

# An Overview of Woolworths Australia

February 2005



## DOCUMENT OVERVIEW

This document is structured in three sections: an overview of Woolworths, Project Refresh and future growth options for the group



## **SECTION 1**

**This section provides an overview of the Woolworths Group and its supermarket operations**

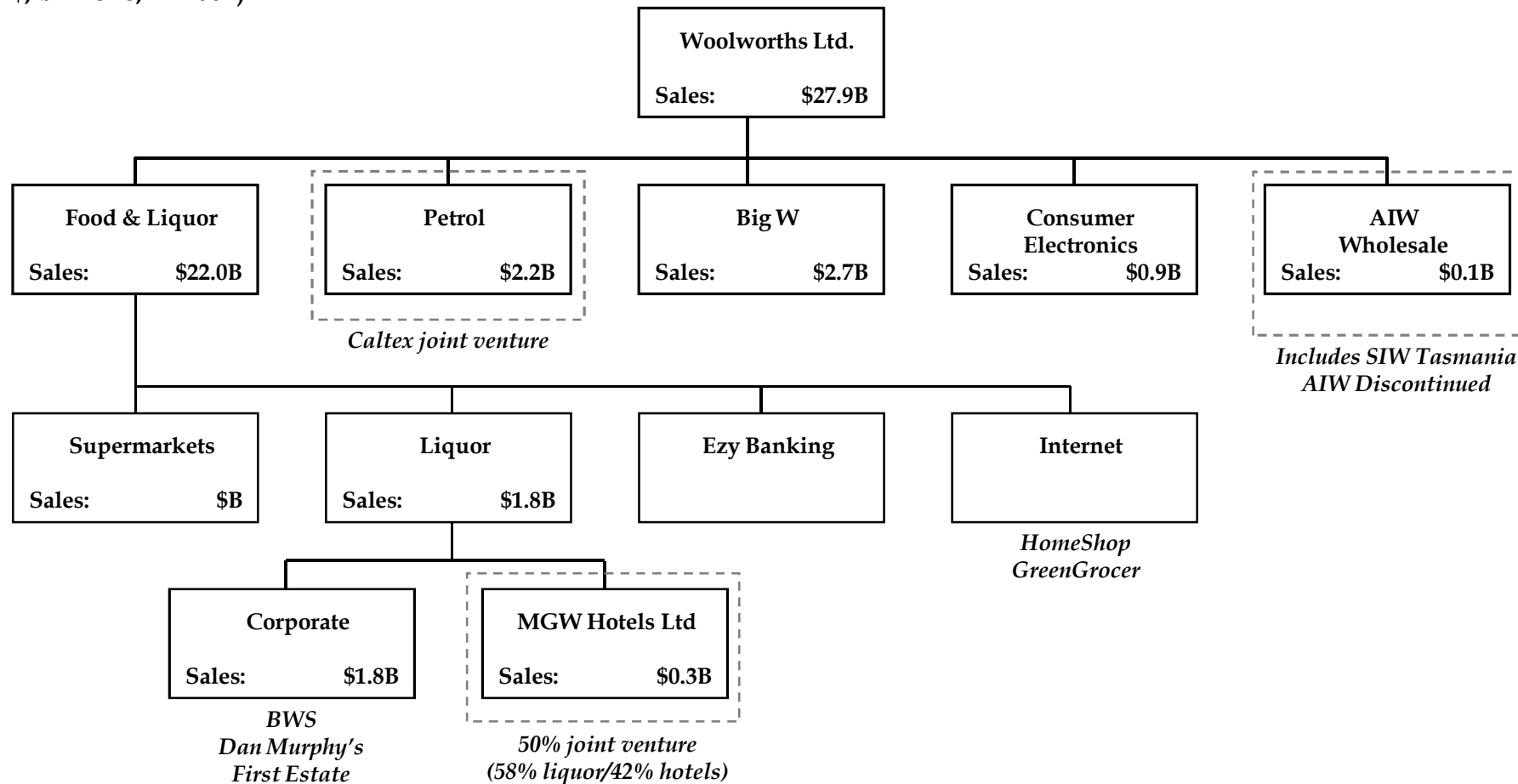


**1.  
Woolworths  
Overview**

## CORPORATE STRUCTURE

Woolworths Group had a turnover of \$27.9 billion in FY2004, of which Food & Liquor accounted for \$22 billion

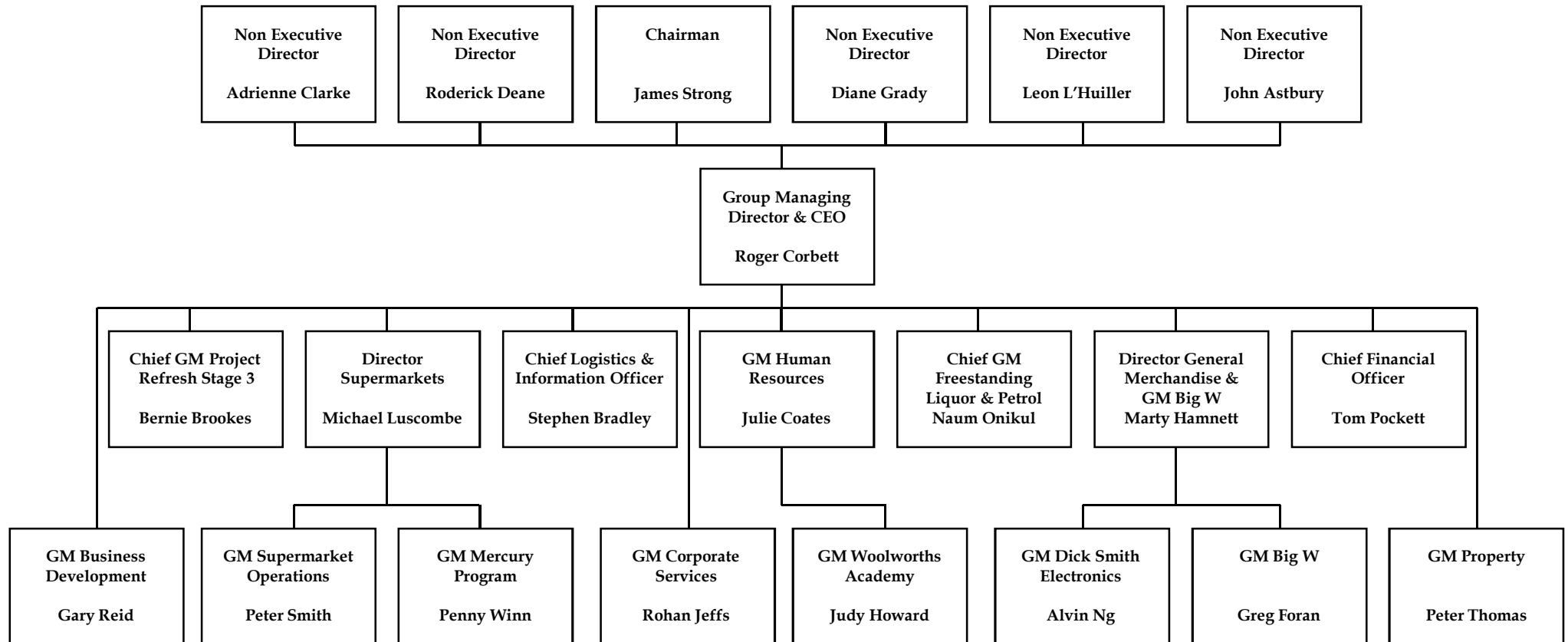
Woolworths corporate structure  
(A\$; billions; FY2004)



# MANAGEMENT STRUCTURE

The top management of Woolworths is structured as follows

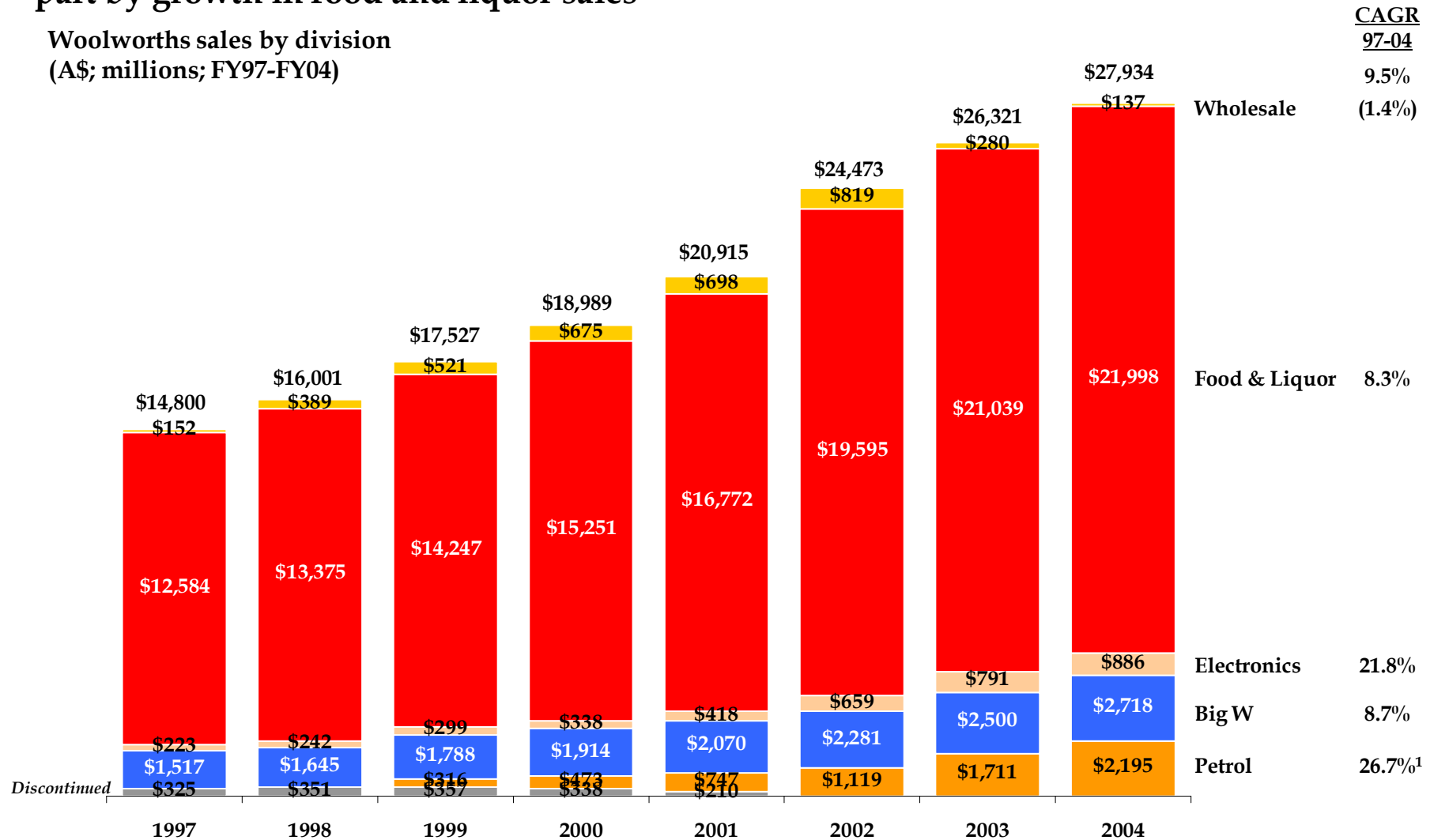
Woolworths management structure  
(FY2004)



## SALES GROWTH

Woolworths Limited has averaged 9.5% sales growth over the past seven years, driven in large part by growth in food and liquor sales

