

SUBMISSIONS TO THE GROCERY RETAIL SECTOR MARKET INQUIRY ON THE SUBJECT MATTER OF THE INQUIRY

1. Introduction

- 1.1 Woolworths Proprietary Limited ("**Woolworths**") hereby makes its submissions to the Grocery Retail Sector Market Inquiry ("**Inquiry**") in response to the final Statement of Issues published on 15 July 2016 ("**Statement of Issues**"). Woolworths notes that despite its written submission of 15 June 2016 to the Inquiry commenting on the draft Administrative Timelines published on 16 May 2016, the Inquiry continued to require stakeholders to make full submissions on the subject matter of the Inquiry by no later than 15 August 2016.
- 1.2 Woolworths appreciates the Inquiry granting it an extension to file these submissions by 29 August 2016. Notwithstanding this extension, Woolworths has still only been able to prepare the below submissions and it reserves the right to supplement these submissions through, *inter alia*, (i) responses to submissions from other stakeholders, (ii) direct targeted consultations with the Inquiry, (iii) questionnaires, information and data requests from the Inquiry, (iv) presentations at public hearings, and (v) comments on an the Inquiry's provisional report and provisional recommendations.
- 1.3 Part 2 of these submissions provides background information on the Woolworths Holdings Limited ("**WHL**") Group of which Woolworths is a part. Part 3 provides information on Woolworths, particularly its South African food and grocery offering. Part 4 describes WHL's *Good Business Journey* programme, which is relevant to further understanding Woolworths' food and grocery offering. Part 5 is directly responsive to the subject matter of the Inquiry, insofar as these may be applicable to Woolworths' and its food and grocery offering. Part 6 concludes.
- 1.4 Very few parts of these submissions are claimed as confidential, but insofar as they are they are (marked in red), please refer to a non-confidential



redacted version of these submissions and the Form CC7 and schedule thereto which accompanies these submissions. Only the non-confidential redacted version may be published by the Inquiry.

2. Woolworths Group

This part provides an overview of WHL, sets out WHL's vision, mission and values, explains the WHL group structure, and describes WHL's strategic focus areas.

2.1 Overview

2.1.1 WHL is a South African-based retailer with operations across the southern hemisphere. It is one of the top 40 companies listed on the JSE Limited Securities Exchange ("**JSE**").

2.1.2 WHL consists of three major operating divisions:

2.1.2.1 Woolworths, based in South Africa and operating across 11 countries in sub-Saharan Africa;

2.1.2.2 David Jones ("**David Jones**"), based and trading in Australia and New Zealand; and

2.1.2.3 Country Road Group ("**Country Road Group**"), based in Australia and trading in Australia, New Zealand and South Africa.

2.1.3 Woolworths Financial Services ("**WFS**") is a joint venture between Woolworths and Barclays Africa Group, with Barclays Africa Group owning 50% + 1 share. The WFS board is constituted with directors from both WHL and Barclays Africa Group, with direction on credit policy, risk and funding aspects received from Barclays and direction on customer integration from Woolworths.

2.2 Vision, mission and values

2.2.1 WHL's vision is to be the leading retail group in the southern hemisphere. Its mission is to be the first choice for customers who care about value, innovation and sustainability in the southern hemisphere.



2.2.2 WHL's values inform and underpin the way it does business across the group. From values-based leadership to passionate brand advocacy, WHL seeks to embed its values across all dimensions of its business. These values are the following:

2.2.2.1 Quality and style - always exceptional;

2.2.2.2 Value - always value with values;

2.2.2.3 Service - always customer first;

2.2.2.4 Innovation - create the difference;

2.2.2.5 Integrity - do what you say you will do and be transparent;

2.2.2.6 Energy - be passionate and deliver; and

2.2.2.7 Sustainability - build for a better future.

2.3 Group structure

WHL operates through the following operating companies:

Woolworths

2.3.1 Woolworths is a wholly owned subsidiary of WHL and was established in 1931. It is a leading South African retailer offering a range of primarily private label products, comprising a selected range of quality clothing and general merchandise, and a wide range of food products. Its key private label brands are *Woolworths*, *Studio.W*, *RE*, *JTOne*, and *Distraction*. Woolworths' target customers are within the South African Living Standard Measure ("LSM") bands 8-10. Woolworths' loyalty programme has approximately 3.2 million active *WRewards* members (excluding the *MySchool* base). Woolworths has approximately 285 clothing and general merchandise stores and approximately 410 food and grocery stores across South Africa, Botswana, Ghana, Kenya, Lesotho, Mauritius, Mozambique, Namibia, Swaziland, Tanzania, Uganda, and Zambia.



David Jones

- 2.3.2 David Jones is a wholly owned subsidiary of WHL and was acquired on 1 August 2014. It was established in 1838 and is one of Australasia's leading premium department stores. It offers premium and luxury international and private label brands of clothing and general merchandise and food products. Its key private label brand is *David Jones*. It has approximately 40 stores in Australia and New Zealand (all of which but one are in Australia).

Country Road Group

- 2.3.3 Country Road Group has been a wholly owned subsidiary of WHL from 2 September 2014 (previously WHL held 88% of its shares). It was established in 1974 and is a leading Australasian speciality retailer offering stylish high-quality apparel, accessories, footwear and homeware. Its key private label brands are *Country Road*, *Trenery*, *Witchery*, and *Mimco*. It has approximately 205 Country Road stores, approximately 212 Witchery stores, approximately 113 Trenery stores and approximately 131 Mimco stores across Australia, New Zealand and South Africa.

Woolworths Financial Services

- 2.3.4 Woolworths Financial Services is a South African joint venture operation with WHL holding 50% less one share. It was established in 1994 to offer value-added financial services to Woolworths customers such as Woolworths store card, credit card, personal loans and short-term insurance. Its key private label brand is *Woolworths Financial Services*. Woolworths Financial Services' target customers in South Africa are in the LSM 8-10 bands. It has in issue approximately 1.5 million store cards and 201 000 credit cards, which are linked to Woolworths' *WRewards* loyalty programme. Woolworths Financial Services operates in South Africa and Namibia, and has approximately 39 financial services hubs in Woolworths' stores.



2.4 Strategic focus areas

2.4.1 WHL measures its performance in more than just financial terms. Its long-term success depends on its ability to implement the group's strategy and on achieving its targets for each of the following four strategic focus areas for 2016:

2.4.1.1 Build stronger, more profitable customer relationships;

2.4.1.2 Towards connected retail;

2.4.1.3 Drive synergies and efficiencies across the group; and

2.4.1.4 Embed the *Good Business Journey* programme throughout the business.¹

2.4.2 With regard to WHL's 2016 strategic focus area of embedding the *Good Business Journey* programme throughout the business, WHL aims to achieve its vision to be the most sustainable retailer in the southern hemisphere through the following:

2.4.2.1 Transformation of the business and supply chain;

2.4.2.2 Contributing to social development priorities where WHL operates;

2.4.2.3 Health and wellness for WHL's customers and colleagues;

2.4.2.4 Ethical trade;

2.4.2.5 Sustainable farming and sourcing of raw materials;

2.4.2.6 Reducing waste across WHL's business and helping customers do the same;

¹ WHL refined the eight strategic focus areas used in 2015 down to these four strategic focus areas which WHL drives at a group level. The two product-related focus areas of 'Be a leading fashion retailer in the southern hemisphere' and 'Become a big food business with a difference' are now incorporated into the strategy of each of the three operating companies. The two other strategic focus areas of 'Expand into the rest of Africa' and 'Simple, convenient and rewarding Financial Services', have been incorporated into the Woolworths strategy.



2.4.2.7 Reducing water consumption to manage scarce water resources;
and

2.4.2.8 Improve energy efficiency.

3. Woolworths

This part provides a brief history of Woolworths, explains Woolworths' food and grocery offering, describes Woolworths' food and grocery stores, and identifies some of Woolworths' food and grocery competitors.

