

## **INQUIRY INTO FRESH FOOD PRICING**

**Organisation:** Woolworths Group Limited

**Date Received:** 8 August 2018

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Revd the Hon Fred Nile MLC, Committee Chairman  
Portfolio Committee 1, Premier and Finance  
NSW Legislative Council  
Parliament House  
Macquarie Street  
Sydney NSW 2000

Dear Reverend Nile

## ***Inquiry into Fresh Food Pricing***

Woolworths Group is pleased to provide a written submission to the Inquiry into Fresh Food Pricing.

As a leading Australian-owned fresh food retailer with nearly 1000 supermarkets nationally (289 in NSW), we serve close to two million customers a day. We employ over 115,000 people in our supermarkets business alone and a further 75,000 across our other interests.

In our supermarket business, we receive thousands of pieces of customer feedback per day that help us to ensure we are doing the best possible job at meeting the interests of the Australian consumer. We also invest significantly to understand and ensure our supplier relationships – numbered in the thousands – are strong, and represent a mutually beneficial arrangement.

In short, Woolworths is committed to providing our customers in New South Wales with access to a wide range of high quality, affordable fresh food, and working positively with our suppliers to help support that ambition.

Below we provide our comments in order of the terms of reference for this inquiry.

### **(a) Trends in pricing, comparable to other states in Australia and internationally**

Fresh food prices in NSW are broadly in line with those of other states and territories in Australia. Over 35% of the produce used in our NSW stores is locally sourced from NSW suppliers.

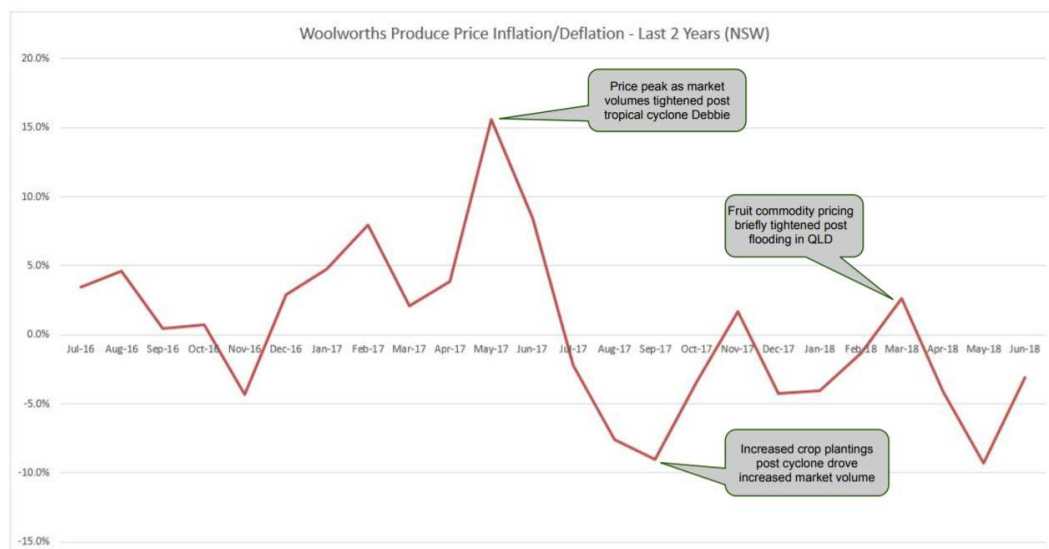
In Australia generally, food price inflation has been low - and at times negative - over recent years.

There is greater volatility in fruit and vegetable pricing compared to other food items, given seasonal and climatic factors.