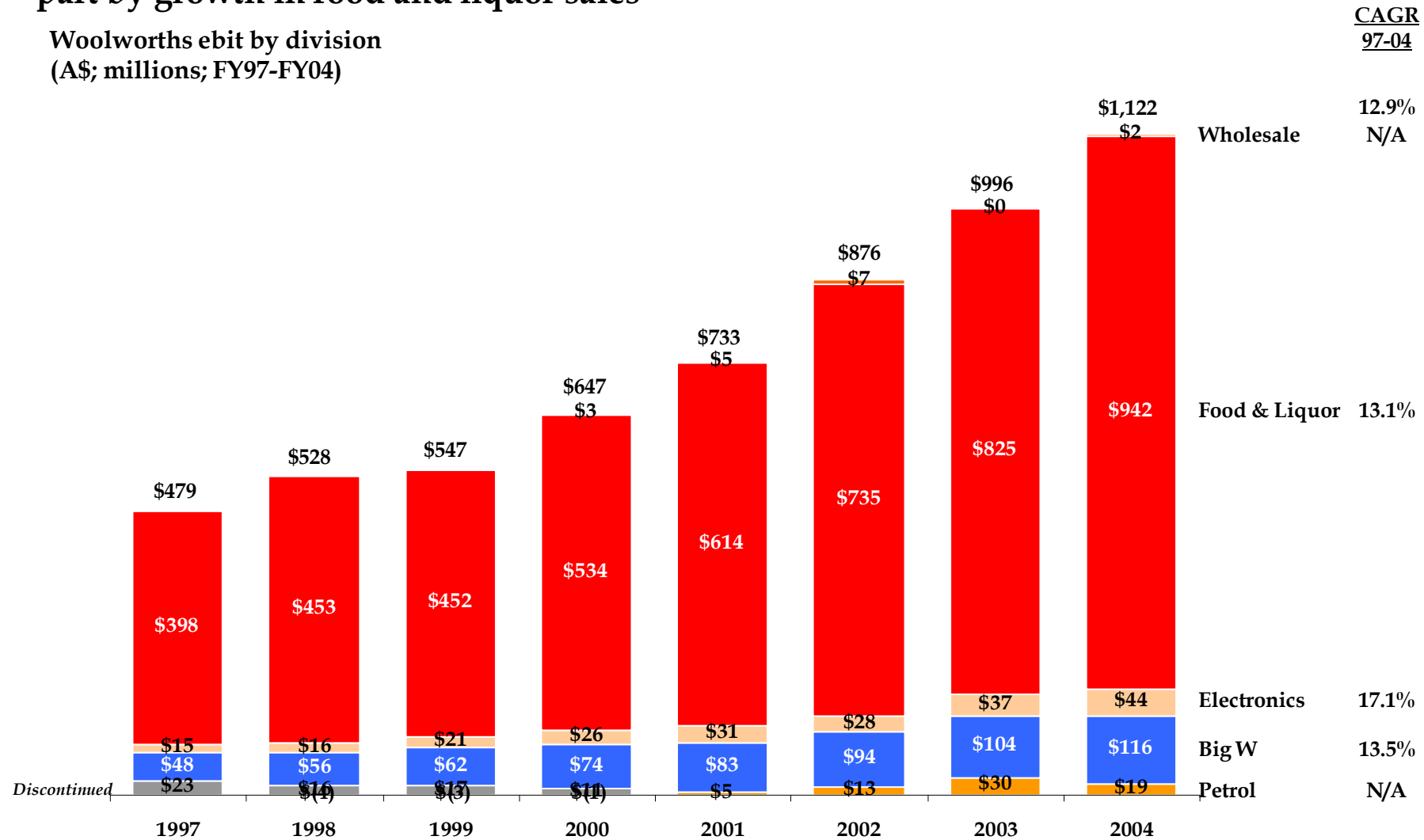
Woolworths sales by division  
(A\$; millions; FY97-FY04)



## OPERATING PROFIT GROWTH

Woolworths Limited has averaged 12.9% EBIT growth over the past seven years, driven in large part by growth in food and liquor sales

Woolworths ebit by division  
(A\$; millions; FY97-FY04)



## SHARE PRICE GROWTH

Woolworths share price has languished since a run-up following the breakup of Franklins

Woolworths share price  
(ASX:WOW; A\$; 1993/7-2005/2)























## SUPERMARKET STORE FORMATS

Woolworths operates two main supermarket store formats, Woolworths and Safeway

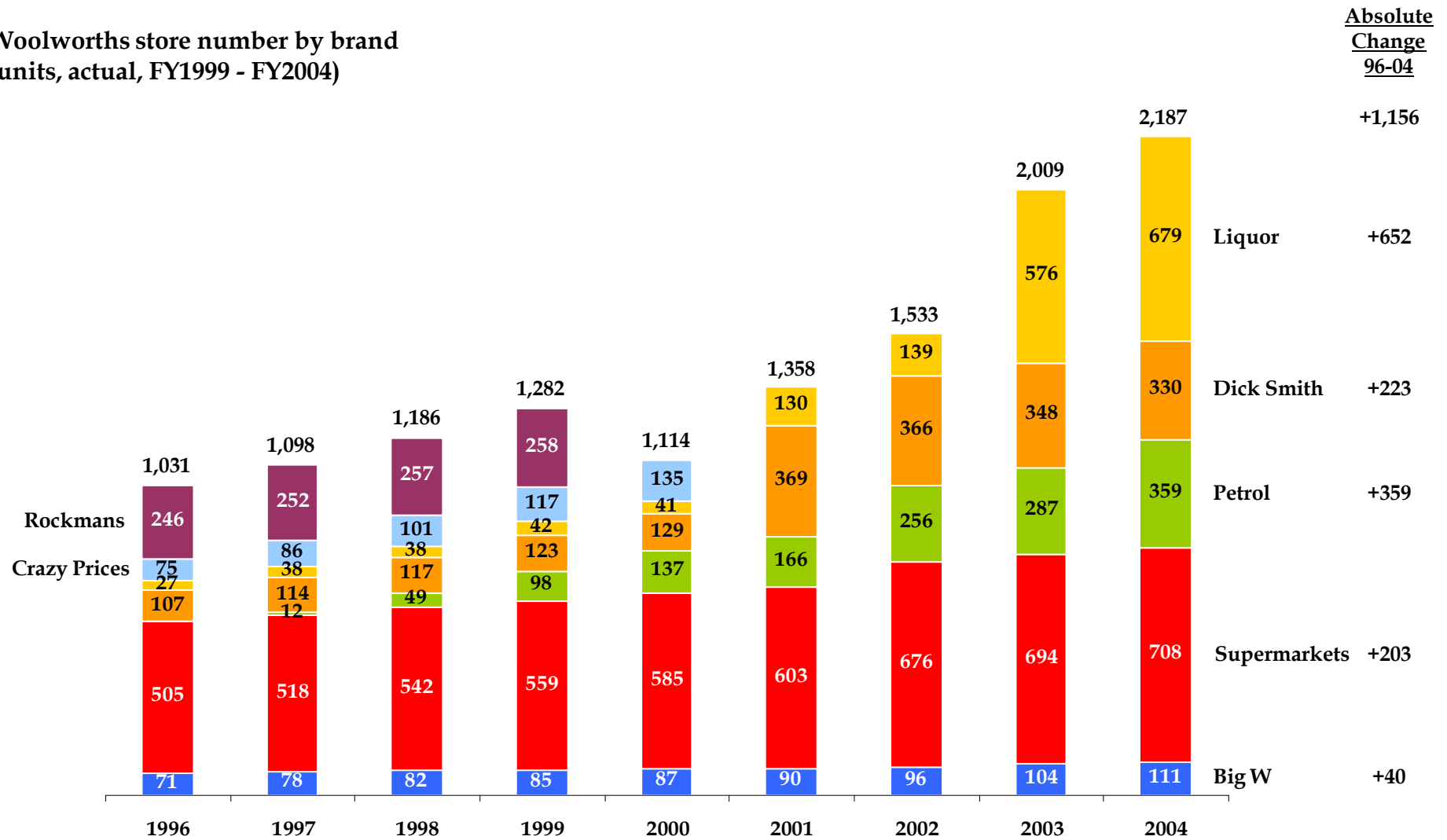
Woolworths store formats  
(units; actual; FY2004)

Format	Brands	# of stores
Conventional Supermarket		492
		179
Discount Supermarkets		27
		4
Urban		6
Petrol	   	359
Liquor	     	679
Discount Department Store		111
Consumer Electronics	 	330

# WOOLWORTHS STORE NUMBERS BY BRAND

Woolworths is increasing store numbers across all its brands

Woolworths store number by brand  
(units, actual, FY1999 - FY2004)



## ACQUISITIONS

Woolworths has made a number of 'bolt-on' acquisitions to expand existing businesses

### Woolworths Group acquisitions (A\$m; FY1998 - FY2004)

Date	Category	Acquisition	# of Store s	Sales	Acquisition Price	Location
Oct 1998	Liquor	Dan Murphy	5			Melbourne
Jun 2000	Liquor	Booze Brothers	16	~\$64m	\$12m	Adelaide
Jul 2000	Liquor	Toohey Bros	9	~\$40m		Sydney
Jul 2000	Supermarkets	Advantage Supermarkets	5		\$21.2m	West Australia
2001+	Liquor	MGW Hotels (jv with Bruce Mathieson)	85		\$350m <sup>1</sup>	QLD
2001	Electronics	Tandy Electronics	222	~\$200m	\$112.6m	National
2001	Liquor	Liberty Liquor	43	~\$180m	\$71.7m	
2001	Supermarkets	Part of Franklins Supermarkets	72	\$1.5b	\$268.1m	East Coast
2001	Petrol	Lease Liberty Oil outlets	69	~\$100m		
2001	Internet	38.1% of GreenGrocer.com.au	-		\$18.3m	
2002	Internet	61.9% of GreenGrocer.com.au	-			
2003	Liquor	Le Grog			\$7.3m	South Australia
2003	Liquor	Super Cellars			\$15.2m	South Australia
2004	Liquor	Baily & Baily			\$10.7m	
2004	Liquor	Porters			\$9.7m	
Oct 2004	Liquor	Australian Leisure & Hospitality	263	\$465m	\$1.32b	QLD; other

## DIVESTITURES

Woolworths has disposed of underperforming or non-core businesses

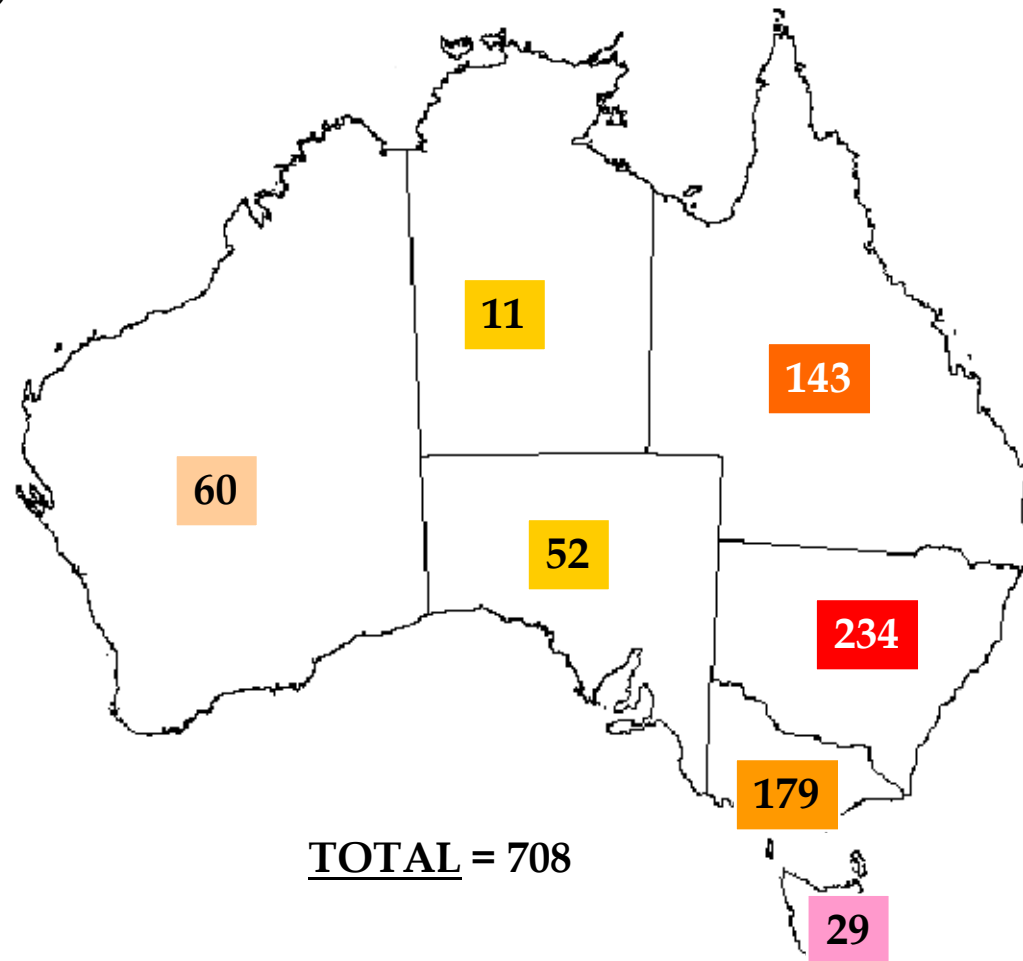
Woolworths Group divestitures  
(A\$m; FY1998 - FY2004)

Date	Category	Divestiture	# of Stores	Annual Sales	Sale Price	Location
Feb 2000	Apparel	Rockmans	258	\$169m	\$11m <sup>1</sup>	National
Jun 2000	Printing	Chisholm Printing	-	-	\$7.4m	
Oct 2000	Meat Mnfng	Chisholm Smallgoods Mnfng.	-	-	\$34.1+	
Jun 2001	Variety	Crazy Prices	135	\$516m	N/A	National