3.1 History

3.1.1 Woolworths began trading on 30 October 1931 in The Old Royal Hotel in Plein Street, Cape Town. It was founded by Max Sonnenberg, who was assisted by his son Richard and Fred Kossuth. While Max Sonnenberg had no affiliation with Woolworths in Europe, North America or Australia, his plan was to develop a chain of stores based on Woolworths Australasia.

3.1.2 After World War II, Woolworths established its relationship with Marks & Spencer ("**M&S**") of London. Max Sonnenberg and Sir Simon Marks, son of the M&S founder, became good friends which led to M&S buying all the unissued share capital of Woolworths in 1947. Later, David Susman, Woolworths' managing director, married Ann Laski, Lord Marks' niece. Although M&S ultimately sold its shares in Woolworths, the two companies maintained close personal ties as well as a formal technology agreement.

3.1.3 Woolworths merged with Truworths in 1981 to form the Wooltru Group. Over the next 20 years, Woolworths underwent significant change and transformation before it was partially unbundled from the Wooltru Group in 1997.



3.2 Food and grocery offering

Development

3.2.1 The development of Woolworths' food and grocery retail offering over time might be described by some as a transition from a general retailer of food and groceries to a private label food and grocery retailer. Notwithstanding this apparent transition, Woolworths has always viewed the large retail chains as its main competitors. Moreover, the transition provides some context as to the evolution of the Woolworths brand, the food and groceries it retails and its store formats. The development of Woolworths' food and grocery retail offering can be broadly categorised into four distinct phases.

3.2.2 In the 1950s Woolworths was a general retailer of a broad range of products, including food and groceries, homeware, clothing, haberdashery, etc. The food and groceries that it retailed were not branded with Woolworths' trade mark, as is now mainly the case. Instead, Woolworths mainly retailed producer branded food and groceries. With the emergence in the 1960s of large store format retail chains selling higher volumes of producer branded food and groceries (e.g. Pick n Pay and Shoprite), Woolworths lost a significant share of the food segment of the formal grocery retailing market which it had held prior to then. As a result, Woolworths embarked on a strategy over several decades of regaining some of this lost market share by competing with the large retail chains using a differentiated product offering. This entailed collaborating with select producers to innovate or develop safe, consistent and quality food and groceries that were branded with Woolworths' own trade mark.

3.2.3 During the 1960s to the 1980s it might have appeared that the predominant focus of Woolworths' business was clothing, with food and groceries seen as of secondary importance. However, it was during this period that Woolworths established enduring and trusted relationships with farmers and food and grocery producers which



allowed it to expand the range and quality of the food and groceries which it retailed. In so doing, and leveraging off the significant goodwill of its own brand, Woolworths began to take back a share of the food segment of the formal grocery retailing market from the large retail chains.

3.2.4 From approximately the 1980s, the emphasis on food and groceries increased, with particular focus on growing Woolworths' share of consumers' food and grocery spend through the provision of conveniently located stores. Woolworths also invested in a distribution infrastructure, both to service its growing number of stores as well as to ensure the integrity of its cold chain. The latter allowed Woolworths to sell better and more long-lasting perishable food and groceries than the large retail chains, thereby enhancing Woolworths' competitive offering relative to these chains and enabling Woolworths to win market share from them.

3.2.5 From the early 2000s, the Woolworths strategy was to persuade customers, many of whom use Woolworths to purchase only a sub-set of their food and grocery requirements, to complete their food and grocery shop at Woolworths, and hence increase Woolworths' share of customers' basket spend. In order to achieve this, Woolworths sought to broaden its product offering, both in terms of its range of own-branded quality food and groceries, as well as its range of producer branded long-life foods, all competitively priced. In addition, Woolworths introduced larger store formats to retail these food and groceries.²

3.2.6 In line with WHL's eight 2015 strategic focus areas and its four 2016 strategic focus areas, Woolworths continues to grow its food and

