value for Woolworths has been Woolworths’ efforts to develop long term trading relationships with supply partners so that together Woolworths can deliver customers competitive prices across the mix of branded and Private Label products sold in store. Woolworths

is also focussed on delivering value to customers through undertaking more direct sourcing and parallel importing of internationally manufactured product. This is to overcome the current difficulty that Australian retailers have purchasing key branded products from international manufacturers at a wholesale price comparable to that which is offered to overseas retailers (discussed in the Deloitte Report with more detail below).

From a customer's perspective, Woolworths continuing investment in improving its supply chain has enabled it to invest in price which in turn builds customer trust. In a supermarket, customers see this value in the large number of weekly specials and price promotions and, most recently, in Woolworths' commitment to reducing standard (or non-promotional) shelf prices on a large number of key products across the store. Since introducing the Woolworths "Shelf Prices Reduced" campaign, Woolworths has reduced the standard shelf price on more than 7,000 items in supermarkets meaning these products are cheaper than they were 12 months ago. Woolworths estimates the benefit to customers of these price reductions to be more than \$660 million over the last 12 months. Woolworths commitment to providing value is evidenced in its non-supermarket stores. For example, Dan Murphy's Price Guarantee means customers can trust that they are getting a market leading range of products at the best possible prices.

A focus on meeting changing customer perceptions on value has also seen BIG W introduce a variety of popular and exclusive brand label products whilst maintaining its everyday low prices price positioning. This has included the introduction of popular brands to BIG W stores including Apple (iPads and iPods, Sony, Osh Kosh, Morissey and Mambo).

B. What will customer value look like in the future?

Going forward, Woolworths does not expect Australian customers demand for value to change. In fact, the pressure to demonstrate and provide value will grow as customers are increasingly able to compare prices of overseas based and Australian retailers online. The challenge for retailers is to continue to invest in delivering this value. However, as explained in the Deloitte Report, and in section 3 below, the ability of Australian retailers to do this will continue to be hindered if Australian governments do not take steps to address the considerable regulatory cost burdens that Australian retailers are subjected to.

3.2 Delivering Convenience to Customers

In addition to value, one of the most important factors for customers when considering how, when and where to do their shopping is convenience. Customer are looking to have their shopping needs met in a way that fits in and around their lifestyle - for this reason, as Australian lifestyles have changed, and continue to change, the retail landscape in Australia has also evolved. This change has manifested itself in the development of new and evolving retail formats, customer expectation of longer trading hours and, more recently, the growth of online shopping.

A. Convenience has driven the development of the supermarket sector

The increase in car use that occurred in Australia in the second half of the 20th century, changes in work/life balance and growing customer demand for a one-stop grocery shopping drove the development of the modern full-line

supermarket in Australia where customers had previously undertaken their grocery shopping at a mix of specialty retailers. In contrast, the supermarket grew as a format which offers customers a comprehensive mix of packaged and fresh groceries in one place, is open for extended trading hours and is generally located with or near on-grade car parking facilities. It was this customer desire for a more extensive product range in one single store that saw Woolworths experiment in the 1950s with “self serve” grocery sections in its variety stores which, for the first time, provided Australian customers with a selection of a limited range of fresh vegetables, delicatessen items and packaged fresh meat in addition to general merchandise. From this initial experiment, Woolworths supermarkets in Australia have continued to evolve, introducing new grocery and general merchandise categories and products and expanding the size and number of fresh food departments. As a result, an average Woolworths supermarket now carries approximately 30,000 different product lines with this increase in product range reflected in larger store format - the average size of a new Woolworths full-line supermarket has increased from approximately 2,400 m² to 3,200 m² over the last 20 years.

The look and feel of supermarkets themselves has also continued, and continues, to change to reflect customer lifestyles. With more people working, customers are now less likely to be undertaking a single weekly supermarket shop - often making a number of smaller or “top up” shops to get ingredients. Customers are also more likely to undertake their shopping later at night or on weekends to fit around their different work, school and leisure commitments. Responding to this, Woolworths supermarkets have changed - opening longer, providing a greater mix of ready-prepared or semi-prepared meals and with different layouts and format - for example, stores now offer “grab’n’go” meal sections, fresh produce sections now provide prepared fruit and vegetables (for example, fresh cut washed lettuce in bags) and new service innovations have been introduced that are focussed on increasing convenience for the “time poor” shopper. The most recent example of this is the introduction of self-serve checkouts to supermarkets enabling customers with smaller grocery baskets to serve themselves, increasing the number of customers that served at one time, reducing queues and freeing up store staff to focus on replenishing stock across the store.