## SUPERMARKETS BY STATE

Woolworths has supermarkets throughout Australia

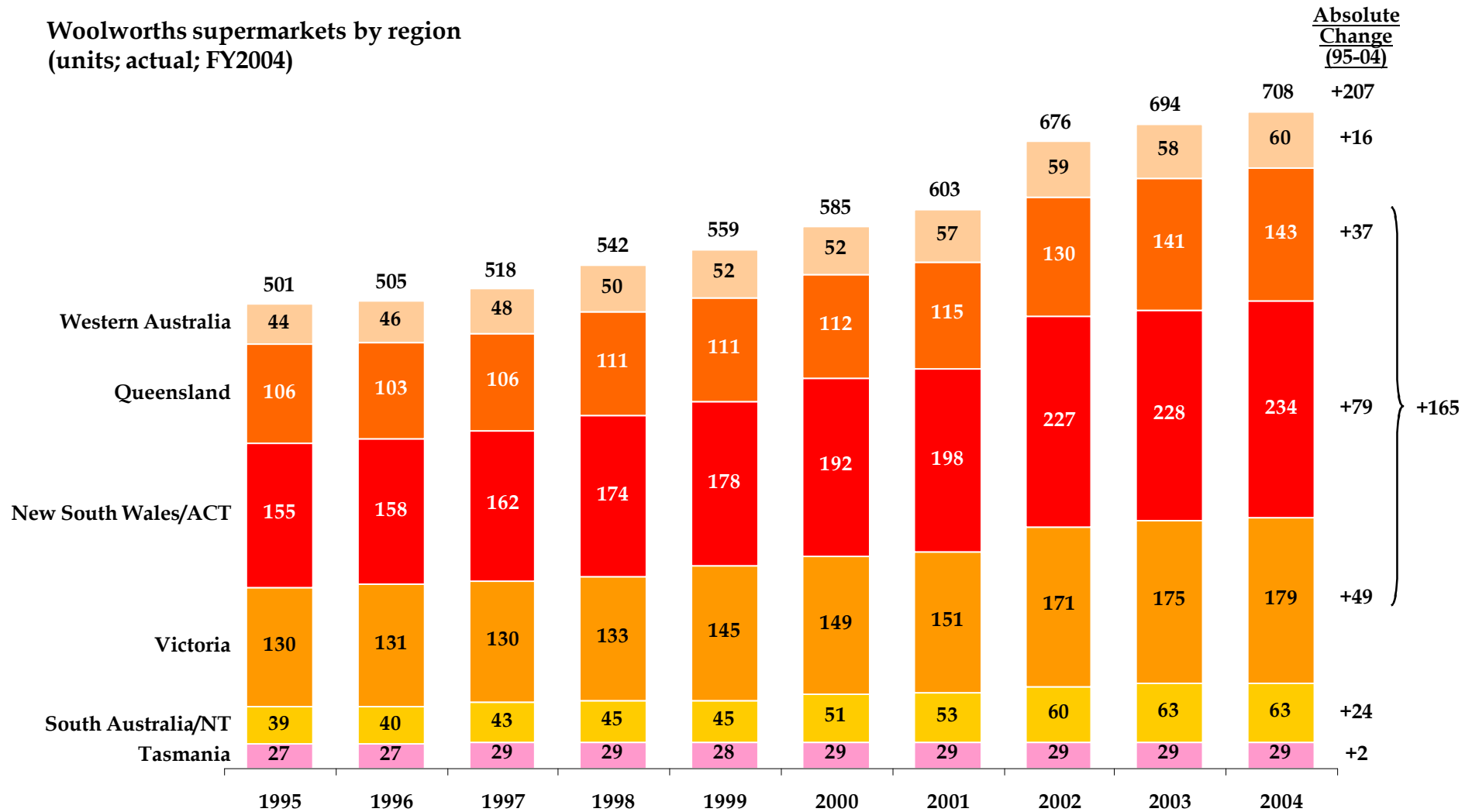
Woolworths supermarkets by region  
(units; actual; FY2004)



## SUPERMARKETS BY REGION

Supermarket store number growth is coming primarily from the highly populated Eastern states

Woolworths supermarkets by region  
(units; actual; FY2004)



## SECTION 2

This section provides an overview of the Woolworths Group and its supermarket operations



## PROJECT REFRESH

### Woolworths launched Project Refresh as a result of a consulting project by Bain & Company and its relationship with Wal-Mart

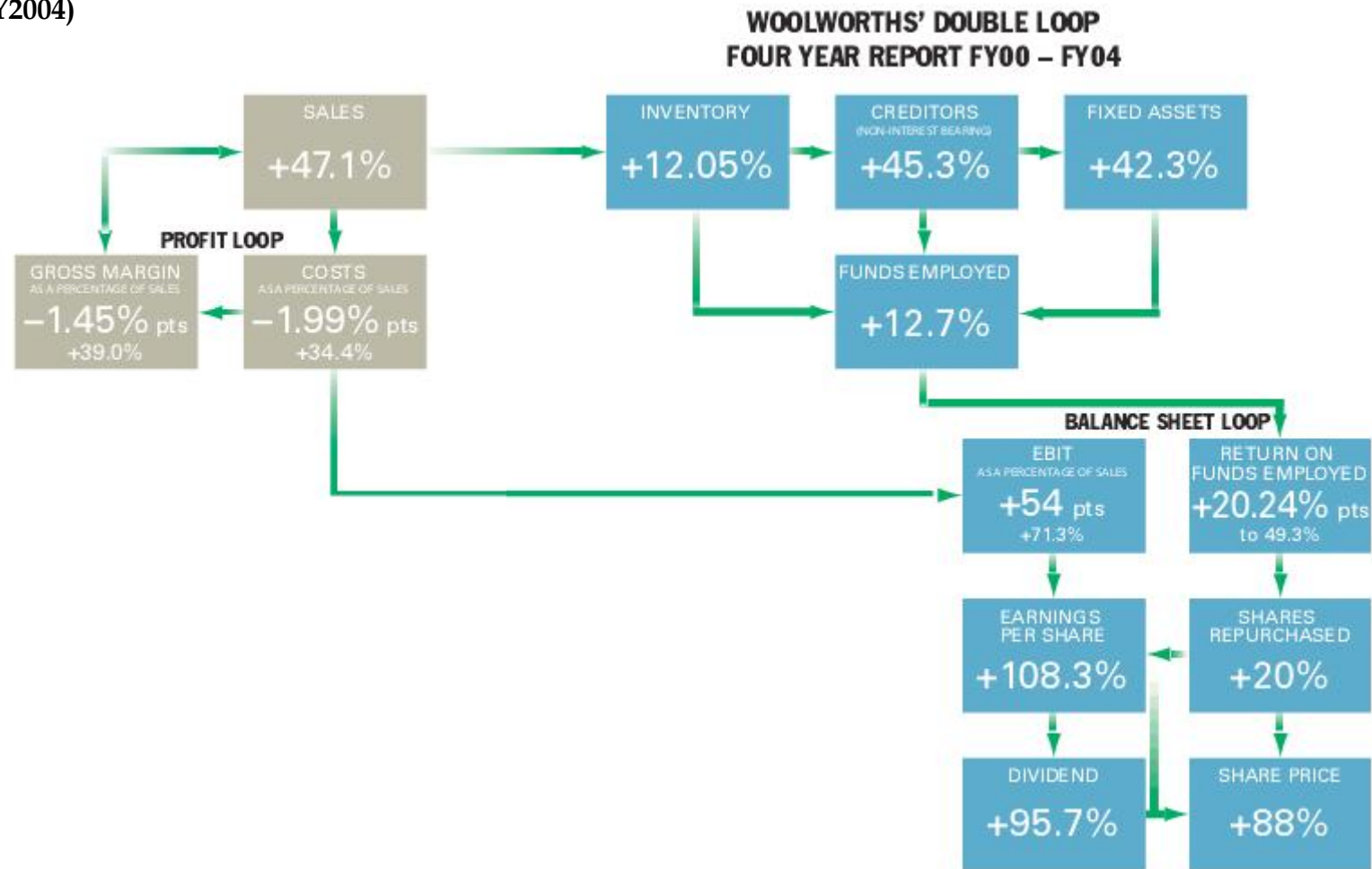
- **“Project Refresh is the business change program for Woolworths which began in August 1999. The task of Project Refresh is to refocus the ways in which Woolworths does business by looking for best practice across the Group and ways to improve efficiency while eliminating waste and duplication.” Woolworths, Jun 2001**
- **Bain & Company provided management consulting advice**
- **About 50 people internally working on the project (2000)**
- **“Roger Corbett, still one of the most underestimated men in Australian business and his US mentor, Jack Shewmaker, a board member of Wal-Mart, head of the Strategic Committee and former president of the world’s biggest retailer... were at a luncheon in Sydney last week – a rare public appearance together... Shewmaker is not only an insider in probably the biggest business success stories in any country around the world, Wal-Mart, but he’s left his imprint on Woolies, Australia’s most successful retailer in the past decade. Go into any of Woolies Big W stores around the country and it’s like a mini Wal-Mart Supercenter. The colour scheme, the look, the ‘stack em high’ approach is a direct result of the interaction between Corbett and Shewmaker. While the ‘Fresh Food People’ idea of Woolies is a reworking of ideas from US retailers and the Tesco and Morrisons chains in Britain, Woolies ‘Everyday Low Prices’ idea is a reworking of Wal-Mart’s ‘Always Low Prices. Always.’... Shewmaker is in Australia for his annual consultation with the Woolies board and senior management... Just as important has been his input on the ‘Project Refresh’ revamp of Woolies logistics chain from suppliers to the store.” Bill Eclairs, Crikey.com.au, Apr 2004**



## DOUBLE LOOP

Project Refresh has been powered by the famous double loop, a fancy way of saying: “If you lower your prices you will increase sales and make a better return on assets”

Woolworths double loop model  
(; FY2004)

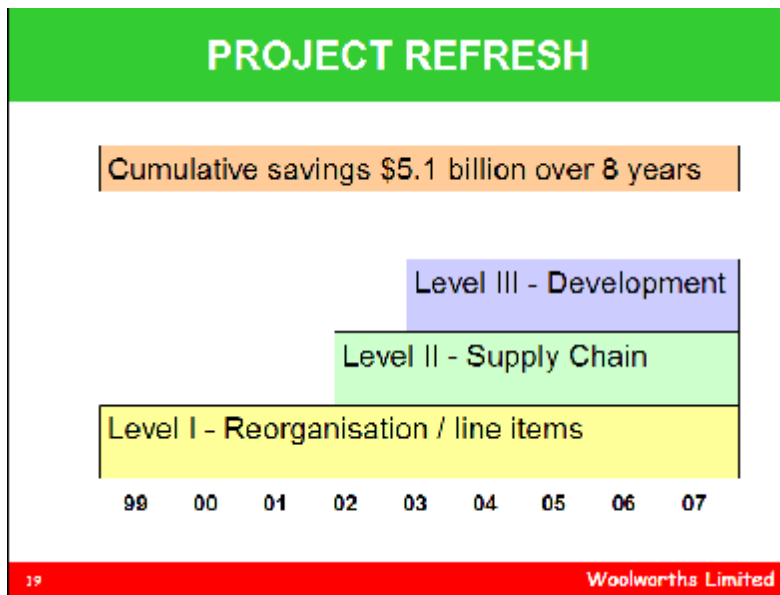


# PROJECT REFRESH TIMELINE

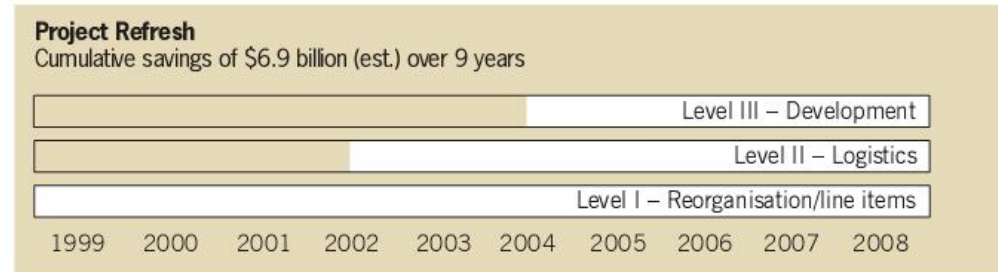
Woolworths now expects Project Refresh to save almost \$7 billion over its lifetime

Woolworths Project Refresh Timeline (model)

## Version 1



## Version 2



## PROJECT REFRESH OVERVIEW

Project Refresh has three phases or “levels” each with a different focus

Woolworths Project Refresh phases and projects  
(model; 1999-2007)

Phase	Timeframe	Savings	Key Activities	Sub-Projects
Level I Reorganisation/line items	1999-2008+	A\$1.7b/4y	Focus on Core Businesses Organisational redesign Reduce overheads	Sale of Rockmans, Chisholm & Crazy Prices Elimination of state buying offices Centralisation of buying to Sydney Focus on cost of doing business (CODB)
Level II Supply Chain	2002-2008+	A\$4.1b/5y	End-to-end supply chain improvement Streamline the supply chain Reduce total system inventory	Automated distribution centres AutostockR ordering system Stocksmart warehouse replenishment Freight/transportation management Cold & ambient distribution integration One Touch/Roll cages
Level III Development	2003-2008+		Development of IT systems	Customer focused IT