² In September 2010, Woolworths announced a broad plan to buy out its franchise stores, with the intention of streamlining its business by reducing complexity and achieving consistency across stores, as well as compliance with operational standards. The strategy represented an opportunity for Woolworths to simplify its business model and aligned with Woolworths' commitment to ensuring the consistency and quality of its brand. Since September 2010, Woolworths has bought out almost all of its franchise stores.

grocery offering. For example, in the 2016 financial year Woolworths undertook the following strategies:

- 3.2.6.1 The *WRewards* basket was expanded in the 2016 financial year and offered an additional 5% discount on *WRewards* items where customers use their cards to pay for these purchases. Woolworths' mobile application capability was improved and digital vouchers were introduced on mobile to appeal to more technology savvy customers.
- 3.2.6.2 Woolworths continued to invest in both physical and online channels. Woolworths continued to focus on opening larger format food and grocery stores while also delivering convenience across all formats and channels. Woolworths now has seven stand-alone large format supermarkets and two more within its full-line stores³. Woolworths is currently trading out of approximately 68 Engen forecourt stores and expanded its convenience offering by opening six forecourt stores in the current year.
- 3.2.6.3 One of Woolworths' key strategies is to improve price perception in Woolworths by investing in price. An aggressive promotional programme was implemented in the second half of the 2016 financial year with the introduction of mid-month promotions and increasing the extent of month-end promotions. Meat was specifically identified and a price investment strategy in steak and mince was trialled with promising results.
- 3.2.6.4 Woolworths new long life concept across wine, chocolate, coffee, gifting, global and health was introduced in its Waterstone store. Woolworths' fresh repositioning in the bakery, prepared meals, cheese, meat and frozen categories was also expanded. This cemented Woolworths' position as a food authority while offering

³ Sandton and Eastgate



a magical customer instore experience. The lessons learnt from the Waterstone store will be launched in Woolworths' other stores in various tiered formats.

3.2.7 Going forward, Woolworths' vision is to be the destination of choice in its customers' world of food through having the "mind of a supermarket and the soul of a deli". Woolworths is on a journey to become a big food business with a difference, maintaining its leadership positioning in fresh produce, innovation and quality, while expanding its ranges at competitive prices to deliver value to its customers. Woolworths has a fair share of fresh produce and prepared food categories, but is under-index in groceries. The latter category accounts for nearly half of the typical basket spend in South Africa. In order to capture a greater share of spend from its existing target customers, Woolworths has extended the breadth and depth of its range, particularly in long-life products. Third-party brands sold in Woolworths are selectively chosen to represent its customers' most desired brands, encouraging them to "complete" their shop at Woolworths.

3.2.8 Woolworths will also continue to focus on improving its customers' price and value perceptions. Woolworths conducts a weekly basket check against the prices of its competitors to ensure that its prices are comparable to the food retailers and actively identify and address products which erode its value perception. Woolworths also undertakes marketing initiatives that convey its price competitiveness to customers. Woolworths will invest in price, while rewarding loyalty by using *WRewards* to drive its price competitiveness.

3.2.9 Woolworths will also maintain its food authority credentials through its offer of high quality, innovative products and also enhance the in-store experience through tiering and scaling flagship fresh and long-life concepts across its stores, and through the *Woolworths Café*.



- 3.2.10 Woolworths will furthermore focus on delivering high-quality, ethically sourced products through the *Good Business Journey* programme, supplier relationships and the technological innovations implemented in the value chain process

Differentiation

- 3.2.11 The development of Woolworths' food and grocery offering is marked by competitive differentiation. Like most retailers, Woolworths seeks to compete with rivals through a range of so-called "Price, Quality, Range and Service" ("PQRS") metrics. However, Woolworths operates its business in such a way that there is little or no scope for it to vary these parameters of competition according to the degree of competition faced by individual stores. Rather, Woolworths differentiated itself, particularly from the large retail chains in order to compete effectively, for example through Woolworths' branded food and groceries. This entailed collaborating with select producers to innovate or develop food and groceries that are branded with Woolworths' own trade mark. This trade mark guarantees the safety, consistency and quality of, for example, Woolworths' food from "farm to fork". Accordingly, it would be unlikely that Woolworths would be willing to sacrifice this image of its brand in order to increase short term profits through a poorer competitive offering in certain areas.