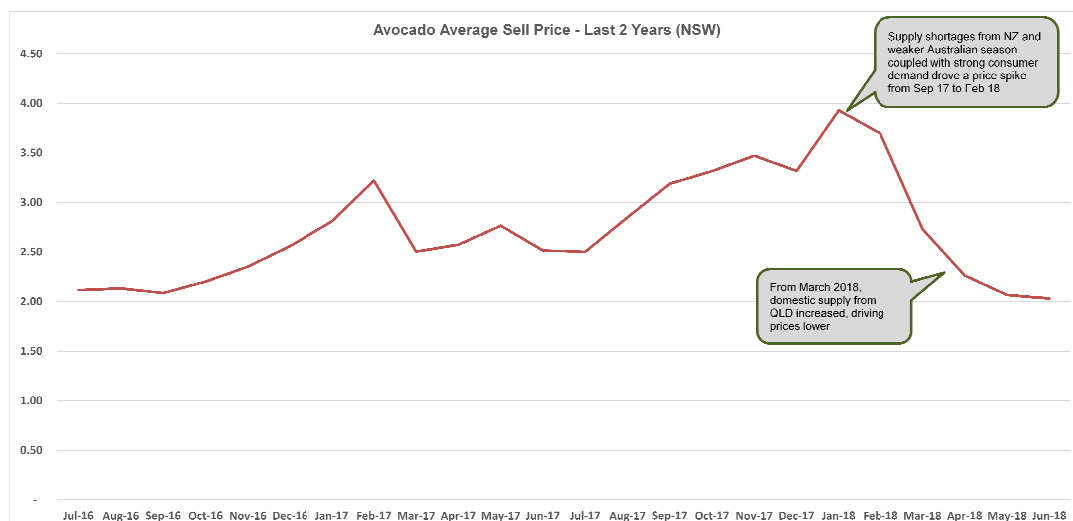
However, it is worth noting that the Australian Bureau of Statistics figures for the second quarter of 2018 show a 3% decrease in Sydney fruit and vegetable prices<sup>1</sup> over the same quarter in 2017.

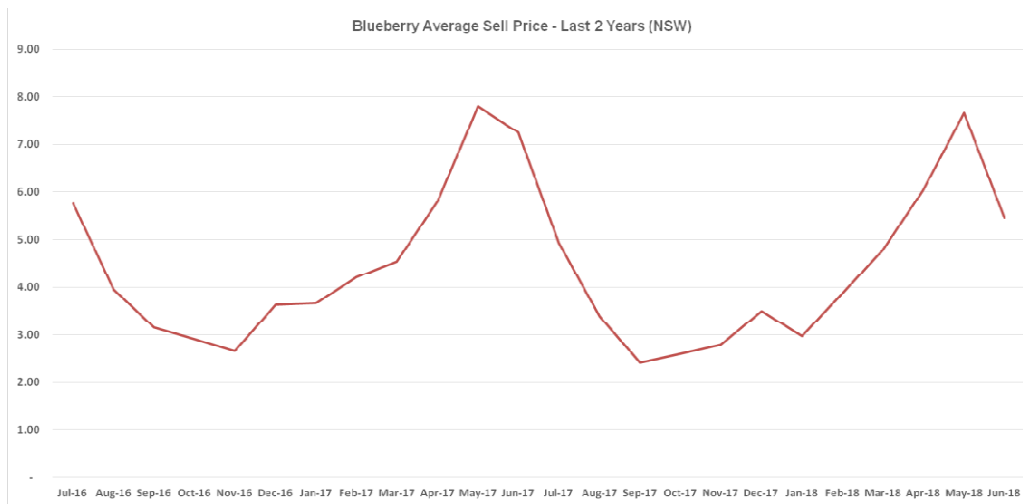
Day-to-day retail prices can differ based on factors including supply, promotional and competitor activity and consumer demand. Our stores also have the flexibility to apply their own markdowns to move product on hand and in order to minimise food waste.

The chart below represents the overall produce price changes at Woolworths NSW stores over the past two years.



As referred to above, prices of individual fresh produce products do vary over the year due to factors including level of supply and seasonality. Below are charts representing the selling prices of avocados and blueberries in NSW over the last two years.