## LEVEL 1: REORGANISATION

### Level 1 of Project refresh involved consolidating buying and other shared services to Sydney

- **“Woolworths has been successful at taking costs out of its business as part of the “Project Refresh” initiative. Refresh has been a wide-ranging examination of all aspects of the company. Initial cost savings were driven by the centralization of the Supermarket Buying and Marketing function from a state based structure to a single functionally based business. The new structure replaced the former six state based Buying and Marketing operations and enables Woolworths to source most products centrally. The elimination of the duplication and improved supplier relationships has assisted supply chain efficiencies. Centralization of services is to be extended to a number of other areas such as Human Resources and Finance and Property in FY03. Project Refresh savings over the next five years are now expected to be “no less than 1% of annual sales”. Of this it is expected that Refresh savings will be shared approximately 50/50 between customer and shareholder.” James Casey, Merrill Lynch, Jul 2002**
- **“Gary Reid, General Manager of Project Refresh, indicated that the buying and marketing team [part of shared services] was one of the first areas targeted by the project refresh team. By 1 July 2000 headcount in this department should be down from 776 to 567 [-209] and by Christmas 2001 there should be a further 117 headcount reduction. Management remain adamant that no redundancies will occur for these people, rather, they are to be re- deployed to other areas within the business – most likely within supermarkets themselves. Over 90% of WOW’s employees [126,000] are in supermarkets with an attrition rate of between 25% and 30% [mostly casuals]. We understand that 50% of WOW’s employees are full time, with 20% part time, and 30% casual. WOW expects to achieve wage savings [about 50% of \$100m projected savings by 2003E] through Project Refresh by re-deploying these marketing and buying employees back into supermarkets, hopefully reducing the attrition rate and necessity to retrain new employees.” Kiera Grant, Warburg Dillon Read, Apr 2000**
- **“However, it has also been successful at taking costs out of its business as part of its low cost philosophy. Project Refresh has been a wide-ranging examination of all aspects of the company. Savings were initially driven by centralizing the Supermarket buying function. However, costs are being examined and taken out of individual line items. Many areas are still under review, including the IT and supply chain functions. WOW will be spending \$1bn over the next five years to generate further cost savings.” James Casey, Merrill Lynch, Jun 2002**

## LEVEL 1: REORGANISATION

Woolworths replaced state offices with ten management regions

Woolworths supermarkets by region  
(units; actual; FY2004)



## LEVEL 1: LINE ITEMS

### Level 1 then involved “beating the suppliers senseless”

- **“Project Refresh Was Simple – it was Beat the Suppliers Senseless on Price, and Pass a Large Part onto Customers to Win Increased Market Share. Around 3 to 4 years ago, Woolworths made a material change in the way it purchased products from suppliers. It went from a state based (fragmented) buying approach, to a national (consolidated) buying arrangement. It effectively changed its strategy from going to the buyers – to letting the buyers come to them. In addition, it went to a tender process for major products (such as dairy) where it opened up an auction for contracts to supply Woolworths.**
- **This strategy has proven a success, with the suppliers competing fiercely with one another to be the chosen or preferred supplier to Woolworths. It has also recently been highly successful in wine, with the investment cycle in wine creating an excess supply. The wine industry is currently experiencing a suppliers worst nightmare – an excess supply of product resulting from too much production capacity (from a fragmented supplier base) – combined with a consolidating retailer base.**
- **The result has been Woolworths aggressively pursuing price savings from its suppliers while passing on a high proportion of the savings to customers in the pursuit of increased market share. Woolworths has been particularly effective in this strategy – through its supermarkets, Dan Murphy liquor outlets, Big W, etc. The reward has been above market average sales growth, and increased market share.**
- **The cost, however, has been declining returns on investment for the suppliers – to the point that many in order to survive are seeking consolidation themselves. In addition, many suppliers don’t like Woolworths’ strategy. For example, in the wine industry, many suppliers have commented to us that they are uncomfortable with the Dan Murphy’s (category killer) strategy. On a recent company presentation, there was a photograph of Dan Murphy in the analyst pack. One wine producer said to us that the same photograph was in their possession – not in their pack or desk, but on their dartboard.” *Dave Errington, Merrill Lynch, May 2003***

## LEVEL 1: LINE ITEMS

### Level 1 also included a raft of other initiatives

- **“We have made leaps forward. Improvements have been made to sharing data and supply chain management and there have been improved relationships with trade partners... Significant IT advances had been made, including a new range management system. In grocery, we have introduced back-end gondolas, new rebuying, and successful promotions of buy one, get one free... However, there was still work to be done. We need to:**
  - **Optimise the supply chain and work with suppliers. Tactics include range management systems, co-managed inventory, education, a reduction in inventory, data integrity, and a reduction in handling. All provide fodder to achieve supply chain imperatives, but they have interdependency with other areas.**
  - **Strengthen supply relationships, for example, in communication, joint planning, supplier focus groups, and the supplier of the year program.**
  - **Sharpen low price retailing.**
  - **Customer focus. We have implemented a merchandiser of the year program, automated processes, increased private label products and speed to market, and are learning to use customer information to serve customers better.**
  - **Improve quality of people, including more effective selection, allocation and succession.**
- **Part of Woolworths’ plan to improve supply chain management is the introduction of SCOPs – supply chain objective plans. These plans are designed to improve stock handling and information flow between Woolworths and suppliers. The key issues in optimising the supply chain are identifying critical areas and setting objectives... The supply chain plan is one of the future cornerstones of how we will do business.” *Bernie Brookes, GM Buying and Marketing, Woolworths, Aug 2001***

## LEVEL 2: SUPPLY CHAIN

### Level 2 of Project Refresh focused on implementing global best practice in supply chain

- **“The second stage of Project Refresh gives us an opportunity to drive our business to those KPIs that are among the best in the world, like Wal\*Mart and Tesco... It will create a state of perpetual motion... The cost savings are immense... We have some 100 people at least working on our supply chain and a similar number working in our IT area that are doing nothing else but build the framework for level two. Some of the key aims of stage two were to reduce the warehousing and delays of products in the supply chain, reduce investment in stock and to increase the efficiency of product movement, often direct from manufacturer to retail outlet... What we’re going to be doing is using the technology and approach that Wal\*Mart has in the US in removing an immense amount of cost that is germane to the supply chain as it currently exists... It is a fantastic opportunity for Woolworths, and as you know we enjoy a very close relationship with Wal\*Mart and with Tesco.” Roger Corbett, Chief Executive, Woolworths, Feb 2003**
- **“Woolworths will increasingly direct a higher proportion of its capital expenditure to drive supply chain efficiencies to further drive down costs and improve efficiencies. Woolworths has stated previously that it intends to spend over \$1b over the next five years to improve its returns. Part of this will involve IT infrastructure that will enable perpetual replenishment and automated re-ordering, which is expected to take stock out of the system for both retailers and manufacturers.” James Casey, Merrill Lynch, Jun 2002**
- **“Going forward, Woolworths intends to increase its capital expenditure as part of Project Refresh (Mk II). The increase in capital expenditure is required for infrastructure (specifically new distribution centres), and IT spend to take additional costs out of the supply chain. The increase in capital expenditure may lead to a short- term decline in ROIC, unless costs are taken out faster and an offsetting cost reduction follows. Overall, Woolworths appears well advanced in its supply chain initiatives. Specifically, improvements to the supply chain will be achieved by anticipating customer demand initiatives and reducing the cycle time from supplier to store shelf. Woolworths also has plans to reduce the number of distribution centres from 31, to what is hoped to be 11. Such plans will include regional distribution centres for Woolworths’ key fast moving consumer goods and national distribution centres for slower moving products. The distribution centres will then control the shipment of goods to individual stores, such that when orders are sent in, only the goods that are necessary are shipped out.” James Casey, ABN Amro, Aug 2003**



## LEVEL 2: SUPPLY CHAIN – INVESTMENT

### Level 2 of Project Refresh involves significant investment

- **“Woolworths' yearly spend on IT and supply chain will peak at about \$117 million in 2005, as it races to maintain its edge on Coles Myer. Woolworths spent \$51 million -- about 10 per cent of net capital expenditure -- in the past year on its IT and supply chain revamp. By 2002-3, Woolworths had already spent half of an expected five-year \$1 billion on the IT components of its Project Refresh business overhaul. It expects to spend \$367 million on IT (11.6 per cent of net capital expenditure) and \$142 million (4.5 per cent of net capital expenditure) on supply chain IT by 2008 -- just over half a billion dollars.” *The Australian, Aug 2003***
- **“Woolworths has spent \$94 million on IT and technology-related supply chain activities in the past year as part of its Project Refresh. The retail giant almost doubled last year's IT expenditure of \$51 million and expects to spend another \$448 million on IT (13 per cent of net capital expenditure) and \$133 million on supply chain systems (4 per cent of net capital expenditure) between 2005 and 2009. For the year ending June 27, Woolworths spent about 15 per cent of net capital expenditure on hi-tech projects.” *The Australian, Aug 2004***

## LEVEL 2: SUPPLY CHAIN – AUTOMATED DC'S

### Woolworths has opened two national automated warehouses

- “The decision to automate DCs was taken by the then Head of Supermarkets, John Brunton, in 1996.
- WOW has two automated DCs – Minchinbury, in Sydney, and Broadmeadows in Melbourne. These DCs cost A\$300m, with an abnormal charge of A\$34.2m in the first year due to duplication of tasks from existing warehouses and the new DCs, as well as initial teething problems.
- The automated DCs handle the 4,500 fastest moving dry grocery lines (ie the major lines). They operate up to 20 hours a day, seven days a week. They are 10 storeys in height and are operated in the dark to save costs. We believe that the volumes are between 200,000-350,000 cartons per day, over 1.4m cartons per week, and that break even is possibly at the 1m cartons per week level.
- Many pallets / cartons are not stored rather they are cross-docked. This involves cartons moving from the trucks onto a large conveyor belt and then sorting into different WOW distribution trucks to go to stores. Barcodes are used to identify stock throughout this process and ensure that the right carton gets to the right truck. Deliveries to the DCs are made at specific times to avoid backlogs within the DCs, and to be in sync with the timing and cartons required for specific delivery to the store. These initiatives all work to ensure that the process is continual, and the flow of cartons seamless.
- This process has reduced significant amounts of manual labour, increased the pace at which cartons are moved, and has generated significant cost savings for WOW. Furthermore, the high fixed costs associated with these DCs mean that volume increases significantly drive earnings.” *Russell Wright, JPMorgan, May 2003*
- “Where are we currently? The establishment of the National Distribution Centres (NDC) is progressing. We are well underway with the internal re-ranging within Victoria and in New South Wales to ensure all NDC lines are allocated respectively to the Mulgrave Distribution Centre or the Yennora Distribution Centre. At the end of October we conducted cross-state ranging with the transfer of Western Australia lines to Victoria. The NDC Freight Cost Recovery Team has started contacting vendors involved in the NDC set up to discuss which lines will be supplied from the NDC.” *Woolworths Trading Partner News Dec 2004*

## LEVEL 2: SUPPLY CHAIN – AUTOMATED DC'S

### Woolworths has overcome initial “teething” problems with these warehouses

- “While it may have taken eighteen months to get there, WOW has finally been able to get its distribution centres to perform at least if not exceed at times to the original internal expectations. QP1, the first distribution centre to be built at Minchinbury, NSW [opened April 1998] appears to have gone through a significant transformation. About one year ago, QP1 development costs had blown out by about \$45m. Management was having troubles with glue on boxes and suppliers abiding by necessary bar coding standards to have their products distributed through the network. QP1 is now back at if not exceeding, the design levels required for:
  - 1) cost per carton
  - 2) salary per carton and
  - 3) pick rate efficiency.
- The distribution centre [QP1] was originally designed to process 5,500 pallets per day. On a calendar year to date basis, it is achieving this, having achieved 8,000 pallets per day over the all important Christmas period. QP1 services 180 supermarkets, 110 Liquor stores, and 50 Crazy Prices. While details were a little sketchy on the newer QP2, it would be surprising to if the experiences were extremely dissimilar to QP1. WOW remains adamant that \$80-\$100m of inventory savings can be extracted from the business once both DC's are fully operational – the time frame for realizing these savings remains the unknown.” *Kiera Grant, Warburg Dillon Read, Apr 2000*

## LEVEL 2: SUPPLY CHAIN – DC CONSOLIDATION

**At the same time, the total number of DC's has been reduced from 31 to 9**

- **“The number of Supermarket distribution centres (DC's) will be reduced from 31 to 9 regional DC's (RDC's) and 2 national DC's (NDC's). The strategic location of these DC's is imperative in order to optimise network efficiencies. Three RDC sites have already been secured (at Warnervale NSW, Wodonga, Victoria and the Perth Airport, WA). The rationalisation of DC's, combined with new cross dock and flow through processes, supported by new warehouse management systems, will utilise very effectively our site advantages and further reduce both cost and stock levels, and the cost of transport from DC's to stores. Reducing the volume of our direct store deliveries and introducing electronic store delivery will reduce costs by utilising our DC's infrastructures as well as eliminating administration costs.” *Woolworths Annual Report 2003***
- **“The planned consolidation of 31 current Supermarket Distribution Centres to nine Regional and two National Distribution Centres of significantly larger size and scale which is well underway.” *Woolworths Annual Report 2004***
- **“The two automated DCs have replaced 15 warehouses throughout NSW and VIC. The closure of these warehouses has resulted in significant cost savings. WOW is building a new DC in Wyong, on the NSW Central Coast, one of the fastest growing areas in NSW. We believe that this DC will be automated and is likely to cost approximately A\$100m. WOW is looking to expand the number of DCs they have in two areas: 1. smaller DCs that cater for fast moving items; and 2. DCs located on a regional basis, to reduce freight costs. The rationalisation of DCs, and the optimisation of their location, is a key initiative across WOW in supermarkets and also across their Big W and Dick Smith Electronics.” *Russell Wright, JPMorgan, May 2003***
- **“Distribution Centre rationalisation - Over the medium term, WOW will reduce the number of DC's in its system from 31 to 9 regional centres and 2 national centres. This potentially enables WOW to reduce labour intensity and also reduce volume of direct store delivery.” *David Errington, Merrill Lynch, Aug 2003***