B. Convenience has also driven the development of other store formats

Customer desire for convenience has also been a driver in the development of other non-grocery retail formats. For example, the emergence of large format discount department stores such as BIG W has also been underpinned and lead by customer desire to purchase mix of general merchandise for themselves, their home and their family in one visit. The most recent illustration of convenience driving new retail development in Australia is the roll out of Masters. The Masters stores, with an average size of 10,000m² and more than 30,000 items is being rolled out to meet the customer desire to undertake all their home improvement shopping needs in one-visit in a store that is conveniently located, is pleasant to shop in and provides competitive prices and expert customer advice and service.

C. Convenience and trading hours

As the lives of Australian have changed, so too have the times that they have available to do their shopping. Consumer shopping patterns have changed substantially over recent decades with more customers wanting to shop on

weekends, late at night and during leisure periods such as public holidays. To respond to that demand, Australian retailers have introduced longer trading hours to provide this convenience.

As is discussed in the Deloitte Report in detail, the current patchwork of inconsistent trading hours regulations in Australia have acted, and continue to act, as a significant impediment to the ability of retailers to open and serve customers at the times they demand. There is also significant compliance and operational costs involved for retailers interpreting and implementing the patchwork of inconsistent trading hours and public holiday laws across Australia. As an example, the additional administration tasks involved in preparing stores for the 2010 Christmas trading period (including setting staff and delivery rostering and making changes to store processes etc) have been estimated to cost Woolworths supermarkets alone approximately \$3.4 million. The cost of obtaining workplace flexibility more generally in the retail sector is also related impediment to the ability of retailers to open their stores and service customers when they want. This issue also discussed in the Deloitte Report and in section 3 below.

D. Convenience and the growth in demand for online shopping

The most recent and topical example of customer demand for convenience driving the development of the retail sector is the growth in demand and use of online shopping channels. In Woolworths' view, customer demand for increased convenience has been one of the key drivers for the recent growth in use the use of the internet for online shopping and research (undertaken before a purchase is made).

Woolworths has played a pioneering role in the growth and development of online retail in Australia. Woolworths has also developed and is implementing a comprehensive multi-channel strategy to ensure Woolworths is able to provide customers with trusted value, convenience and choice regardless of the retail format they choose to use.

Woolworths' initial foray into online retailing began with the launch of Woolworths Online grocery offer (previously known as Woolworths HomeShop) approximately 12 years ago. When launched, Woolworths Online originally only serviced selected suburbs in Sydney before being extended to Canberra and Brisbane. In the last 12 months, Woolworths has significantly grown the scale of the Woolworths online business going national and now servicing a large number of metropolitan and regional areas across the country. Whilst the Woolworths Online model originally used a dedicated warehouse to fulfil orders, Woolworths Online orders are now fulfilled by dedicated teams working in Woolworths "bricks and mortar" stores.

Woolworths has rolled out online formats for its other major brands including Dick Smith, BIG W and Dan Murphy's. Both the BIG W and Dan Murphy's websites launched in the last 12 months and the Dick Smith store has recently undergone a significant upgrade which allowed the introduction of a "Click and Collect Service". Using this service, customers are able to browse for the items they want, find out if it is in stock and then organise to pick it up in store at a time that suits them. Both the BIG W and Dick Smith sites are continually having new product ranges added.

Woolworths customer research shows that customers for Woolworths online stores are generally time poor customers who value the convenience of being able to shop at any hour of the day with their purchases (such as the weekly grocery shop) being delivered at a time that suits them. One such group are parents of young children who are able to organise a full grocery shop in a number of minutes when children are sleeping instead of a visit to a physical store that is likely to take a number of hours. Another group that Woolworths sees benefiting from the launch of the BIG W and Dick Smith sites are customers in rural and regional communities. Since launching, the BIG W site has been extremely popular with customers in metropolitan and regional areas without BIG W stores who wish to take advantage of the BIG W product range and competitive prices.

E. Have Australian retailers been slow to provide online convenience?

Woolworths is aware that there is a perception that Australian retailers have been comparatively slow to rollout online offers to Australian customers. Woolworths does not believe that this is the case. There have, however, been a number of challenges faced by Australian retailers in developing and growing comprehensive online offers in Australia over recent years.

