

# Woolworths' Billion-Dollar Loss A Symptom of a Sector in Turmoil

by HOWARD LAKE

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**Woolworths' full-year results spelled out starkly the problems besetting Australia's leading grocers. The company posted a \$928 million loss as price cuts affected margins and better-performing competitors continued to eat into its market share.**

Recent results from both Coles and Woolworths reveal the extent of disruption Aldi has caused in Australian grocery. The big question now is whether the Big Two continue to fight back on price — at considerable cost — or accept that the landscape has permanently changed.

Despite recording its first-ever annual loss as a listed entity, CEO Brad Banducci says Woolworths is making strides in its efforts to reconnect with Australian shoppers, highlighting improved same-store food sales in Q4. While these were still down 1 percent, it was a slight improvement on the declines recorded in previous quarters. Same-store sales tipped into positive territory in the eight weeks leading to July 21, showing a 0.8 percent gain.

Woolworths listens to its shoppers and its learnings have seen it working hard to transform stores, with a special emphasis on improving the fresh produce offer. It has been price competitiveness, though, that has had the biggest impact on performance. As Coles discovered, discounts and promotions take a heavy toll on overall performance; the question remains as to how long this can be sustained.

## KEEPING THE CUSTOMERS IS IMPERATIVE

In the meantime, Woolworths is working hard at improving customer services and has claimed a degree of success with its initiatives so far. It flagged steadily improving customer satisfaction ratings during the year, peaking at 77 percent in June.

These metrics will be significant going forward, as Woolworths' massive investments in price will count for little if it cannot retain customers once this period of discounting passes. That does seem likely eventually, as the business surely will not be able to sustain discounts indefinitely. For the full year, Woolworths reduced average prices by 2.3 percent, with a 2.7 percent reduction in Q4.

## RECONFIGURING FOR A NEW CLIMATE

These moves have been inspired by Aldi's seemingly unstoppable growth in the Australian market, with the



discounter predicted to secure market share of 20 percent within a few years. While price investments have been one means of securing margins, Woolworths has made other moves to trim the fat from its operations, notably its exit from the DIY business with Masters and the Home Timber & Hardware banners, operations that have been a drag on the company's overall performance.

Likewise, the future of the Big W discount variety chain may also be in doubt. Given the losses piled up this year, the sentiment might be that a sale would bring in much-needed resources for the bigger fight ahead.

Planet Retail anticipates further shedding of non-core businesses as Woolworths plows all its funding into its key food and liquor proposition. New channels may need to be explored — such as convenience and online — which will require funding with no guarantee of return on investment.

Woolworths continues to innovate around private label and has moved to offer its brands via cross-border channels like Alibaba's Tmall. Capital will undoubtedly be needed in the short-term, as Banducci will likely come under a degree of pressure from shareholders to hasten up the turnaround. The CEO has said the transformation process could take up to five years, and investor patience rarely lasts that long.