- 3.2.12 Woolworths' aim is to be price competitive or offer greater value for money compared with particularly the large retail chains. This requires careful consideration of Woolworths' own costs, the prices charged by Woolworths' competitors for the same and similar food and groceries, as well as the prices customers are willing to pay for Woolworths' own-branded food and groceries.

- 3.2.13 Regarding the prices charged by Woolworths' competitors for the same food and groceries, Woolworths has identified 150 regular grocery products / "known value items" ("KVIs"), divided into either weekly purchase items or monthly purchase items, for which it seeks to be



price competitive against Pick n Pay, Spar and Checkers, although Woolworths focuses most closely on Pick n Pay. However, unlike other retailers Woolworths seeks to vary its prices far less, primarily as a result of the degree of centralisation in the business. Woolworths therefore seeks to be price competitive with regard to medium-term average prices rather than being price competitive on a day to day basis. In terms of average prices on these items, Checkers and Spar stores are typically more expensive than Woolworths, while Pick n Pay stores are found to be priced at comparable levels to Woolworths. In addition, smaller retail chains such as Fruit & Veg City and 7-Eleven are occasionally monitored for information on pricing and promotions.

3.2.14 In terms of non-KVIs, Woolworths compares prices on similar food and groceries at other retailers. These will be the leading/most relevant brand in the same category. For products where there is no comparable item at a competitor store, Woolworths carefully considers the value of its own-branded food and groceries to its customers. This is because customers at all LSM levels are highly value-conscious of food and grocery prices. Accordingly, Woolworths conducts extensive consumer research through customer panels and other qualitative assessments aimed at assessing the value of its food and groceries to customers.

3.2.15 Woolworths sets the price of its goods primarily at a national level, using the process described above. However, there does exist some scope for deviations in price across regions, namely between the Western/Eastern Cape, KwaZulu-Natal and "Greater Gauteng". Price differences will only arise to account for substantial cost differences between regions, for example, distribution costs may vary substantially across different regions. Such differences are likely to be more prevalent for fresh produce than long-life or branded goods and even within fresh produce the difference will depend on the category. Woolworths' systems do not allow for any price differences on a sub-regional level.



- 3.2.16 Since all of the products that Woolworths sells are centrally developed or sourced, procured and distributed, there is no scope for varying quality at a local level.
- 3.2.17 Woolworths' overall product range is decided upon at a national level, while ranges in individual stores are decided upon centrally, primarily on the basis of store size, turnover and customer profile. However, variations may also occur as to whether the store is in a central business district or a suburb, or the characteristics of consumers in a particular area. While range reviews at competitor stores do, to a certain degree, influence the range of products offered by Woolworths, this occurs at a national rather than a local level. As such, it is clear that the scope for range to vary at an individual store level is extremely limited, and where variations do occur these are based on the above factors and not competition that is faced by that particular store.
- 3.2.18 Woolworths provides similar services and maintains the same service standard across all its stores. This is in order to promote a single brand identity and not confuse its customers' understanding and experience of the Woolworths brand. Accordingly, Woolworths does not vary service in a targeted way on a local basis. Indeed, since food and groceries stores operate mainly on a self-selection basis (with assistance in some cases where Woolworths has an in-store bakery, cheese, fish and meat counters), the service required by customers is naturally highly limited.

Results

- 3.2.19 For the 2016 financial year, Woolworths' food and grocery offering continued to trade ahead of the market throughout the year, despite a tough trading environment. This offering continues to be differentiated on quality, freshness and innovation.
- 3.2.20 More particularly, sales increased by 11.9% and by 5.7% in comparable stores. However, price movement in the second half accelerated on the



back of the drought and a weakening currency, resulting in a price movement for the year of 6.7%. At a product level, all categories showed positive growth on improved customer price perception and increased promotions, with significant contributions from Woolworths' produce and groceries departments. The contribution to food sales from the rest of Africa and the growth in the online channel also contributed positively to the growth.

