

4 June 2012

The Hon Senator Richard Colbeck
Chair
Select Committee on the Australian Food Processing Sector
PO Box 6100
Parliament House
CANBERRA ACT 2600

By email: foodprocessing@aph.gov.au

Dear Chair

Re: SELECT COMMITTEE ON AUSTRALIA'S FOOD PROCESSING SECTOR

Woolworths Limited welcomes the opportunity to provide a submission to the Select Committee on Australia's Food Processing Sector.

Woolworths is one of Australia's leading retailers. We are committed to providing our customers with choice, value and convenience. A cornerstone of our achievements in the industry has been working with a range of innovative Australian suppliers over many years to achieve mutual success by ensuring a vendor's product is well priced, well promoted and well forecast throughout the year.

We have a record of fair dealing that we are very proud of. Our vendor trading relationships are governed by policies and procedures which have been in place for a number of years. These policies are founded on principles of fairness and a partnership with our suppliers.

Despite our mutual successes, the food processing and retail sectors face a number of common challenges. These include the difficult economic climate and subsequent fall in consumer confidence, the need for increased productivity and rising utility cost. The productivity performance of the Australian retail sector could be improved by reforms of trading hours regulation, improving flexibility in the labour market, rationalising state-based regulations, removing transport restrictions, and improving inefficient taxation arrangements. Many of these same regulatory and productivity issues also impact the manufacturing sector.

Should you have any additional questions arising from this submission, please do not hesitate to contact Kate Blunden, Group Manager – Government Relations and Industry Affairs on 02 8885 3446 or at kblunden@woolworths.com.au.

Yours sincerely

Andrew Hall
Director of Corporate and Public Affairs
Woolworths Limited

WOOLWORTHS LIMITED

Woolworths Limited

**Submission to the Select Committee on Australia's Food
Processing Sector**

1. Executive Summary

As one of Australia's leading retailers, we are committed to providing our customers with choice, value and convenience. A cornerstone of our achievements in the industry has been working with a range of innovative Australian suppliers over many years to achieve mutual success by ensuring a vendor's product is well priced, well promoted and well forecast throughout the year.

The Australian retail sector has also 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 - customers and their changing behaviour will continue to determine the way in which Australian retail develops over coming years.

From Woolworths' perspective, 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.

We have a record of fair dealing that we are very proud of. Our vendor trading relationships are governed by policies and procedures which have been in place for a number of years. These policies are founded on principles of fairness and a partnership with our suppliers. Our relationships are codified in contract trading terms and accompanying procedures, which ensures there is transparency of process and certainty of outcome in our dealings daily, weekly and throughout the year. In all our dealings, Woolworths is most conscious of and has strong regard to our obligations under the law, including Australian competition and consumer law.

We work with our trading partners on a long-term basis. Woolworths has a proud history and continuing program of support for innovation and process improvement in conjunction with the local food industry. Woolworths invests heavily in partnerships with industry to develop new products, promote innovation, increase local supply, build leadership and foster sustainable practices to ensure our country's long term food security.

Despite our mutual successes, the food processing and retail sectors face a number of common challenges. These include the difficult economic climate and subsequent fall in consumer confidence, the need for increased productivity and rising utility costs. The productivity performance of the Australian retail sector could be improved by reforms of trading hours regulation, improving flexibility in the labour market, rationalising state-based regulations, removing transport restrictions, and improving inefficient taxation arrangements. Many of these same regulatory and productivity issues also impact the manufacturing sector.

2. Future sustainability

Despite our mutual successes, the food processing and retail sectors face a number of common challenges. These include the difficult economic climate, falling consumer confidence and changing consumer habits, the need for increased productivity, innovation, rising utility costs and international sourcing arrangements.

Consumer confidence

All sectors of the Australian economy have been impacted by the global economic crisis. For the retail and the manufacturing sectors, this had presented a mutual challenge – a downturn in consumer confidence and the pressure of the high Australian dollar. Consumer indexes over the last two years have shown Australians are reluctant to spend locally, however their overseas online spending has increased. What we face a consumer whose attitude to spending has changed for the long run as a result of the global financial crisis. This follows a long-term downward trend for retail sales over the past 20 years.