## LEVEL 2: SUPPLY CHAIN – RDC’S LAUNCHED

### Remaining Distribution Centres are being repositioned as Regional Distribution Centres

- “Woolworths’ regional distribution centre in Perth has opened ahead of schedule and ahead of budget. The 65,000sqm development is the first RDC in Woolworths’ new supply chain structure to become operational. The company said the rollout for the chain’s distribution network was on track, with a further eight RDCs and two national distribution centres currently under development. As the primary arterial system for Woolworths Supermarkets and a pivotal linchpin for Project Refresh, the distribution network would help deliver the company’s projected \$6.9 billion cost savings to 2008. The Perth RDC is opening in two phases. The temperature-controlled facility which houses fresh produce is now up and running, and an ambient facility will follow early in the new year. Capitalising on the integration of bespoke supply chain software such as AutostockR and StockSMART, with advanced Warehouse Management Systems technology, the Perth RDC will create the blueprint for the other distribution centres to follow once they come on stream, the company said. Director of supermarkets Michael Luscombe described the facility as highly impressive and a terrific flagship for the new distribution network.” *Foodweek, Nov 2004*

## LEVEL 2: SUPPLY CHAIN - EDLP

### Woolworths implemented an EDLP pricing strategy as a first step in going to computer-aided ordering

- "We have introduced Every Day Low Pricing (EDLP) for key icon lines in the Supermarkets. There has been strong customer acceptance of this offer, with sales increases across all EDLP lines." *Woolworths Annual Report 2003*
- "Speaking after the release of stronger than expected first half profit results yesterday, the chief executive of Australian Woolworths, Roger Corbett, revealed that the group's everyday low pricing EDLP strategy could be completed ahead of schedule, within the next three years. Mr Corbett's upbeat comments come in the face of persistent rumours that Woolworths is experiencing execution problems, compounded by Coles Myer's efforts to undermine its strategy with its aggressive high and low promotional pricing. But Mr Corbett insisted that its extensive customer research "tells us that they (shoppers) love the credibility, the honesty and the reliability of everyday low prices"." *M+M Planet Retail, Feb 2004*
- "Woolworths is convinced its EDLP strategy - which involves offering low prices year-round, rather than "high-low" pricing (that is, specials) - will enable it to gain market share... The chief executive of Woolworths, Roger Corbett, is a big fan of EDLP. That was the strategy he lifted from US retailer Wal-Mart Stores in 1990 and used to revive Woolworths' Big W discount department stores... The EDLP strategy currently applies to about 11 per cent of products in Woolworths supermarkets, but the retailer has told its suppliers it will eventually cover all products." *AFR Aug 2003*

## LEVEL 2: SUPPLY CHAIN - IT INITIATIVES

### Woolworths launched five major IT initiatives

#### Woolworths IT initiatives

Initiative	Description	Status
StockSMART	The computerised forecasting and replenishment system ensures stock levels are maintained at distribution centres. It has also been integrated into the ordering systems to enable "orders by exception".	All DC's
AutoStockR	Forecasts store item sales based on historical sales trends and current and planned inventory levels.	All stores
eDSD	In-house system handles 50,000 orders for direct lines each week.	All stores; all DSD vendors
B2B e-commerce	The in-house system enables 100 per cent electronic ordering on Woolworths' side.	Most suppliers
WOWlink	Vendor extranet. The in-house system was designed and implemented over 12 months.	All vendors

## LEVEL 2: SUPPLY CHAIN – STOCKSMART

### Woolworths launched the Stocksmart warehouse replenishment system

- **“Stocksmart is the name given to the warehouse replenishment system that was operational across 80% of the WOW supplier base at August 2002. It involves scheduling production and delivery to meet with WOW’s needs, as determined by AutostockR. This ties in with the every day low pricing (EDLP) strategy that WOW has embraced. Suppliers appreciate the reliability of terms from EDLP and Stocksmart allows them to know stock volumes and when delivery is required. The communication regarding delivery ensures there are not backlogs at the DCs.”** *Russell Wright, JPMorgan, May 2003*
- **“Stocksmart (Distribution Centre forecast based replenishment system) has been installed on time, on target and is producing the functions expected in all our distribution centres throughout Australia. This has been a significant contributor to the excellent stock management results we have achieved in the Supermarket division for the period under review. We are focused on achieving our 5 year target of reducing the cost of doing business by at least another 1% of our sales or 20 basis points per annum. Our strong performance in the year was supported by excellent progress in managing the key variables of our balance sheet. A significant reduction in inventory of 3.2 days compared with last year was a key factor which contributed \$170 million to free cash flow.”** *Woolworths Annual Report 2003*
- **“Our inventory replenishment program is well under way, with Stocksmart being implemented fully in our Distribution Centres. The implementation of this application has been pivotal in the 3 day reduction in Supermarkets inventory as at year end.”** *Woolworths Annual Report 2003*



## LEVEL 2: SUPPLY CHAIN - AUTOSTOCKR

### Woolworths is implementing automatic ordering through its AutostockR project

- **“AutoStockR forecasts store item sales based on historical sales trends and current and planned inventory levels. Prior to its introduction, store ordering at Woolworths was a manual process with orders placed by staff walking up and down aisles, checking turnover and predicting sales. Data provided via the AutoStockR system is also used to fine-tune so-called planograms, which govern the range of products sold and space given to each item.” *The Australian, Jul 2003***
- **“Autostock R is a supermarket ordering system that was operational across 50% of WOW supermarkets at August 2002. It involves stock being automatically reordered based on sales levels, with store managers providing a human overlay. This perpetual inventory system, which international peers Wal Mart, Tesco and Carrefour have used for some time, results in significant time and cost savings for WOW.**
- **Previously, store managers would take two hours per day to walk the store and determine the stock that needed to be reordered. Anecdotal evidence indicates Autostock R has reduced the time the store manager takes to reorder stock from fourteen hours per week to just five. Autostock R is a great toll but must still be altered manually at the store level to reflect adlines, price reductions, weather etc.**
- **Autostock R allows store managers to spend more time on the store floor servicing customers and developing staff, and less time on administrative tasks. This results in lower levels of stock within the store and lower levels of capping stock. This is because the store manager knows that the stock is on its way, either from the DC, or from the supplier to the DC.**
- **Yet the lower stock levels within the store (although sufficient to meet existing customer demand) means that space allocation within the store can be reduced. Longer term, this additional space can then be used for extension of other products, such as in-store liquor, pharmaceutical’s and health and beauty.” *Russell Wright, JPMorgan, May 2003***

## LEVEL 2: SUPPLY CHAIN – AUTOSTOCKR

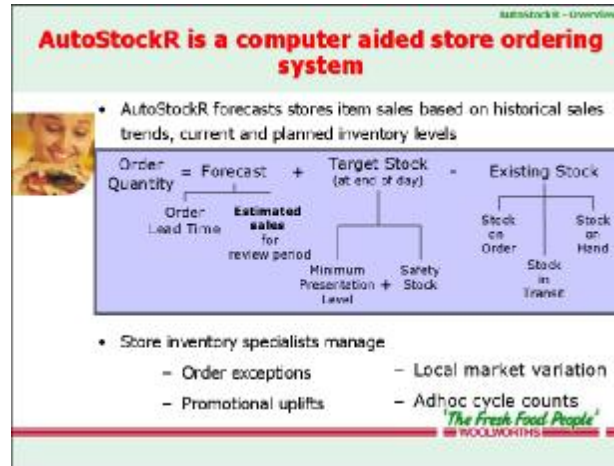
Woolworths used this presentation to explain AutostockR to financial analysts



**AutoStockR**

**Automated Store Replenishment**

*The Fresh Food People*  
WOOLWORTHS



**AutoStockR is a computer aided store ordering system**

- AutoStockR forecasts stores item sales based on historical sales trends, current and planned inventory levels

$$\text{Order Quantity} = \text{Forecast} + \text{Target Stock (at end of day)} - \text{Existing Stock}$$

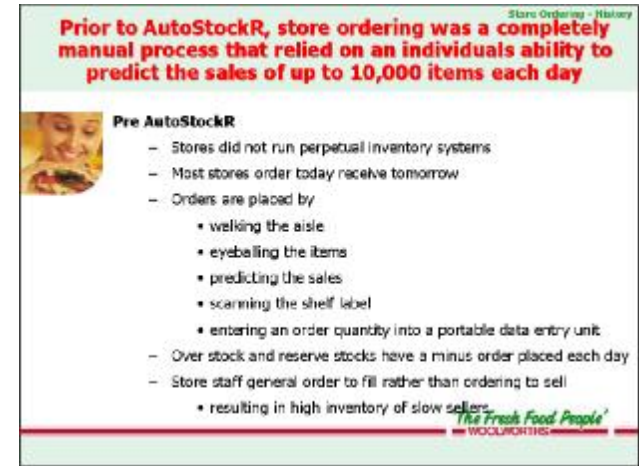
Forecast = Order Lead Time × Estimated sales for review period

Target Stock = Minimum Presentation Level + Safety Stock Level

Existing Stock = Stock on Order + Stock on Hand

- Store inventory specialists manage
  - Order exceptions
  - Promotional uplifts
  - Local market variation
  - Adhoc cycle counts

*The Fresh Food People*  
WOOLWORTHS



**Prior to AutoStockR, store ordering was a completely manual process that relied on an individuals ability to predict the sales of up to 10,000 items each day**

**Pre AutoStockR**

- Stores did not run perpetual inventory systems
- Most stores order today receive tomorrow
- Orders are placed by
  - walking the aisle
  - eyeballing the items
  - predicting the sales
  - scanning the shelf label
  - entering an order quantity into a portable data entry unit
- Over stock and reserve stocks have a minus order placed each day
- Store staff general order to fill rather than ordering to sell
  - resulting in high inventory of slow sellers


*The Fresh Food People*  
WOOLWORTHS



**The reduction of stock levels brought about by AutoStockR in pilot stores, has put a focus on the quality of the planograms and highlighted the need for more specific planograms with the potential for greater store discretion**

- Slow moving products appear to have very high shelf stock weight
  - Reinforcing the need to move toward store specific planograms
- AutoStockR reports are providing data that is now used to fine tune planograms
- Planogram data is interfaced to AutoStockR
- AutoStockR may soon enable us to allocate an items space based on forecast sales rather than historical sales
- EDLP can only enhance this rollout

*The Fresh Food People*  
WOOLWORTHS




**COS, Planogram's & ASR are separate but closely linked projects**

Centre Of Store | Planogram | AutoStockR

Links Buying, Distribution and vendors cost reductions, technologies and through central buying delivers effective and timely distribution which is very friendly to customers

*The Fresh Food People*  
WOOLWORTHS



**COS, Planogram's & ASR are separate but closely linked projects**

	Centre Of Store	Planogram	AutoStockR
<b>Purpose</b>	Right Space for section	Right space for item	Right stock on shelf
<b>Drivers</b>	Optimise Profit mix from Categories → GP % from selling Consistent Category flow	Shelf capacity matched to demand → Item Movement Item location → Led by Profit	Optimum inventory level → Minimum SOH → Reduced labour Item space flexing
<b>Review Frequency</b>	4 - 6 years (re-tubs)	6 - 12 month (reviews)	Weekly

## LEVEL 2: SUPPLY CHAIN - AUTOSTOCKR

### The AutostockR pilot has been a success and has being rolled out to all stores

- **“Days inventory for supermarkets has continued to be reduced, with a further reduction of 2.3 days this year to 25.8 days. This stock reduction reflected the implementation last year of Stocksmart (distribution centre forecast replenishment) and this year in part from the rollout of AutostockR. These systems also provide us with the opportunity to re-range the store without decreasing stock availability levels.”** *Woolworths Annual Report 2004*
- **“We have completed the rollout of AutostockR (store forecast based replenishment) to all supermarkets five months ahead of the original schedule and under budget. We now have AutostockR in all our stores nationally, a significant achievement.”** *Woolworths ASX Release, Aug 2004*
- **“Significant progress has also been made in respect of store replenishment, with AutostockR (store forecast based replenishment) now operating in 39 stores. Immediate inventory reductions are obtained on the introduction of AutostockR whilst improving in-stock positions. We have accelerated our plans to complete the roll-out of AutostockR to all Supermarket ahead of our original schedule.”** *Woolworths Annual Report 2003*
- **“The potential gains are impressive. It is estimated that it could reduce out of stock occurrences by 50%, yielding up to \$145 million a year in extra sales... About 51% of store wages costs are related to handling stock, which includes ordering and receiving stock and filling shelves. At the moment, there is about \$1 billion worth of stock in Woolworths supermarkets supply chain, about 55% of which is sitting in stores. The proposed changes will bring the opportunity to cut this total stock by about 20%.”** *Woolworths News, Apr 2001*
- **“We want to relieve the stores of the inefficiencies and tedium associated with manually estimating order quantities. It can also cut out the hassle of storage and double handling of excess stock by delivering straight from the distribution centres to the shelves exactly what is required to support sales between deliveries.”** *Ian Muir, Store Logistics Manager, Woolworths, Apr 2001*