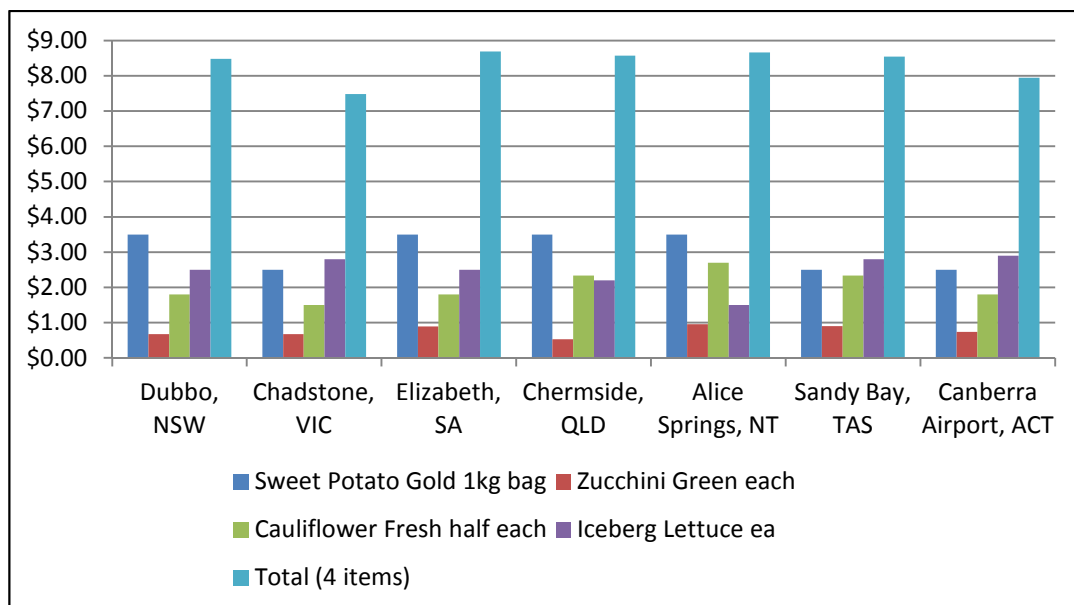




An important and positive aspect of our fresh food offer is the use of state-based pricing, providing equal access to fresh food throughout those areas in the state where Woolworths has a store. This means that a customer at a Woolworths supermarket in Dubbo will typically pay the same price as a customer in Neutral Bay or Bondi Junction.

Over 95% of our NSW customers pay the same price for their fresh produce. All Woolworths customers can access high quality, good value fresh produce and meat regardless of where they live or work.

Between states and territories, prices for individual fresh food items may vary for reasons including local supply and promotional activity. However, generally speaking NSW customers do not pay more for produce than customers in other states. Below is a sample of prices for four fresh vegetable products for pick-up at stores in each of the states and territories. We note that Sweet Potato was on promotion in some locations during the period chosen.



Source: Woolworths Online, pick up at indicated store, as at 7 August 2018

### *Pricing approach: fresh food and packaged groceries*

Fresh produce pricing is dynamic, moving weekly, sometimes daily and indeed during the day in different stores depending on stock levels and supply. The only constant in fresh produce is the need to react to a market that is highly competitive both in terms of supply availability and retail pricing.

On the other hand, Woolworths packaged grocery items have shelf prices that are fixed for long periods. These prices are consequently well known to customers as reference points for signposted 'specials', some of which are initiated by suppliers as a way of stimulating interest in their brands.

### *International comparison*

96% of Woolworths fresh fruit and vegetables are Australian grown. Where there is an export market for particular products, the market price will be impacted by international factors.

A comparison between Australian and international retail fresh food pricing is of only limited benefit, given differences in geography, population, regulation and consumer preferences. Nevertheless, we note that a recent research update by global investment bank Morgan Stanley found that a sample basket of goods at Woolworths Australia was in fact 6% cheaper when compared against ten leading US grocers<sup>2</sup>.