Productivity

In a recent Productivity Commission inquiry into the retail sector, productivity was identified as a key concern for the industry, with Australian businesses lagging behind our international counterparts. Despite continued investment and the relatively high overall degree of competition in the retail sector, its overall productivity performance over the last decade could be improved. The unrealised potential of the Australian retail sector has the economic costs of the sector's lagging productivity performance in terms of output, prices and employment. The productivity performance of the Australian retail sector could be improved by reforms of trading hours regulation, improving flexibility in the labour market, rationalising state-based regulations, removing transport restrictions, and improving inefficient taxation arrangements. Many of these same regulatory and productivity issues also impact the manufacturing sector.

Utility costs

The challenge of reducing emissions and balancing rising utility costs is another of our joint concerns. Over the past five years Woolworths has taken a number of initiatives to reduce our emissions and reduce our exposure to carbon pricing. However, with the advent of a carbon pricing system in 2012, like manufacturers, our business will be directly impacted via pass on costs such as higher costs for electricity, gas and waste disposal to landfill. Indirectly, there may well be an impact on the cost of the goods we sell as many of our manufacturing suppliers will be liable to pay the carbon price and will also face increased costs themselves. Additionally, when heavy goods vehicles are brought under the scheme in 1 July 2014 logistics and transport costs will significantly increase for both sectors.

International sourcing

Woolworths maintains an Australian bias to sourcing, giving preferential terms to domestic suppliers who can meet the company's benchmark quality assurance standards. However, in order to provide value for our customers and the broad range of branded and own brand products they demand, we do purchase products from overseas where there is a discernable cost benefit.

Australian retailers currently face difficulties purchasing key branded products from large multinational manufacturers at a wholesale price comparable to that which is offered to overseas

retailers. In fact, a number of products produced by multi-national manufacturers can cost between 20 and 50 per cent more to purchase domestically than to parallel import. For example, the landed cost of a major line of chocolate bars is around 40 per cent less than purchasing the same product from the same multinational in Australia, while a popular brand of peanut butter can cost up to 50 per cent less. This was supported by a recent report by Deloitte which found:

“A particular challenge for Australian retailers is the pricing behaviour of international suppliers. This sees international manufacturers often 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.”¹

The report notes that Australia has a comparatively small production base but there remains strong consumer demand for branded products, many of which are now manufactured overseas. This in turn leads to retailers needing to import products from other countries, a process which is not simple. This places additional challenges on retailers including as “restrictions on freight capacity, and complex international sourcing arrangements, tend to increase operational costs, putting pressure on prices for customers and impeding the ability of retailers to deliver value to customers.”²

¹ Deloitte, *The Structure and Performance of the Australian Retail Industry*, 2011, p6.

² *Ibid.*

3. Supplier relationships

Woolworths' vendor trading relationships are governed by policies and procedures which have been in place for a number of years. These policies are founded on principles of fairness and a partnership with our suppliers. Our relationships are codified in contract trading terms and accompanying procedures, which ensures there is transparency of process and certainty of outcome in our dealings daily, weekly and throughout the year. In all our dealings, Woolworths is most conscious of and has strong regard to our obligations under the law.

Trading arrangements are based on joint operating plans and the best endeavours of both parties to achieve the mutual goals agreed between them. Within this fair trading framework Woolworths works closely with all its vendors to ensure our customers have access to the best value products. In branded packaged goods this means daily and weekly interaction on routine commercial matters, for instance prices, promotions, supply, regular scheduled joint business performance and review meetings, formal joint business planning sessions and in many cases senior executive management meetings. With private label suppliers there are additional arrangements made regarding contracted quantities of stock and guarantees of packaging such that the producer has certainty of take up of product.