## LEVEL 2: SUPPLY CHAIN - AUTOSTOCKR

### However, AutostockR requires perpetual inventory

- **“Without accurate inventory data at store level, we can’t get going with new systems such as Perpetual Inventory and Automated Stock Replenishment (AutoStockR).” Ian Muir, Store Logistics Manager, Woolworths, Apr 2001**
- **“Every day Lynda Merrick and a member of her cyclic counting team perform a mini-stocktake of a different department at the St Clair Supermarket in Sydney’s west. This simple task is a critical step on the path to Woolworths building a world-class Supply Chain. The information Lynda gathers is part of a pilot project to improve the data accuracy of stock levels in stores. It might sound simple, but it is the key to the success of many of the sophisticated technological, organisational and process changes being rolled out... Lynda compares her count of physical stock on the shelves with what is recorded in the system. This work is helping develop procedures to accurately record movement of stocks within the store, including dumped stock and items through the checkout, and transfers to other stores. This is the key to Perpetual Inventory, which will for the first time provide Supermarkets with an instant and accurate picture of what stock is held in stores around Australia. When in place it will mean that every time an item is sold or delivered to a store, the store’s record is automatically updated and relayed to a central data system that contains a national overview.” Woolworths News, Apr 2001**

## LEVEL 2: SUPPLY CHAIN – FLOW THROUGH

**Woolworths ultimate objective is for all stock to flow-through the supply chain rather than be held in inventory**

- **“What is Flow Through? ‘Flow Through’ is the umbrella term for the end to end process which allows the Distribution Centres (DCs) to move stock from receipt to despatch without stock going to a reserve location. There are various forms of Flow Through. Woolworths is currently only looking at Carton Flow Through. This is the process where the DCs receive stock the day prior to picking and stock goes directly to a pick location where possible. The DCs then pick store specific orders and move this stock to a despatch area. Stock weight should be enough to cover requirements for 24 hours or until the next receipt of stock.**
- **Where are we currently? In August 2004 we started a pilot in two of our DCs: Minchinbury NSW and Beenleigh Road in Queensland. We selected 17 lines covering 6 vendors with issues of 20,000 cartons per week. Today some 3 months later we have 359 lines and 12 vendors on Flow Through covering 7 DCs and a further 751 lines that we have identified as potential lines to go onto Flow Through early in 2005 after consultation with a number of our vendors. These 359 lines represent some 143,000 cartons per week. In the coming weeks we will have issued over 1 million cartons on Flow Through throughout our DC network and by June 05 we are looking at exceeding our target of 10 million cartons for the year.**
- **Where to from here? We have learned a great deal from the pilot and the roll-out of Flow Through across our DCs. One of the things we have learned which can be applied across the DC network is that using Flow Through will reduce the stock weight currently carried. This will be a major factor as we turn more lines onto Flow Through to support the new RDC structure. It will enable us to manage the flow of stock in and out of the DCs more effectively. We continue to meet our objectives and we are on course to have 50% of DC volumes on Flow Through by FYO8.”**  
*Woolworths Trading Partner News Dec 2004*

## LEVEL 2: SUPPLY CHAIN - EFFICIENT FREIGHT / FREIGHT MANAGEMENT

### Woolworths is also taking an active role in freight management from supplier to store

- **“Lastly, the cost of inbound freight will be reduced by Woolworths’ management of inbound freight volumes into our DC’s and utilising a transport management system (TMS). The TMS is currently being developed with vendor engagement, and take up is on track.”** *Woolworths Annual Report 2003*
- **“The improvement in the control of primary and secondary freight and the Vendor Collaboration Program to improve efficiencies across the supply chain through sharing information and feedback which will enable Project Refresh Level II to achieve its full benefits.”** *Woolworths Annual Report 2004*
- **“Freight management is a pivotal element to achieving the seamless transfer of stock from the supplier, through the DC, and to the store. WOW pays for freight as part of the cost of stock. We believe they are currently asking suppliers to separate the freight cost from the cost of the stock. This may be potentially so they can gauge the feasibility of doing the freight themselves and control the freight not only to the store, but also to their DCs (Line Haul ie full loads from suppliers as per Walmart). Given WOW pay for freight, they are beginning to dictate the times at which stock arrives at the DC. This is to coincide with how stock needs to be packed onto the truck that goes to the store, and when that truck needs to get to the store. An opportunity that the freight companies have identified is to initiate triangulated delivery systems - from manufacturers to DCs, to stores and back to manufacturers, in a continuous pattern. Both Toll Holdings, who do the majority of WOW’s freight outside of VIC, where WOW own their own trucks, and Linfox, who do much of CML’s freight (with Toll Holdings), have identified this opportunity, and believe they can benefit from this scenario. We understand that this is happening in certain instances at the moment, yet there are considerable cost savings available to WOW as it is likely that trucks would travel empty less. Freight companies are likely to get the benefit of additional volumes, yet WOW is likely to reduce the cost they are paying for freight.”** *Russell Wright, JPMorgan, May 2003*
- **“Distribution/Logistics savings - WOW will be targeting the cost of distribution - primarily from DC to Store where larger, fuller trucks etc are expected to deliver efficiency gains. Interesting was that factory to DC gains were not focused on greatly - suggesting that more work with suppliers is required in reaching an agreeable/workable system.”** *David Errington, Merrill Lynch, Aug 2003*

## LEVEL 2: SUPPLY CHAIN - ONE TOUCH

### In store, Woolworths is developing a one touch system of roll cages and display ready packaging

- **"The One Touch Stores Program involving the use of roll cages, shelf ready trays and unit-load devices to improve the efficiency and reduce the cost of delivery of stock to stores."** *Woolworths Annual Report 2004*
- **"For stores, the introduction of phased replenishment store restocking capabilities, along with store ready unit load devices (eg. shelf ready trays) and roll cages, will reduce overall costs. Roll cages have already been successfully trialed."** *Woolworths Annual Report 2003*
- **"Refrigerated product: Roll cages have been often spoken about in relation to milk and carbonated soft drinks delivery. The ability to roll stock from the truck, into the store and into an existing refrigerated space, either from the front or the back of the in-store display significantly reduce stock handling costs. However, there are reasons why this has not been used extensively. 1. The full roll cages need to be stored at the back of the store, taking up valuable space. 2. When is a roll cage sufficiently empty to require replacement, and what happens to excess stock from the replaced roll cage, and where is that stored? The second reason is akin to the issues raised by Autostock R - when do stock levels get too low that customers decide not to purchase? These issues are to be worked through however if, and when, they do there are significant labour savings available. In a similar vein, another area CML and WOW are experimenting with is returnable produce trays, particularly with bread.**
- **Dry groceries: Roll cages are being used by supermarket retailers in shelf re-stocking with the opportunity for roll cages to be used as a means of transporting product from the DC to the store. In shelf restocking, traditionally pallet jacks have been used and cartons have been placed on the store floor. This has cluttered the store, limiting access to product on the shelf, and is much slower as staff need to bend down to re-stock the shelf. Roll cages overcome these problems as they can be moved around to allow customers access to the shelves and are at a height more level with the shelves. The real opportunity comes in loading product onto a roll cage at the DC, in the order it needs to be placed on the shelf in the store. This allows for the product to be rolled off the truck, and onto the store floor. This eliminates the re-handling that occurs at the back of the store, where the pallets on which the product arrives are unpacked onto the floor, or onto roll cages, and then used to re-stock store shelves The removal of this double handling will generate significant labour cost savings."** *Russell Wright, JPMorgan, May 2003*





## LEVEL 2: SUPPLY CHAIN - ONE TOUCH

Initial trials have been successful, but complete roll out will take time and commitment

- **“Improving Store Restocking Capabilities - WOW have indicated that the “trialing” of stocking initiatives such as “Roll Cages” and “Shelf Ready Trays” was successful. Whilst it is good to know that these initiatives work in concept - we believe that full roll out to WOW’s 700+ store base will take time as suppliers mull the capital commitment/benefit payoff of adopting such “improvements.””** *David Errington, Merrill Lynch, Aug 2003*
- **“Woolworths will proceed with a trial of one-touch rolling units for the distribution of dairy products as part of its \$1bn supply chain and logistics overhaul, Project Refresh. The retailer intends to trial "rolltainers" a cross between roll cages and containers into dairy cabinets and proceed with full implementation if the trials are successful, a Woolworths spokesman confirmed yesterday. The move will be of interest to Woolworths' dairy foods suppliers, particularly National Foods, which last week was awarded a contract to supply Woolworths with about 690m litres of housebrand milk over the next three years. Processors have said the introduction of devices such as roll-cages could cost them between \$5m and \$10m per plant and have argued that there are less capital-intensive ways of distributing milk. Woolworths and Coles Myer are overhauling their supply-chain systems in a bid to cut the cost of stock handling, particularly in the last 15 to 20 metres of the process, when multiple handling can add to costs. Dairy rolltainers are designed for one-touch use and will enable retailers to unload fully laden units from trucks onto the dock and, in some cases, wheel them directly into position in-store negating the need for unstacking and restacking product onto conventional shelves. Woolworths would need to rebuild dairy cabinets in some of its 700 supermarkets to house the devices. "If the trial is successful it will be rolled out over the next three years," a Woolworths spokesman said.”** *NamNews, Jun 2004*

## LEVEL 3: WHAT IS LEVEL 3?

Level 3 of Project Refresh appears to have recently metamorphosed from “development of IT systems” into “international expansion”

- Information Systems (1999-2004)
  - “The type of intellectual property we will have in phase three, which will come from the technology developments from the second [phase] of Project Refresh, will bring Woolworths up to world-class standards of technology and logistics.” *Roger Corbett, CEO, Woolworths Australia, Sep 2002*
  
- International Expansion (2004+)
  - “Woolworths chief financial officer Tom Pockett, speaking to the Securities Institute of Australia on Tuesday, said the third stage of the retailer's project to reduce supply chain and logistics costs was to expand overseas in partnership with another retailer in the longer term. "We wouldn't write a check," said Mr Pockett, who explained the company would want to be paid for the intellectual property it had developed as a result of streamlining its supply chain. The "just in time" ethos of Woolworths' supply chain management means goods arrive at supermarkets exactly when they are needed, reducing inventories and increasing profit margins and cash flow. Woolworths, which is one of Australia's two biggest food, liquor and grocery retailers with a market capitalisation of \$14 billion, estimates its supply chain management initiatives, dubbed "Project Refresh," have saved \$2.5 billion since they started in 1999 and will save \$6.9 billion over nine years.” *AFR, Sep 2004*

## SECTION 3

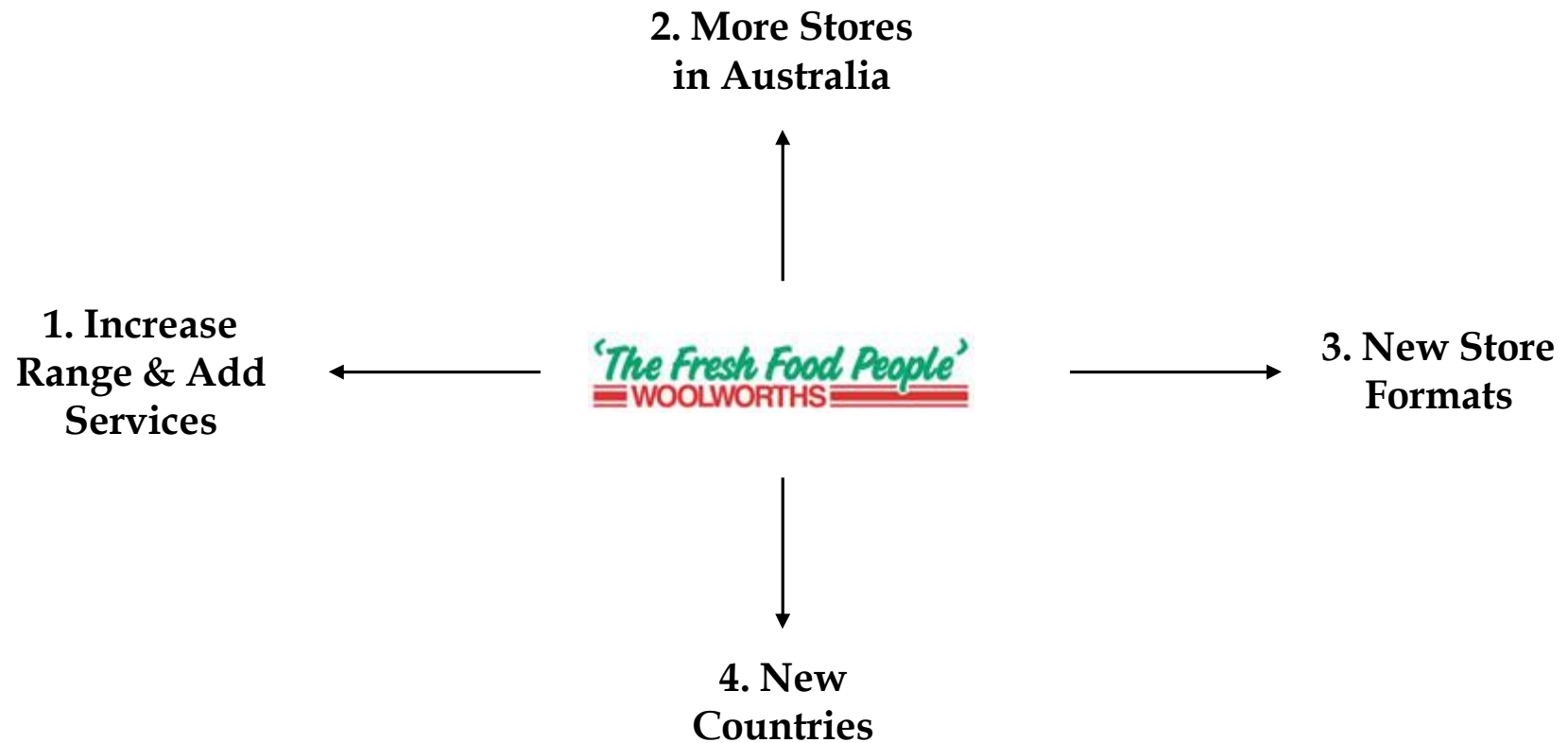
This section looks at Woolworths options for future growth