3.2.21 The gross profit margin reduced by 0.2% to 25.5% as Woolworths invested in price to improve its competitiveness, drove targeted promotions and had a lower contribution from high margin confectionary due to the removal of sweets from bollards and due to lower demand. Store cost growth of 10.9% was driven by an increase in space of 9.3% with comparable store cost growth of 3.4%. Other operating costs were 5.5% higher than the prior year.

3.3 Stores

Formats

3.3.1 Woolworths has a number of food and grocery store formats based on the size of the store. Table 1 provides the approximate size of each store format, the approximate number of stores in South Africa in each format and Woolworths' estimate of the size of comparable stores of its main competitors.

Table 1 [REDACTED]

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3.3.2 These stores are mostly leased and not owned by Woolworths. While shopping centre developments might be built with some input from Woolworths at the planning stage, Woolworths has little say in the size of the total retail space in a particular development.

3.3.3 Typically, Woolworths will be approached by a developer with a proposed shopping centre in mind. The developer will outline the size and type of shopping centre. Woolworths will then undertake its own analysis to determine whether the shopping centre is one which it wishes to participate in. This will entail assessing whether there is potential turnover in an area in order for a store of the proposed size to trade profitably. Woolworths is generally able to sell food and groceries profitably out of smaller stores than competing retailers since it mainly sells own-branded food and groceries and does not need to carry a number of competing producer branded products. This and other efficiency enhancing in-store retailing disciplines means that Woolworths is able to drive a far higher density of sales per square metre (i.e. although Woolworths' stores are smaller than many of its competitors it has disproportionately high sales). Once the proposed store size is agreed with the developer, the layout of the store is then determined centrally by Woolworths on the basis of the potential turnover of the store and the likely nature of demand in the area.

3.3.4 Importantly, Woolworths does not use different store formats in order to cater for different shopping missions or different customer types in a targeted way. This is because there are substantial overlaps in the shopping missions catered for by each type of store. Furthermore,



Woolworths cannot differentiate between different customers undertaking different shopping missions in a given store and can thus not price discriminate against them, as evidenced by the fact that Woolworths' pricing policy does not vary by store format. Of particular importance is that there is no pattern of customers shopping differently in different formats of stores.

Catchment areas

3.3.5 In general, Woolworths considers that a large proportion of its stores have a primary catchment area of the suburb they are situated in and, in some cases, the surrounding nearby suburbs. These provide a significant proportion of any particular store's revenue, with further proportions coming from secondary and tertiary catchment areas. However, this must be read in awareness of the number of differences that exist and which could potentially be important factors in determining the catchment areas of particular stores. In practice, a catchment area will vary from store to store according to the following:

3.3.5.1 The type of shopping centre in which the store is located. Stores in regional centres may achieve a higher proportion of their revenues from passing shopping centre trade compared to those stores located in smaller centres where the Woolworths store is itself the destination. However, stores in regional shopping centres are still likely to draw a significant proportion of their revenues from within the local area. As a regional shopping centre attracts shoppers from a much larger catchment area (and longer travelling distances), the tenant mix will be more diversified than in smaller centres.

3.3.5.2 Whether the store in question sells clothing. Woolworths considers the catchment area for clothing to be broader than that for food and groceries. Thus those stores with a significant clothing offering will also be expected to derive a significant proportion of their food and groceries revenues from customers



in that store who purchase clothing, which is likely to increase the food and groceries catchment area of that store (though this may not comprise a sufficient proportion of revenues to justify the broadening of the catchment area for that food and groceries store).

3.3.5.3 Forecourts. Some forecourts are likely to have substantially different catchment areas by virtue of, for example, their placement on highways. Such stores are likely to have a significant proportion of their trade dominated by passing traffic rather than by households in nearby suburbs. Other forecourts, positioned within suburbs, are more likely to have similar catchment areas to micros.