Long term and established relationships

In sourcing our products one of our key objectives is to provide long lines of consistent quality product to our customers. We need to supply over 850 stores across the country. In our trading relationships, our priority is to ensure we build partnerships with producers who can ensure reliability and availability so that we can provide the products our customers demand to our store network.

The majority of our trading relationships are long-term and established. There is a strong view that these type of supply relationships with the major supermarket chains offer the best long term stable returns. This is consistent with research findings that integrated supply chains with retailers reduce price volatility and increase returns for producers. For example, in 2005 ABARE concluded that direct supply contracts can provide greater price stability and a guaranteed market for produce, increased flow of information to farmers on consumer requirements and the development of innovative and superior product lines based on that information.

Terms of trade

Woolworths' business model incorporates "best in class" supplier relationships and our contracts have several key standard features. Woolworths and our trade partners agree to terms of trade which establish the rights and expectations of parties. These terms of trade, available on our dedicated vendor website (<http://www.wowlink.com.au>), cover all aspects of a purchase including deliveries, quality control and warranties. The Group Vendor Trading Terms includes information about our responsibilities to our trade partners.

Woolworths  vendors

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VENDOR GUIDE AND TRADING TERMS

Woolworth works closely with thousands of Trade Partners every day. As such we've developed information to help you understand about the practicalities of becoming a Woolworths Trade Partner. This section also includes the Vendor Guide and provides an overview about our Fair Trading and Dispute Resolution mechanisms.

Find Detailed Information ...

- [Dispute Resolution](#)
- [Ethical Sourcing Policy](#)
- [Fair Trading](#)
- [Item Submission Form: Produce](#)  [Item Submission Form PDF](#) 7924kb
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In relation to vendor negotiations and shelf space, Woolworths has an established set of measures to ensure optimum return in sales, profit and customer satisfaction from each product category. These are applied to each of the products relative to a category as a whole, not to an individual vendor's whole portfolio.

Other matters that are covered in vendor negotiations include stock handling and freight charges. In accordance with our fair trading practices, we negotiate and agree stock handling charges with our suppliers. We also have a program of negotiating freight recovery. Given our large logistics and transport network, in some instances suppliers can save costs by having Woolworths transport goods all around Australia to our regional warehouses rather than the usual practice of vendors undertaking this task. This is a simple sharing of savings by mutual agreement which benefits both Woolworths and suppliers and is never unilaterally imposed. Importantly, this initiative has a positive impact on the environment by reducing the number of truck movements on our nation's roads.

Further information on the framework for our trade relationships can be found in our Vendor Guide at [Attachment A](#).

Codes of Practice

In all our trading relationships with farmers and wholesalers, Woolworths is committed to undertaking fair dealings and abides by stringent internal and industry codes of conduct. In addition, we were an inaugural member of the Produce and Grocery Industry Code of Conduct in 2000 and remain an active participant in the industry-led administration committee. Woolworths believes such schemes have the capacity to raise industry standards, provide cost effective dispute resolution

processes and enhance information sharing across supply chains. Such self-regulation is common among sectors and has been promoted by successive Governments for many years.

This industry-led and industry-funded initiative has been in place for 11 years and has been instrumental in raising trading standards and developing best practice supply agreements across the grocery sector. The Code of Conduct is also supported by an Ombudsman who has reviewed and mediated hundreds of disputes over the years.

Dispute resolution

Woolworths is committed to our strong trading relationships – if our suppliers have any concerns it is in our best interest to ensure we resolve these issues and work together towards mutually beneficial outcomes.

We pride ourselves on having hundreds of dedicated and satisfied trade partners. However, Woolworths does provide a process model for Dispute Resolution that encourages resolution of incidents before they become issues.

Woolworths also recently launched an externally-hosted and facilitated hotline for trade partners called Speak Up. The service is available to trading partners to report matters of a serious nature where the standard escalation procedures have either been exhausted or are not an option. Woolworths is the first major Australian retailer to adopt such a scheme, as part of its commitment to continuous improvement, transparency and accountability.