- (b) The relationship between wholesale prices paid to farmers and the retail price paid by consumers**
- (c) Payment arrangements between growers, wholesalers and fresh food retailers**

Woolworths is committed to fostering long term, trusted relationships with our suppliers including farmers, growers and wholesalers.

Indeed, in 2017 we made the following commitment:

*"We will achieve a top quartile ranking in how we engage fairly and equitably with our suppliers as measured by independent supplier surveys."<sup>3</sup>*

We benchmark our business relationship perceptions with our industry peers. In 2017, we made good progress on our commitment, with supermarkets moving from the 4th quartile to the 2nd quartile (up eight places).

Woolworths regularly monitors the performance of our business from the perspective of the supplier, using a metric that we call 'Voice of Supplier' or VOS. This is a survey conducted every two months by an independent research company, which provides Woolworths with an up-to-date pulse of supplier sentiment based on six questions and free text comments.

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<sup>2</sup> Morgan Stanley, 'Observations From Abroad: US Grocer Prices vs Woolworths', May 22, 2018

<sup>3</sup> 2020 Corporate Responsibility Strategy

Given Woolworths operates in a highly competitive market, an important task for our team is securing supply of quality produce for our large fleet of stores. As a matter of course, therefore, we look to enter into mutually advantageous, long-term, arrangements directly with producers. This provides Woolworths with certainty of supply and the producer a guaranteed market for their product, at a price that is sustainable for them. We also engage with wholesalers to top-up supply.

While producers have many options in the competitive Australian marketplace, working with Woolworths has the benefit of payment within contracted trading terms - in many cases for our smaller supermarket suppliers that includes payment within 14-days - and large purchase volume that provides the certainty needed for investment and planning.

#### **(d) Prevalence of food insecurity in New South Wales**

Woolworths recognises that not everyone in NSW has the means to regularly access quality fresh food.

We have therefore developed long term partnerships with charities including Foodbank and OzHarvest to help their vital work in supporting those Australians facing food insecurity. We estimate that on a yearly basis we have saved enough food for 8 million meals.

Our partnership with Foodbank has been in place for over 16 years. On average, Woolworths donates more than 1 million kilograms of fresh, ambient and household products to Foodbank every year. We have also facilitated introductions and support from our suppliers.

We similarly support OzHarvest in their mission to provide more than 1.5 million meals to Australians in need.

Woolworths customers can also make donations to both charities at the checkout.

#### **(e) Identification of 'food deserts' and any efforts to address them**

Woolworths operates stores throughout NSW, including in many regional and lower socio-economic areas where 'food deserts' may otherwise arise. With our state-based pricing for produce, Woolworths customers can access affordable fresh food whether they live in Parkes or Marrickville.

For customers with a Woolworths store nearby but without transport to get there, we offer home delivery in many parts of NSW through our website. Delivery fees range from \$12 for purchases under \$150 to free delivery for orders over \$300 in value. We also offer a 'delivery saver' option, where delivery is covered by a flat monthly, quarterly or annual fee<sup>4</sup>.

We also acknowledge the importance of education about healthy eating and fresh food.

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<sup>4</sup> <https://www.woolworths.com.au/Shop/Discover/shopping-online/delivery-saver>

Earlier this year, we rolled out the 'Fresh Food Kids Discovery Tours' program to the majority of our stores nationwide. This program caters for children from Early Learning Centre/Kindergarten level to Year 6 and involves excursions of school groups of up to 30 students to a local Woolworths supermarket. Designed by education professionals, students have the opportunity to try new fruit and vegetables, learn where and how they grow and understand the importance of a balanced diet. Also provided are quiz cards and sticker books for continued learning after the excursion is over.

These visits are provided free of charge to schools. We have already received bookings from 1440 groups (almost 50,000 children) nationwide, and anticipate 500,000 will attend over the next 12 months.

We also provide over 26 million pieces of fruit free per year in our supermarkets nationally through our Free Fruit for Kids initiative.