3.3.5.4 Store density within an area. Although not directly relevant from the perspective of determining a catchment area, it is relevant to note that there may exist substantial overlaps between catchment areas of two or more Woolworths stores. This means that the presence of one store will limit the scope of another store's catchment area because consumers are unlikely to travel past one store in order to frequent an identical offer further away, even though they might be prepared to do so if the former did not exist.

3.3.5.5 Other factors. For example, physical suburb size, accessibility from highways and major roads, traffic congestion, availability of parking and tariffs, type of shopping centre, tenant mix and characteristics of consumers.

Lease agreements

3.3.6 The success of a shopping centre depends upon the gathering together in one area of a variety of businesses which are able to serve the needs of the general public. Some retailers argue that this can be best accomplished by offering to retailers the exclusive right to sell their



merchandise in the centre, particularly if the centre is established through the joint efforts of the developer/landlord and a retailer.

3.3.7 However, "image" also plays an important role in attracting consumers to shopping centres. Accordingly, certain types of businesses such as massage parlours, adult stores, panel beaters and other businesses that detract from the image of the centre and its tenants might be excluded pursuant to a lease with existing tenants.

3.3.8 Similarly, lease agreements might –

3.3.8.1 require that with respect to the selection of other tenants in the shopping centre, the developer/landlord must select businesses which are financially sound and of good business reputation;

3.3.8.2 require that reasonable standards of appearance, signs, maintenance and housekeeping be maintained in the shopping centre;

3.3.8.3 prohibits occupancy of space in a shopping centre immediately proximate to a tenant by types of tenants that create noise, litter, odour and hygiene risks; and

3.3.8.4 require that in the selection of other tenants in the shopping centre by the developer/landlord, the objective of maintaining a balanced and diversified grouping of retail stores, merchandise and services will be considered.

3.3.9 The foregoing considerations give rise to what is referred to as "exclusivity", "use" or "usage" clauses, as well as "tenant mix" clauses, certain of which can better serve more than others an important pro-competitive purpose of promoting an optimal tenant mix in a shopping centre.



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3.4 Food and grocery competitors

3.4.2 Although Woolworths faces competition from a number of retailers, it identifies its three biggest competitors as the three largest retail chains (Pick n Pay, Shoprite/Checkers and Spar). This is borne out in Woolworths' market research, which indicates that a higher proportion of customers in the LSM 9 and 10 categories, who account for the vast

majority of Woolworths' food and groceries revenue, shop at Pick n Pay and Checkers than at Woolworths.

3.4.3 Woolworths cannot reasonably expect to compete head to head with these large retail chains on the prices of all products since there are differences in scale. Woolworths does, however, seek to compete with these and other chains through a differentiated and complete product offering focussing on location, branding and innovative product offerings (although these are quickly mimicked by the other large retail chains). Indeed, Woolworths seeks to differentiate itself precisely as a means through which to compete effectively with more cost competitive players such as Pick n Pay and Shoprite/Checkers. However, Woolworths does still seek to compete directly on price with these and other retail chains, for example, on a specific number of KVIs that Woolworths sees as being key to its competitive offering as a food and grocery retailer, as well as which consumers use to compare prices between retailers.

3.4.4 In light of the above, Woolworths faces competitive constraints from a range of retailers, namely:

3.4.4.1 large retail chains such as Pick n Pay and Shoprite/Checkers (although in terms of the latter, Checkers is considered a closer competitor than Shoprite). Woolworths monitors the pricing behaviour of these retailers on a systematic basis, and in effect all the products stocked by Woolworths have equivalents in these stores save those innovative products Woolworths has just brought to market;

3.4.4.2 Spar. Although Spar stores can differ significantly in the quality of their offering, in instances where Spar stores are located in the same area as Woolworths, they are often targeted at the same customers as Woolworths;

3.4.4.3 small retail chains and franchises such as Fruit & Veg City and 7-



Eleven. These chains may compete with Woolworths across only a subset of Woolworths' products, although Woolworths certainly does monitor these chains with respect to their promotional activity and pricing;