4. Working with our fresh food partners

Woolworths has prided itself on being the *Fresh Food People* for 25 years. A vibrant and sustainable domestic food sector is critical to meet Woolworths' long-term business needs. Of our hundreds of fresh suppliers, the majority have worked with us for more than 10 years, with some trading with Woolworths for more than 30 years. We source 97 per cent of fresh fruit and vegetables and 100 per cent of its fresh meat and poultry from these Australian suppliers.

Innovation and sustainability

Beyond our day to day trading relationships, Woolworths regularly partners with industry to innovate. Initiatives include increasing domestic production of certain lines, trialling new products on the market and producing new product lines to ensure our customers have the widest variety possible. While we currently import 3 per cent of our fresh fruit and vegetables counter-seasonally, we have an active import replacement program, providing opportunities and support for Australian growers to expand the range of domestic crops, to establish new varieties, explore new growing regions and prolong growing seasons. In recent years this has seen Woolworths work with local producers to increase the Australian garlic season to year-round production.

Fresh produce market

Australia's successful fruit and vegetable industry is geared to the export market. Woolworths' share of total fresh production is therefore relatively small, with Australian produce supplied to a variety of other end users. The bulk of domestic produce is either exported, sent to processors and manufacturers, purchased by restaurants or sourced by other retailers and the shares of each end user will vary by product line.

Investing in our future

Securing a future for Australian farmers involves working in partnerships to build leadership in the agricultural sector's future leaders and foster sustainable practices to ensure our country's long term food security. Over the past five years, we have provided over \$20 million to agricultural communities including funding Landcare projects and 150 agricultural scholarships. In 2012, Woolworths is a foundation partner for the Australian Year of the Farmer and has partnered with the National Farmers Federation to develop their Blueprint for Australian Agriculture.

5. Packaged Products

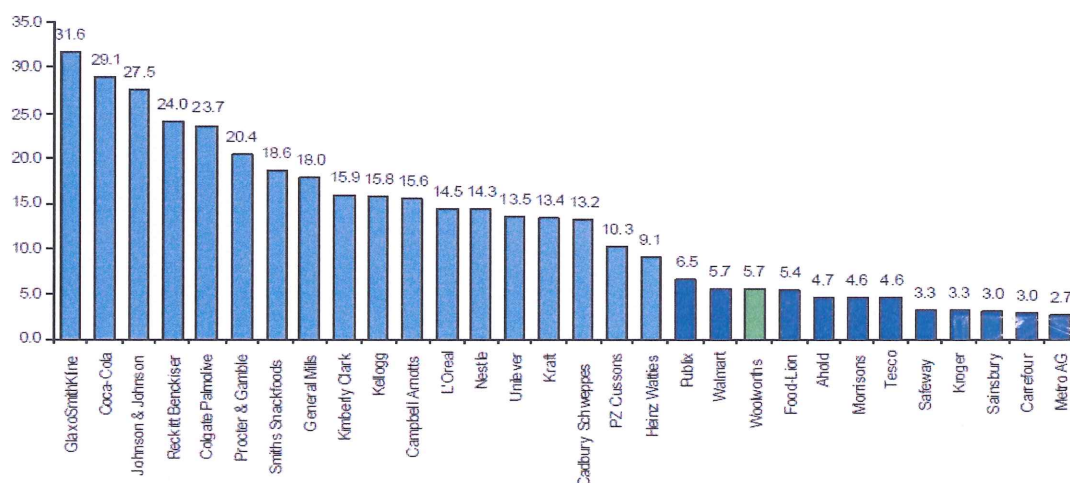
Woolworths works with thousands of packaged goods suppliers to deliver over 19,000 branded and own brand products and provide our customers with the choice, value and convenience they expect. This includes around 2000 of our own brand products.

Branded

In our branded product range, retailers and manufacturers work collaboratively with marketers advising, designing, trialling and ensuring the successful launch of many hundreds of new brands, products and line extensions each year. This includes planning logistics, ensuring there is space in distribution centres and warehouses, placement of the product in our stores and coordinating promotional activities.