In June 2018, we became the inaugural partner of a brand-new community level junior program for Cricket. *Woolworths Cricket Blast* is set to officially launch later this year, with the new Cricket Australia run program designed for boys and girls to get healthy exercise and build skills through fun, game based activities as well as play modified cricket games in a social setting.

Similarly, Woolworths is a major sponsor of the Sydney Royal Easter Show. In 2017, we supported a new interactive exhibit to take children on a 'paddock to plate' journey to learn more about where their food comes from. We also run a theatre kitchen with free live cooking demonstrations in the 'Woolworths Fresh Food Dome' which this year put a focus on 'Food Savers' and showcasing how consumers can make the most of their shopping and reduce food wastage in the home.

#### **(f)(i) Impact of transportation costs**

While transportation costs represent a relatively small component of the final price paid by our customers, Woolworths continues to look for ways to be more efficient and reduce the environmental impact of its transport network.

Woolworths operates through the port of NSW for imported volume and is a significant user of road transport, delivering from Distribution Centres to over 300 Supermarkets and several hundred more Liquor, General Merchandise and Fuel outlets in NSW.

Woolworths supports Government planning to invest and develop transport infrastructure in the state, which will help to improve productivity and efficiency for retailers and suppliers, in turn supporting lower pricing for our customers.

The group expects the further development of electric vehicles to have a large impact on metropolitan road transport fleet mix over the next 5-10 years.

Woolworths also supports increasing the use of rail as a longer term objective, given the safety and environmental benefits of rail transport.

**(f)(ii) Impact of level of competition between retailers**

The market for fresh food is highly competitive. While large Australian (Woolworths, Coles, IGA) and foreign (Aldi, Costco) supermarkets are highly visible, there are many other players in the market competing with us for customers and fresh food supply. These include boutique retailers (About Life, David Jones Food, Harris Farm Markets), independent and franchised butchers, bakeries and fruit & veg stores as well as online meal kit providers (Hello Fresh, Marley Spoon). A new foreign-owned supermarket entrant, Kaufland, will commence operations in Australia shortly, adding to this already highly competitive landscape.

It is also important to note that when purchasing fresh food we also compete with restaurants, cafes, large catering companies and international buyers.

**(f)(iii) Impact of drought, climate change and extreme weather events**

Drought and extreme weather events have a significant impact on our supplier partners and the communities that we serve. The current drought is no exception.

In late July 2018 we committed \$1.5 million in additional support for Rural Aid's Buy a Bale program, along with fundraising activities in our stores. This program provides support for farmers by delivering hay for cattle feed and other essential items. This funding will also allow Rural Aid to increase the number of counsellors supporting farmers and their families.

Charles Alder, CEO of Rural Aid has said "This significant boost to funding will allow us at a minimum to double our current capacity to deliver essential suppliers such as hay bales or food for families in farming communities impacted by the drought".

In the longer term, we are committed to working with our producers and farmers to improve efficiency and develop more sustainable farming practices such as with the use of water. We have a dedicated agronomy team who are experts in their field.

As is now well known, on June 20, 2018 Woolworths removed all single-use plastic bags from our NSW stores. Nationally, this will result in the removal of more than 3.2 billion single-use plastic bags from circulation every year.

We have also recently announced a phase out of plastic straws and a continued commitment to reducing plastic packaging of fruit and vegetables.



**(f)(iv) Impact of new retail operators, such as AmazonFresh**

Woolworths competes vigorously within the markets we operate and will continue to do so.

We understand that a key focus for the present inquiry is access to affordable fresh food. It is unclear what model any new entrants may take in Australia, but it is worth noting that internationally AmazonFresh currently operates in limited highly populated locations (a handful of cities in the United States, Greater London and parts of Germany).

Regardless of future competitor activity, Woolworths will continue to serve communities throughout NSW, as it has done proudly for over 90 years, including in many rural and regional areas.

Thank you for the invitation to contribute to your deliberations.

Yours sincerely

Paul Crossley  
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Woolworths Group Ltd