The key driver is that, until very recently, Australian customers have shown some reluctance to use online retail channels compared to customers overseas. This is for a range of reasons. In the grocery context, in Woolworths' experience, Australian customers have continued to show a strong preference for shopping in "bricks and mortar" stores to touch and feel products (particularly fresh product) rather than purchasing online. In terms of discretionary items, unlike the United States, Australia has not traditionally had a strong mail order or catalogue culture or market (the existence of which arguably facilitated faster customer acceptance of online shopping). The other key factor is that, despite current difficulties developing large format "bricks and mortar" stores, it has been historically been comparatively easy for Australian retailers to develop convenient destination shopping experiences with nearby on-grade carparking facilities close to large population centres. The same cannot be said for markets such as the United Kingdom. There is also the fact that Australians still treat a visit to retail outlets to be an enjoyable social experience (more so than in other countries with less temperate weather conditions).

Customer interest and acceptance has not been the only barrier for Australian retailers developing online offers. Other challenges have included Australia's geography (which makes postage of goods ordered online more expensive) and the fact that, until recently, the sophistication of Australia's postal delivery system has lagged overseas. It is only recently that infrastructure has been put in place that enables customers and retailers to have broad / cost-effective access to reliable real time tracking of goods ordered online. There is also the fact that Australian retailers are only now better positioned to invest in developing fulfilment and dispatch facilities for online orders as Australian customers' acceptance and use of online is increasing. For larger retailers, the facilities needed to service online orders differ in many ways from the distribution centres used by retailers to service their stores. For example, traditional distribution centres receive and dispatch palletised stock and not individual items ordered by customers. Until volume of online purchases increase, it has therefore been difficult for Australian retailers to develop cost

effective, efficient and competitive online offers. As can be seen from the rapid emergence of more Australia-based retailers in recent years, many of these barriers are now being overcome.

F. What will customer convenience look like in the future?

As noted above, Woolworths has in place a comprehensive multi-channel retail strategy designed to meet the needs of Australian customers regardless of the retail format they wish to use. In adopting this strategy, Woolworths believes that Australian customers will continue to expect and value the opportunity to shop in physical outlets as well as online. That is, they will use whatever channel or format that provides them the most convenient way to satisfy their retail needs and will, more likely than not, happily switch between the formats (hence the expected popularity of “click and collect” or similar services). The online store, increasingly integrated with social media, will also become a forum for customers to engage with other customers and retailers about their product experiences and recommendations. Customers will expect this integrated retail experience - expecting to be able to purchase and return products either online or in store. In addition, Woolworths believes the increasing integration of online and “bricks and mortar” stores provides retailers with the opportunity to more easily expand product ranges and services. For example, some products may be too bulky or costly to have delivered or displayed in store (such as children’s play or gym equipment). With an integrated online and physical offer, a retailer such as BIG W will be able to advertise these products in store and then direct customers to the BIG W online store to arrange direct delivery from manufacturer to customer.

Therefore, in Woolworths’ view, the emergence of multi-channel integrated retailing provides a unique opportunity for retailers such as BIG W, Dick Smith and Woolworths to provide customers with that cohesive and competitive retail offer - that is because these are stores with strong brands, an established network of “bricks and mortar” stores and a developed online model. Once again, however, the extent to which retailers are able to take advantage of this depends on the extent to which the regulatory and operational challenges outlined in section 3 are appropriately addressed.

3.3 Delivering Choice to Customers

An equally important driver in retail development is customer’s never-ending appetite for choice in the form of new and innovative products that suit their needs. The continuing demand for new and different products to suit changing lifestyles has seen Australian retailers work with suppliers to bring to market wholly new products as well as variations or extensions on existing product range.

A. Providing customers with new products at the right price

Customer desire for more product choice has seen BIG W work closely with its suppliers to develop and introduce ranges of exclusive and branded products to store. The key to this is using BIG W’s strong retailing experience, buying volume and supplier relationships to deliver these products to customers at a price point that is competitive to its customers. An example of some of the exclusive products developed by BIG W include the exclusive Patio by Jamie Durie range of outdoor furniture and Morissey brand of affordable workwear. At the same time, BIG W has invested in introducing new product departments and services to store to meet growing customer trends. For example, growing

customer interest in pet health led BIG W to introduce a new extensive range of leading brand and specialist petcare products (traditionally only available at the vet) at a more competitive price point than had been traditionally available. Similarly, responding to customer demand, BIG W stores now have dedicated sections where parents can purchase the full range of clothing and other products needed for newborn and young children. BIG W has also introduced optical centres in more than 28 of its stores, staffed by fully trained opticians, enabling customers to purchase a leading range of branded glasses at competitive prices.