The majority of packaged products in our stores are produced and packaged in Australia. However, this has been reducing as FMCG companies trading in Australia increasingly source their brands from their factories overseas and shut down local production. Many of the multi-national manufacturers we deal are far larger entities than Woolworths.³

Figure 31: Comparison of EBIT margin for leading international vendors of branded products in Australia vs. global retailers (including Woolworths), Financial Year 2008-09



Woolworths is committed to working with local businesses to expand the range of branded products on our shelves. For example, in mid 2011, Preshaford Ltd and Reboot Your Life approached Woolworths to jointly develop and market a range of world-first cold high-pressure processed vegetable and fruit juices. Upon acceptance of the proposal, Preshaford Ltd invested over \$1.2m in additional equipment in its facility at Derrimut, Victoria, under an arrangement that Woolworths would have exclusive rights to sell the range for 12 months.

To enable Preshaford Ltd to develop and manufacture the new range of healthy RebootYourLife vegetable and fruit juices, an additional 14 staff were employed and that number continues to grow. The range commenced sales on 1 February 2012 and has been well received by the consumer. For the first time, Australians can purchase a juice that is never heated, uses real Australian fruit and taste just like it was freshly juiced at home and has a 60 to 120 days shelf life. Woolworths have been instrumental in assisting Preshaford and Reboot Your Life provide the

³ *Ibid.*, p55.

Australian public with a significantly healthier and superior tasting vegetable and fruit juice that has no concentrates, no preservatives and no colours.

Own brand

In developing our own brand lines our aim is to increase choice and value for our customers. The importance of delivering a range of own brand products for our customers was recognised by the Australian Competition and Consumer Commission, who found in their 2008 Grocery Inquiry that the introduction of private label products offers consumers additional choice and is precompetitive⁴. This view is supported by our customer research which tells us loud and clear consumers love the value and quality offered by own brands. This is not just at the value end either with our Woolworths and Homebrand products – we also have a higher end ‘Select’ brand and the healthy alternative ‘Macro’ brand which includes numerous gluten-free, organic products, free-range or preservative free products.

While Woolworths has no control over where FMCG companies source their products, we can exercise more control over where our own label products come from. In all our dealings it is our preference to buy locally sourced goods and we will pay a premium to do so. As a result, we work with a range of local suppliers to develop our own brand product lines. For instance, in our Macro range, over 80 per cent of our products lines are sourced from Australia.

Woolworths is committed to ensuring our customers also have access to a full range of branded products on our shelves. We expend significant amounts of money, time and energy in seeking the maximum possible sales of all the 19,000+ branded and own brand products on our shelves.

Working with industry

Beyond our day to day trading relationships, Woolworths regularly partners with industry to innovate, promote sustainable practices and ensure Australia’s future food security. Initiatives include increasing domestic production of certain lines, trialling new products on the market and producing new product lines to ensure our customers have the widest variety possible.

Woolworths works with a range of small and medium suppliers across the country to innovate and provide our customers with the range of products they demand. One example has been our relationship with the Yarra Valley Snack Foods Company from Victoria. Yarra Valley have been a supplier of Woolworths’ Macro Chip range of products since July 2009. They currently have 13 products in our range, including Macro Organic Beetroot Chips and Macro Organic Sweet Potato Chips and are consistently engaged in new product development. This has also included actively working with Woolworths to move towards using Roundtable on Sustainable Palm Oil certified palm oil in their products. In the course of their relationship with Woolworths, Yarra Valley have seen a 70 per cent growth in their products and are driving the volume growth in the category. The relationship has also given the company the opportunity to expand their business and they have recently invested in an additional factory and chipping line to improve efficiencies.

⁴ Australian Competition and Consumer Commission, *ACCC inquiry into the competitiveness of retail prices for standard groceries*, 2008, p359.

6. Conclusion

Woolworths is committed to working with local businesses deliver our customers with the range of products on our shelves they demand. From Woolworths' perspective, 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.