## POTENTIAL SOURCES OF FUTURE GROWTH

Woolworths has a four key pathways for future growth

Potential growth paths for Woolworths  
(model)



## POTENTIAL SOURCES OF FUTURE GROWTH

### Woolworths can increase its range and add services

Potential growth paths for Woolworths  
(model)

1. Increase  
Range & Add  
Services



## 1. INCREASE RANGE & ADD SERVICES - OPTIONS

**While Woolworths can continue to add additional services, there are no standout untapped opportunities remaining to transform the existing business**

Potential new range and services for Woolworths  
(options)

	Opportunity	Global Best Practice	Results to date
Products (food)	Improved fresh food	Carrefour	"The Real Fresh Food People" advertising campaign
	Liquor	Numerous	Massive acquisition binge making Woolworths #1 liquor outlet retailer However, in a deregulated environment, liquor is an in-store department not a stand alone format; did they buy stores to close them? Deregulation continues in Australia, at different rates in different states
	Petrol	Tesco	Opened stand alone outlets; acquired Liberty; created JV with Caltex Now a major petrol retailer across Australia Coles Myer response has neutralised first mover advantage
	Tier II private label	Tesco	Announced plans to launch 200 sku premium private label range
Products (non-food)	Entertainment Household Clothing	Tesco	Some one-off specials (similar to Aldi) Challenge of cannibalising existing Big W stores Limited space availability in existing store portfolio
Services	Pharmacy	Wal-Mart	Resistance of politically strong independent pharmacists Still prevented from offering in-store pharmacy despite intense lobbying of government
	Banking	Sainsbury's	Launched Woolworths Ezy Banking In store ATMs and kiosks in stores
	Insurance	Costco	-

## 1. INCREASE RANGE & ADD SERVICES - OPTIONS

### Woolworths is pursuing a number of new products and services growth strategies

- **“By world standards we clearly remain under-represented in fresh food including meat, fruit and vegetables and we are driving, as a major strategy, that part of our business.” Roger Corbett, CEO, Woolworths, Aug 2003**
- **“In the past 20 years the Australian supermarket channel has grown at around a 7% CAGR, versus the food category at just 2%. We believe that supermarkets can continue this rapid growth through fragmented, immature categories, such as general merchandise, fresh food, liquor, private label, and, longer term, pharmacy. These categories carry higher margins than existing grocery, offering mix improvement.” Ron Sargeant, analyst, Morgan Stanley, Jan 2005**
- **“Woolworths and Caltex have established a joint venture company to lease all of Woolworths/Safeway’s existing petrol outlets and 120 selected Caltex service station sites in the short term. Another 40 Caltex sites are earmarked for the joint venture. The joint venture will effectively control a network of around 450 fuel outlets nationally, which will be co-branded as Woolworths/Safeway and Caltex sites. Woolworths will also pick up the supply business for a network of 600 convenience stores operated by Caltex retailers but will not have to operate the stores.” Foodweek, Aug 2003**

## 1. INCREASE RANGE & ADD SERVICES - PHARMACY

### Attempts to achieve pharmacy deregulation failed when the issue became politically charged

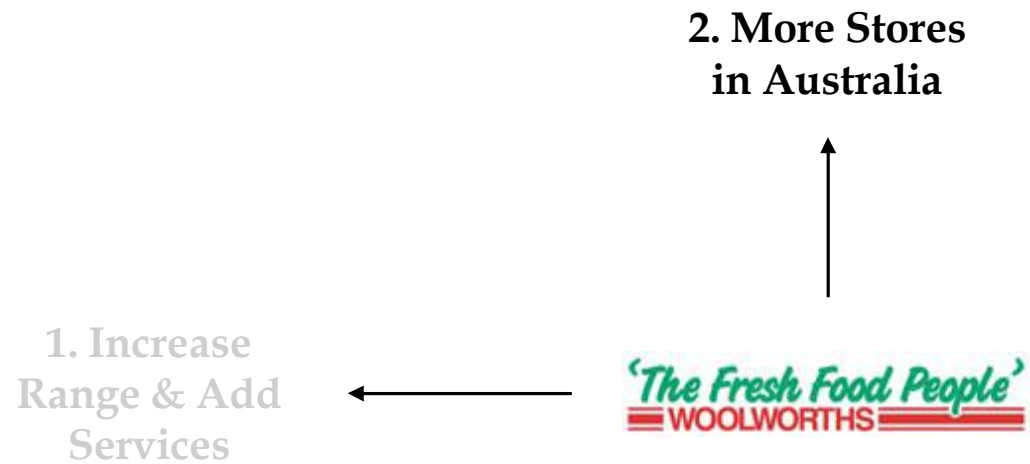
- **"This time last year, Woolworths chief executive Roger Corbett stood confidently before investors after delivering a strong profit result and promising to maintain the retailer's growth trajectory with bolt-on acquisitions and a push into Australia's \$9 billion pharmaceutical sector. The company still remained the sector favourite ahead of Coles Myer and was moving to consolidate its sales lead with an expanded discount petrol offer. But 12 months on, its pharmacy ambitions have been frustrated by the Federal Government." *The Age, Aug 2004***
- **"There's a real opportunity to deliver a significant saving to customers in Pharmacy without any reduction in the level of service, particularly the specialist service. It does not need to be structured in the very limiting way it is at the present time." *Roger Corbett, Chief Executive, Woolworths, Aug 2003***
- **"Pharmaceuticals is a closed market and it has absolutely nothing to do with service." *Roger Corbett, CEO, Woolworths, Nov 2004***
- **"I am quite confident with this Government that the ability to dispense prescription drugs will continue to rest with community pharmacy." *John Bronger, President, Pharmacy Guild, Mar 2004***



## POTENTIAL SOURCES OF FUTURE GROWTH

### Woolworths can open more stores in Australia

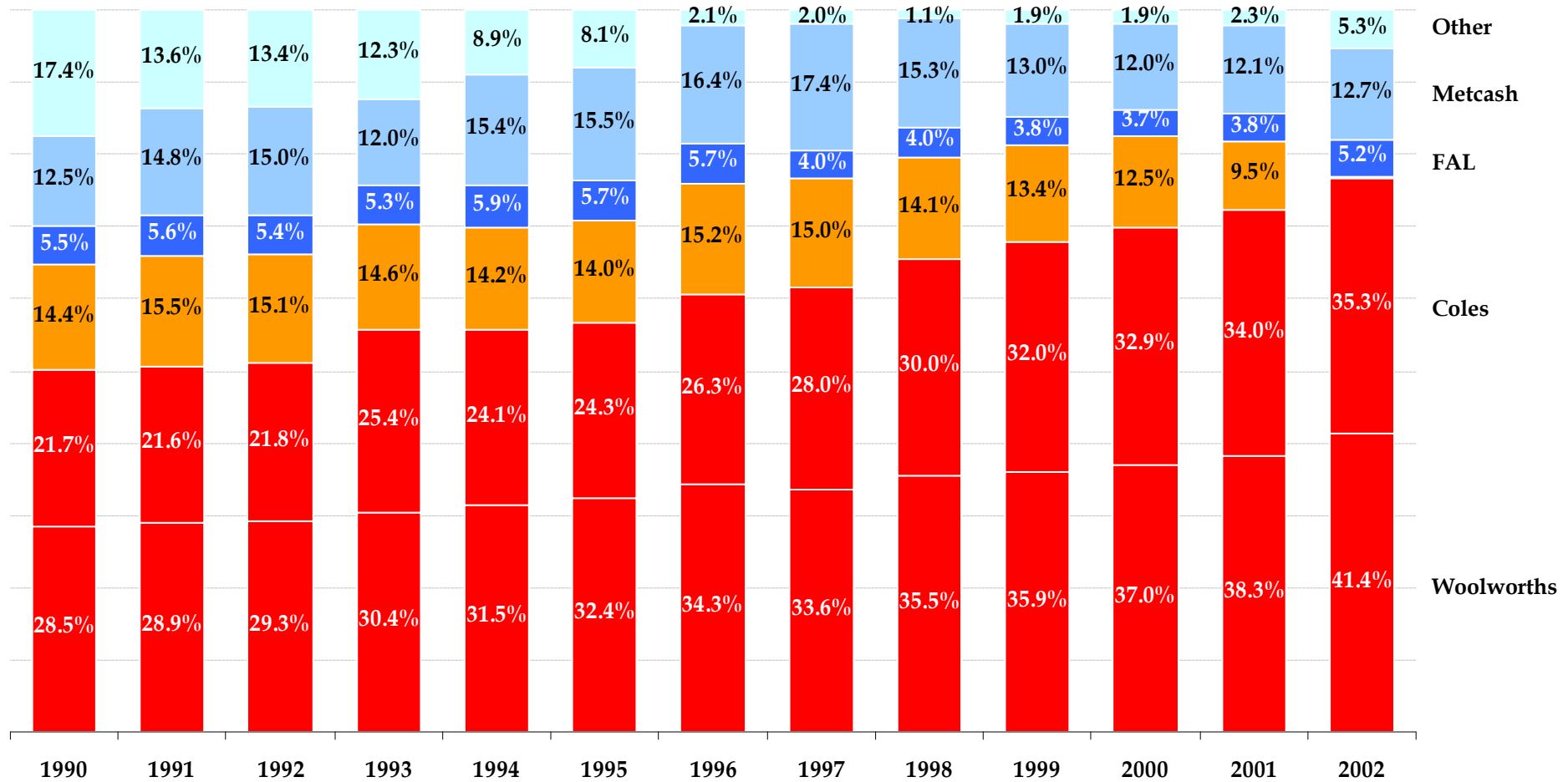
Potential growth paths for Woolworths  
(model)



## 2. MORE STORES IN AUSTRALIA - MARKET SHARE

With the death of Franklins, opportunities for Woolworths to achieve additional growth in supermarkets in Australia are limited

Australian Packaged Groceries National Market Share  
Percent of sales, 1990-2002



## 2. MORE STORES IN AUSTRALIA - OPENING SCHEDULE

**Woolworths intends to open 15-25 supermarkets per year “for the foreseeable future”**

- **“It is anticipated that we will continue to add 15 to 25 supermarkets each year for the foreseeable future, which together with the continued profitable expansion of existing stores will increase trading area between 3% and 5% per year.”** *Roger Corbett, CEO, Woolworths, Feb 2004*

## POTENTIAL SOURCES OF FUTURE GROWTH

Woolworths can develop new store concepts

Potential growth paths for Woolworths  
(model)



### **3. NEW STORE FORMATS**

#### **Woolworths has discussed new store formats without being specific**

- **“Corbett has flagged the possibility of Woolworths developing new store formats to stimulate sales growth, but is cagey about what they could be.”** *Neil Shoebridge, BRW, September 9 2002*

### 3. NEW STORE FORMATS - MAJOR GLOBAL RETAILERS STORE FORMATS

A brief survey of leading supermarket retailers reveals hypermarkets as the main new store format opportunity