B. Product innovation and choice in the supermarket

In the supermarket context, this has seen the growth and innovation in product categories such as convenience meals and, semi-prepared ingredients items (such as pre-washed salads) to suit the needs of time poor customers. As Australian diets have evolved Woolworths has also introduced dedicated Asian, Indian and Mexican sections in addition to larger seafood and fresh produce sections. Most recently Woolworths has also begun to roll out larger dedicated product departments that cater to the needs of local populations. For example, Woolworths is in the process of rolling out a number of dedicated kosher sections to meet the buying habits of local communities.

The growing customer demand for health and well-being focussed foods and the emergence of new products is a key example of customer-driver product innovation in Australian retail. In recent years Woolworths' customer research, consistent with international trends, showed that an increasing number of customers are:

- looking for health and wellbeing focussed products that were either organic, natural, low in fat or that support healthier lifestyles; and
- needing to avoid certain products due to allergies for reasons such as diabetes, gluten intolerance or nut allergies.

Responding to these needs, Woolworths now provides and continues to grow comprehensive, cohesive and affordable range of health and wellbeing product across the supermarket encompassing both packaged and fresh products (including meat and vegetables). These products have been rolled out under the Macro Wholefoods brand. These products are not only organic but are also designed to have minimal levels of salt, sugar and fat without compromising on taste. The growth in the Private Label health and wellbeing products has been matched by a growth in the category overall with the number of Private Label and branded organic products in Woolworths supermarkets increasing from approximately 142 in 2007 to over 356 in 2011 (with significant further growth in product range planned for the next 12 months).

C. What does retail choice look like in the future?

In coming years, Australian customers are continue to expect new and innovative products but they are also going to expect the choices offered to them by retailers to be more personally or individually focussed. Customers are already looking for and favouring retailers that offer them a retail experience that is centred around and customised to, their individual lifestyles and needs. This will only increase with the proliferation of online retailers targeting particular customer segments and the emergence of product offers in "bricks and mortar" stores that target the needs of individuals or local community (for example the Kosher sections in supermarkets noted above or providing products to assist

customers live with food allergies). Flowing from this, Australian customers will expect the range of products being offered by retailers (regardless of the store format) to be particularly focussed on their individual needs rather than having their choices dictated to by retailers. In this environment, the importance for retailers of proactively researching, analysing and tailoring their product ranges and store formats to respond to customer purchasing patterns and trends will grow. Programs such as Woolworths Everyday Rewards program, which enables retailers to better understand the diverse needs of customers and different customer segments, will therefore continue to grow in importance.

4 Challenges for the Australian Retail Sector

Whilst Australian retailers such as Woolworths continue to work to meet the needs of Australian customers through providing them with the value, convenience and choice they demand, the Australian sector currently faces a number of significant challenges. The key challenge being the regulatory framework in which Australian retailers currently operate - an inconsistent mix of Federal, State/Territory and Local Government Regulation which create additional cost, complexity and difficulties for Australian retailers. Of particular concern is that much of this regulation still relies on the notion that customers want to shop in “bricks and mortar” stores within a limited number of opening hours. This is no longer the case with Australian customers expecting to be able to access a full range of products at competitive prices 24 hours a day / seven days a week and doing so through shopping online.

The regulatory complexities and costs faced by Australian retailers, and their impacts, are explained in detail in the Deloitte Report annexed to this submission. In summary, Deloitte found they include:

- **Regulation of trading hours, particularly in relation to public holidays and restrictive trading days** - trading hour regulations directly impact on customers’ accessibility to stores and create inconvenience at stores as trading hour restrictions prevent customers from shopping at a time best suited to their needs or limit the stores preparedness when it does open. The impact of trading hour regulations is increasingly important where customers can purchase products online at any time.
- **Restrictions on labour flexibility, particularly in relation to the General Retail Industry Award (which underpins the negotiations of enterprise agreements in the retail sector)** - Australian retailers are constrained by the assumption that shopping still occurs Monday to Friday between 9am and 5pm which is reflected in the General Retail Industry Award. This indirectly impacts customers because, whilst retailers can negotiate flexibility to open stores outside this period, there is a considerable cost in doing so as retailers must negotiate higher average wage rates.
- **State-based regulation that is often inconsistently introduced and/or introduced without consideration of its impact on retailers** - this directly impacts customers’ convenience in store and indirectly impacts customers where Australian retailers must pass on the additional costs that arise from having to comply with a multitude of different regulations.
- **Restrictions on transportation** - time of transportation and type of transportation restrict retailers’ ability to efficiently move products around and between states/territories, a challenge that is exacerbated by remote

locations, longer distances, climate fluctuations and the topographical challenges of Australia.