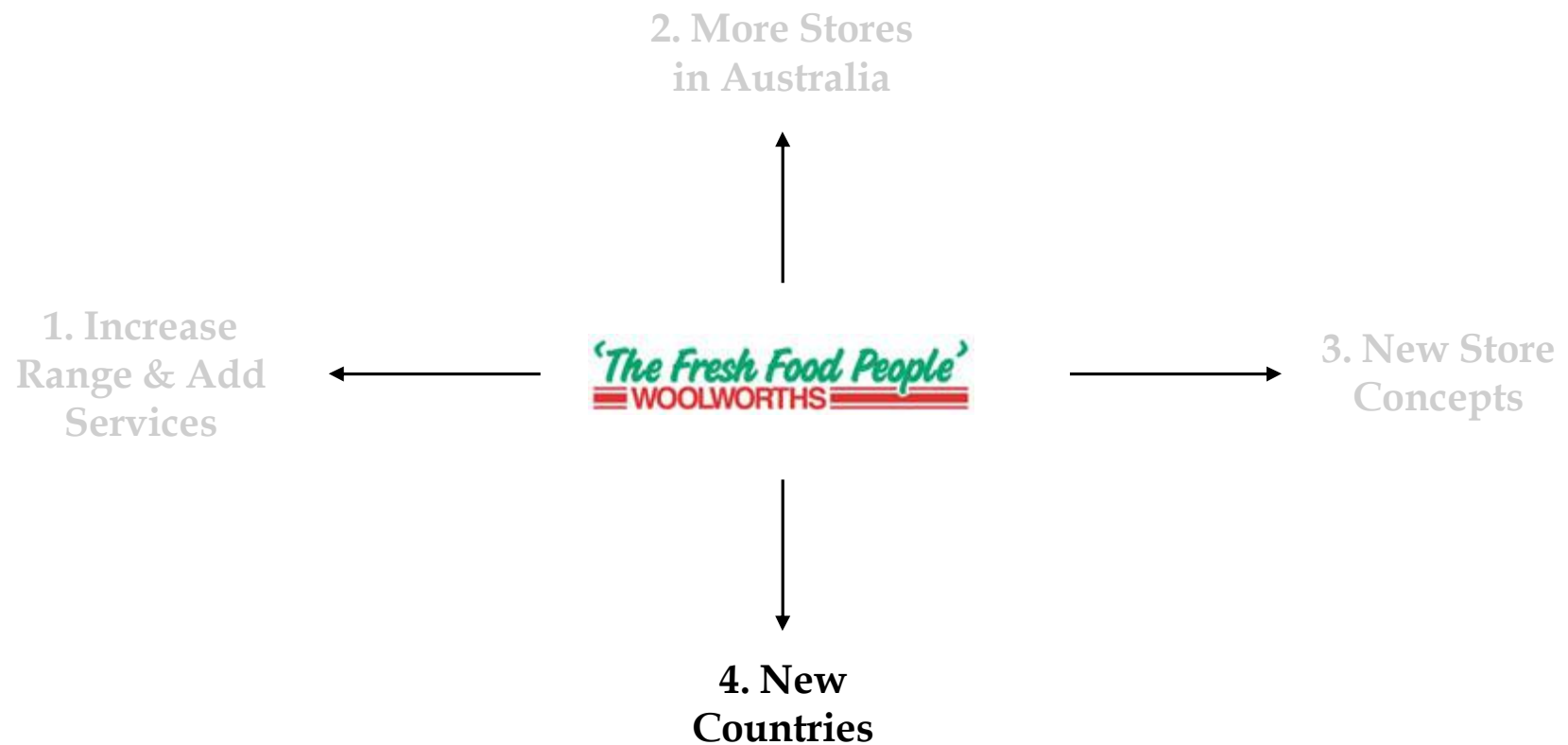
Major global supermarket retailers activities by segment  
(2003)

	Carrefour	Kroger	Metro AG	Albertsons	Tesco	Coles Myer	Woolworths AU
Supermarkets	✓	✓	✓	✓	✓	✓	✓
Hypermarkets	✓	✓	✓		✓		
Price Impact Warehouse		✓		✓			
Food/Drug Combo		✓		✓			
Pharmacy (stand alone)			✓	✓			
Hard Discount	✓						
Convenience Store	✓	✓		✓	✓	✓	✓
Fuel	✓	✓	✓	✓	✓	✓	✓
Cash & Carry	✓		✓				
Jewelry Store (stand alone)		✓					
Electrical			✓				✓
Discount Department Store			✓			✓	✓
Liquor Store (stand alone)						✓	✓
Home Improvement DIY			✓				
Office Products Store						✓	

## POTENTIAL SOURCES OF FUTURE GROWTH

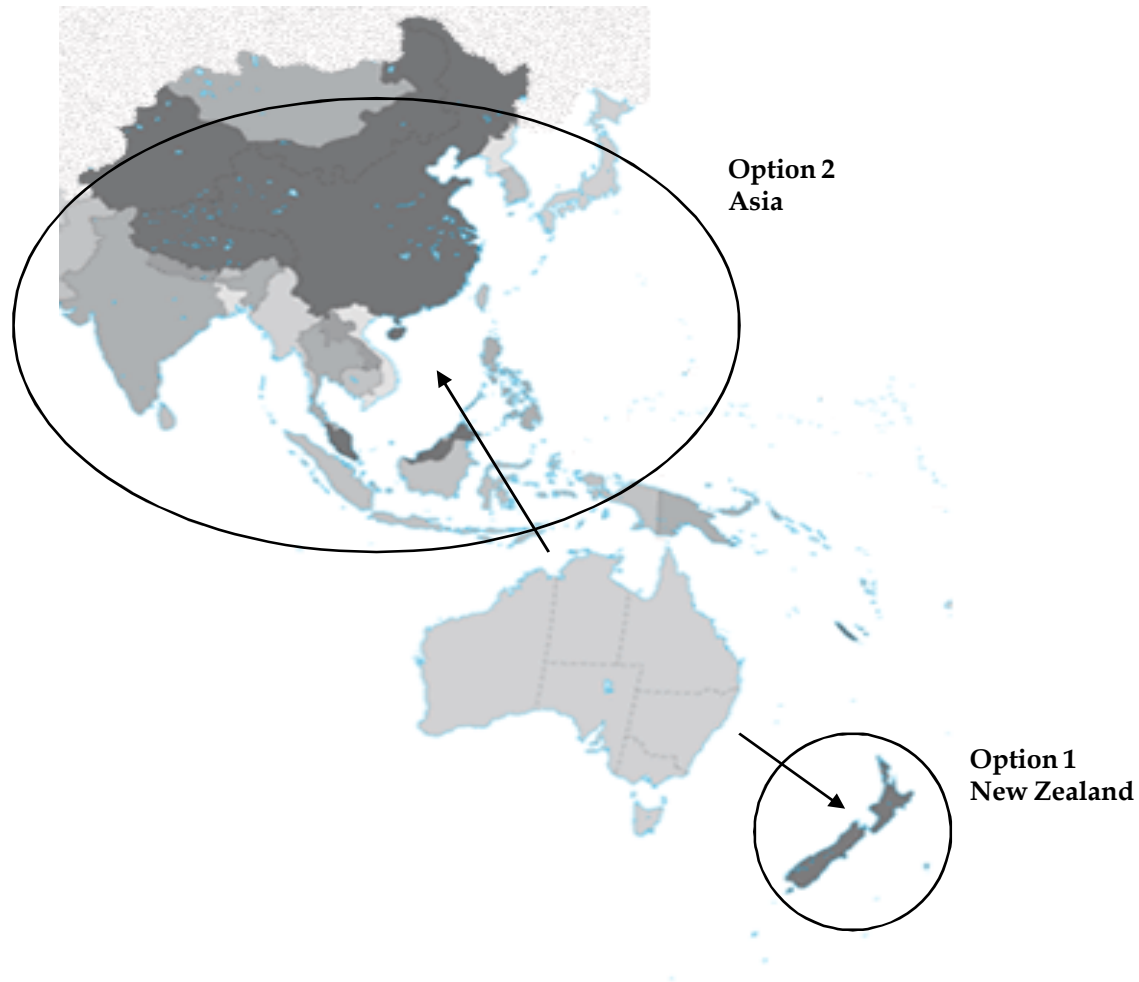
Woolworths can enter new countries

Potential growth paths for Woolworths  
(model)



#### 4. NEW COUNTRIES - TWO OPTIONS

Woolworths has two options for international growth: New Zealand or Asia





#### **4. NEW COUNTRIES - NEW ZEALAND**

##### **Woolworths has long had its eye on the New Zealand market**

- **“There are pluses and minuses. Foodland's got a fragmented business and they have got a business that has got a lot of pressure on it at this point of time. We will wait and see what happens with Foodland.”** *Roger Corbett, CEO, Woolworths, Mar 2003*

#### 4. NEW COUNTRIES - NEW ZEALAND

##### The Metcash takeover of Foodland has put Progressive Enterprises into play

- **“The New Zealand operations are quite valuable at the moment because they are a duopoly with Foodstuffs... Metcash is unlikely to face any competition in its bid for Foodland... Coles Myer and Woolworths will probably compete for the New Zealand businesses once the deal goes through... There is a good strategic rationale for both of them to buy the assets. Both Coles Myer and Woolworths are struggling to grow as fast as they'd like in Australia.”**  
*Hugh Giddy, portfolio manager, Perennial Value Management, Jan 2005*
- **“Analysts and fund managers immediately began talking about a possible bidding war between Australian supermarket leaders Coles Myer and Woolworths for the New Zealand business. Woolworths chief executive Roger Corbett yesterday said the complexity of Metcash's offer, which involves creating new shares and a transfer of assets to Foodland shareholders, would mean that the NZ assets "might never be for sale". But he did not categorically rule out a later bid. "We will wait till that comes out to consider our position, but we are not players," Mr Corbett said.”**  
*SMH, Jan 2005*

## 4. NEW COUNTRIES – NEW ZEALAND

### Progressive Enterprises makes an excellent strategic fit for Woolworths

Strategic Fit: Woolworths and Progressive  
(various; FY2004)

WOOLWORTHS LIMITED



PROGRESSIVE  
ENTERPRISES  
LIMITED

Food & Liquor Sales	A\$22.0 billion	A\$3.3 billion
Number of stores:		
- Supermarkets	708	149
- Mass Merchants	111	-
- Liquor Stores	679	-
- Petrol Stores	359	~25
Supermarket Banners	Woolworths Safeway Food 4 Less Flemings	Woolworths Foodtown Countdown
Region of Operation	Australia	New Zealand
Supermarket Market Share	37%	45%

#### 4. NEW COUNTRIES – ASIAN OPTIONS

While Asia is a attractive region from a growth and development point-of-view, it is also a very competitive market, and Woolworths is arriving late to the party

Characteristics of potential Asian countries for Woolworths expansion

Country	Population	GDP	GDP/Capita	Global Retailers Present	Failed
Hong Kong	6.7m	\$186b	\$28,700	-	Wal-Mart, Carrefour
Japan	128m	\$3,550b	\$28,000	Wal-Mart, Carrefour, Tesco, Metro (?), Costco	-
Singapore	4m	\$105b	\$23,700	Carrefour, Wal-Mart, Delhaize	-
Taiwan	23m	\$406b	\$23,400	Carrefour, Tesco, Costco, Auchan	Casino, Makro
Brunei	0.4m	\$6.5b	\$18,600	-	-
South Korea	49m	\$931b	\$17,700	Carrefour, Wal-Mart, Tesco, Costco	-
Malaysia	24m	\$210b	\$9,000	Carrefour, Tesco, Makro	Ahold
Thailand	65m	\$429b	\$7,400	Carrefour, Tesco, Casino, Makro, Delhaize	Ahold, Auchan
China	1,310m	\$5,700b	\$5,000	Carrefour, Wal-Mart, Tesco, Metro, Makro, Auchan	Ahold
Philippines	88m	\$356b	\$4,600	Makro	-
Indonesia	242m	\$663b	\$3,200	Carrefour, Makro	Wal-Mart
India	1,077m	\$2,660b	\$2,900	Metro	Carrefour
Vietnam	84m	\$183b	\$2,500	Metro, Casino	-
Pakistan	163m	\$311b	\$2,100	-	-
Myanmar	43m	\$70b	\$1,900	-	-
Bangladesh	142m	\$239b	\$1,900	-	-
Laos	6m	\$9.9b	\$1,700	-	-
Cambodia	13m	\$19.7b	\$1,700	-	-

#### 4. NEW COUNTRIES - LEVERAGING AUSSIE INTELLIGENCE IN ASIA

##### Woolworths is planning to leverage its IP through a joint-venture/licensing deal in Asia

- **"We are doing everything we can to extend our business for the foreseeable future. If we did something overseas it would be small, experimental. We may lever our intellectual property in a niche market where that could work. Clearly, we want to continue to expand the Woolworths business and our expertise is primarily in retailing. Over there [Asia] they are not short of capital but they are short of expertise, so that could be one area... There is no preferred overseas region but Australia's relationships with China and India is important... Both are economies that are going to boom ... and are going to be big drivers of Australia's wealth." Roger Corbett, CEO, Woolworths, Nov 2004**
- **"We are looking at all that stuff but the last thing we will do is launch a full-blown assault somewhere or other and waste a couple of hundred million dollars... It is not a matter of being coy about it, it's just that sort of thing takes time... but certainly I think it's really important for the board and the management to be very active in that area and we are but there's nothing more we can tell you at this stage. The least likely thing that we would ever do is to go overseas and buy an existing company. It is going to be quite small ... very small and insignificant in the scale of things for some time." James Strong, Chairman, Woolworths, Nov 2004**
- **"Retailer Woolworths is working on plans for overseas expansion... Mr Pockett said any overseas partnership wouldn't be named Woolworths because of the ubiquity of this brand in several overseas markets. The "UK is the last name on our list", said Mr Pockett referring to stiff competition among supermarkets in that market and added "we wouldn't want to go up against" giant US-based chain Wal-Mart Stores." AFR, Sep 2004**