- **Inefficient taxation arrangements, which affect labour-intensive industries - particularly large employers in the retail sector** - these taxation arrangements discourage employment, create unemployment, and reduce employee after-tax wages across the sector and the rest of the economy.

In addition to regulatory challenges, the Deloitte report also discusses the unique challenges that Australian retailers face in delivering value to Australian customers due to the comparably high costs of sourcing and transporting internationally manufactured goods to Australia. A key reason for this is the pricing power of international manufacturers. Often this will see international manufacturers charging Australian retailers wholesale prices that are not only substantially higher than wholesale prices charged to overseas and online retailers but are often also higher than retail prices charged to consumers overseas and online. This applies to grocery items as well as goods sold by discretionary retailers such as BIG W and Dick Smith. This is, Woolworths believes, a key reason why Australian customers, in some instances, are paying higher prices for overseas manufactured goods despite the ongoing efforts of Australian retailers such as Woolworths to provide competitive prices.

Another key regulatory impediment not discussed in detail in the Deloitte Report is the complexity and cost of the Australian planning and zoning framework which significantly increases the cost and time involved in delivering new retail outlets and formats to the Australian market. Woolworths notes that these issues have recently been acknowledged by the Commission in its *Performance Benchmarking of Australian Business Regulation: Planning, Zoning and Development Assessments Research Report*.

Overall, while the Deloitte Report finds that there is a significant degree of competition in the Australian retail market, and that Australian customers are generally well served, Deloitte also identifies that the Australian retail sector has lagged comparable jurisdictions overseas such as the United States in terms of productivity. It is this productivity lag that means that the Australian retail sector has been less able to create the 180,000 new jobs that would have been able to if Australia had matched the productivity growth of the United States' retail sector. Deloitte identifies that the key reasons identified for this productivity lag are the extensive regulatory burdens noted above.

4.1 Why do these challenges need to be addressed?

Woolworths has for a number of years raised its concerns about the impact of excessive and inefficient regulation on the Australian retailer sector and the way it hinders retailers' abilities to deliver value choice and convenience to customers. Woolworths has been specifically concerned about the inflexibility and additional costs that this Federal, State/Territory and Local Government regulation embeds at every level of the retail supply chain - making it difficult for even the most cost efficient Australian retailer to consistently deliver to the customer.

Whilst these regulatory burdens, discussed in the Deloitte Report and noted above, are not new Woolworths believes that now, more than ever, is the time for the Federal, State and Territory Governments to address them. A failure to do so now as international competition increases will mean that Australian retailers, although willing, will be less able to respond the pace of change in the

way customers are looking to do their shopping. They will also have far less capacity to deliver the product innovation and variety at the internationally competitive prices that customers expect and are increasingly taking advantage of online. The net result of this is that the ongoing competitiveness and productivity of the Australian retail sector will be diminished and the extent of investment, employment and economic contribution made by the retail sector will decline in absolute terms.

Looking at the issue another way, if Australian Governments do take steps to reform Australia's retail regulatory framework so that it better reflect the new ways customers are shopping, Australian retailers will be better positioned to deliver and take advantage of the many opportunities that this new multichannel retail environment provides.

4.2 What can be done to increase the productivity and international competitiveness of the Australian retail sector?

Woolworths believes there are a number of measures that the Federal, State/Territory and Local Governments of Australia can take that will increase the productivity and international competitiveness of the Australian retail sector whilst will ultimately deliver benefits to customers.

A. Trading hours reform

At a minimum, Woolworths believes there is an urgent need to reform the trading hours regimes across Australia to allow retailers to set their own opening times so that they can respond to evolving customer demands to shop at times that suit their lifestyles. It is Woolworths' view that retail trading frameworks should be competitively neutral (applying equally to retailers of all types of formats) and that any restrictions on trade should be limited at most - reflecting the fact that customers can effectively shop online 24 hours a day / seven days a week. Woolworths would, therefore, support the removal of trading hours restrictions except in relation to Good Friday, Christmas Day and before 1pm on ANZAC Day.

B. Labour flexibility

In terms of labour flexibility, Woolworths supported the development of a nationally consistent General Retail Industry Award and the federal industrial relations framework that sits around it. As was discussed in the Deloitte Report, however, Woolworths is concerned that the Award (which underpins the negotiations of enterprise agreements in the retail sector) is drafted on the assumption that shopping mainly occurs Monday to Friday between 9am and 5pm. As a result of the need to pass the Better Off Overall Test (BOOT), retailers incur considerable cost in their enterprise agreements (in terms of the average wages and penalty rates that must be paid) when negotiating flexibility to employ staff outside these hours (for example on weekends and weeknight evenings when a significant proportion of shopping now takes place). Woolworths believes, therefore, that it would be appropriate to undertake a review of the penalty rate arrangements contained in that Award to ensure that retailers are able to have the flexibility to employ and use their staff in a way, and at times, that best serve the needs of customers.

Woolworths would also welcome reform of the business transfer provisions under the Fair Work Act 2009 which impact on the ability of business to harmonise labour and employment relationships when businesses are acquired as well as hindering retailers' ability to flexibly move team members across business divisions (which are subject to differing enterprise agreements).

C. A focus on harmonisation and removal of unnecessary State/Territory and Local Government Regulation

With respect to the significant issue of inconsistent State and Territory-based regulation, Woolworths believes this can only be overcome if there is a concerted commitment by all Governments to progressing the broader national regulatory harmonisation agenda through the Council of Australian Governments (COAG) process including the Seamless National Economy Project. The agenda of the Seamless National Economy project should, however, have its terms of reference expanded to explicitly address regulatory challenges faced by the retail sector such as trading hours, in-store product controls etc. As an input into process, Woolworths would support a stocktake being undertaken by Governments to identify and analyse the efficacy of each piece of legislation / regulation that impacts on retailers (particularly where it does not apply to retailers supplying similar products online). This review should not be limited to Federal, State and Territory Government legislation but should also capture local Government regulation and controls which also has a significant impact on the operations of retailers in the local community (for example, the restriction on the hours in which trucks can deliver goods to stores).

Woolworths also continues to support the need for thorough evidence based regulatory impact analysis (or business impact analysis) being undertaken by Federal, State and Territory Governments when introducing new legislation that will impact the retail sector.

D. Improving efficiency of transport networks and regulation

In relation to improving the ability of retailers to efficiently and cost-effectively transport products to customers, Woolworths continues to support the steps being taken to introduce a national harmonised framework for the regulation of transport (such as the development of the National Heavy Vehicle Regulator) and the development of a National Freight Plan to improve the long term productivity of the national land freight network in Australia. Woolworths would also support a review of the current restrictions on transport types that are currently in place in Australia (such as restrictions on trailer size) that limit retailers' freight capacity and efficiency.

E. Online GST Threshold

Woolworths is aware that a key issue receiving industry and broader attention at the current time is the \$1,000 GST-free threshold for online purchases made from overseas retailers. To Woolworths, the increasing number of customers purchasing products from overseas is a compelling illustration of the way in which customers are increasingly seeking out new products and value online and their willingness to look internationally if they are unable to obtain what they need from Australian operators. This highlights the risk that the Australian retail sector faces if they do not evolve their offerings to meet Australian customer demands and provide a range of products at prices that are internationally competitive. It also highlights the imperative of Australian Governments taking steps to address the high cost and regulatory impediments that Australian retailers face and hinder their ability to compete.

Notwithstanding this, Woolworths is concerned that not applying GST to the increasing number of goods being purchased online runs counter to principles of competitive neutrality and further hinders the competitiveness of Australia's retail sector (and their ability to continue to invest in Australia). Woolworths

would therefore support the Australian Government continuing to investigate and invest in a cost effective method for applying GST for goods purchased overseas and a reduction of the current threshold of \$1000. In the meantime, the current exemption threshold should be strictly enforced.

5 Conclusion

Woolworths looks forward to continuing to serve Australian customers into the future, finding new ways to satisfy their retail needs and employing more Australians across metropolitan and regional Australia. Woolworths also welcomes the continuing opportunities to provide value, convenience and choice to customers, regardless of where they live.

However, a key determinant as to whether Woolworths succeeds in this objective will be the commitment of Australian governments to address the significant regulatory burdens that Australian retailers face. Only if there is a commitment to such reforms by governments at all levels will the Australian economy and Australian consumers obtain the full benefit of increasing international retail competition.