3.4.4.4 independent retailers. The constraint posed by these kinds of retailers is likely to vary from store to store, although they may frequently have a strong competitive offer in specific locations;

3.4.4.5 forecourts with a food and grocery store offering. Although of course these are likely to be stronger competitors to Woolworths' own forecourt offering, where product overlaps are likely to be substantial, these will nevertheless also exert a competitive constraint upon a sub-set of products stocked in larger Woolworths stores;

3.4.5 In addition, Woolworths believes that on specific product lines it faces competition from –

3.4.5.1 food and grocery wholesalers;

3.4.5.2 part-line stores (such as bakeries);

3.4.5.3 informal food retailers; and

3.4.5.4 hospitality outlets such as cafes.

4. ***Good Business Journey***

This part explains the rationale for the *Good Business Journey* programme, describes its eight key focus areas, and illustrates its results. All of this is relevant to further understanding Woolworths' food and grocery offering, including the manner in which it competes.

4.1 **Rationale**

Woolworths' footprint extends beyond its stores into its supply chain and the communities that buy its products and use its services. The *Good Business*



Journey programme aims to reduce its impact as a business and improve outcomes for the environment, people and economy across its entire value chain. Through the programme, Woolworths embeds sustainability into every aspect of its business and every product it sells, with the following eight key focus areas: people and transformation; social development; health and wellness; ethical sourcing; sustainable farming; water; waste; and energy.

4.2 People and transformation

Woolworths is a values-based organisation where it strives to behave in ways that reflect its values in everything that it does. Through shared values and values-based behaviours Woolworths is building a highly engaged, innovative, and successful business. Within this context, the key objectives of its people and transformation strategy are to -

- 4.2.1 attract, develop and retain talent by delivering a compelling employment brand and developing its people to support the delivery of Woolworths' strategic plans and grow the next generation of leaders from within;
- 4.2.2 align the structure, people and processes with the Woolworths future-fit business strategies and growth initiatives and improve overall productivity;
- 4.2.3 continue its commitment to diversity of its workforce including Employment Equity by developing integrated people plans and strategies that will transform its workforce and achieve employment equity targets;
- 4.2.4 continue to build a high performance culture where both high performance and adherence to its values are recognised and rewarded;
- 4.2.5 entrench a values-based culture by ensuring that its values are understood and integrated throughout the business;



- 4.2.6 entrench transformation, including Black Economic Empowerment ("BEE"), as an integral part of how it does business through internal capacity building, external partnerships and meaningful stakeholder engagement.

4.3 **Social development**

Woolworths' social development strategy articulates the role that it wants to play as a retailer in empowering and building its communities for the future it wants to see. Woolworths does this by making a meaningful difference through the activities of The Woolworths Trust, which was formed in 2003 to co-ordinate its community development and charity activities. Key to its Corporate Social Initiative ("CSI") approach is the involvement of its stakeholders, including employees, customers, business partners, government departments, NGOs and the communities themselves. The community is central to delivering on Woolworths' targets. Core to this strategy is to support programmes that -

- 4.3.1 address food security, mainly through schools as hubs of community development;
- 4.3.2 reduce child vulnerability by supporting child safety initiatives that reduce injuries and accidents; and
- 4.3.3 contribute towards education through working with the National Education Collaboration Trust and Woolworths Educational programmes.

4.4 **Health and wellness**

- 4.4.1 With a global surge in nutrition-and-lifestyle based diseases, including cardiovascular disease, type II diabetes and obesity, Woolworths makes it its business to help customers make informed buying decisions through promoting awareness and improving labelling to ensure transparency in the communication of the nutritional content of its foods products. The increased consumption of energy dense,



nutrient-poor foods that are high in fat, sugar and sodium is identified as a risk factor which can affect all of its customers.

4.4.2 Woolworths also recognises that food marketing affects food choices and influences dietary habits, especially of vulnerable groups such as expectant and new mothers, children, teenagers and disadvantaged people, therefore Woolworths also makes it its mission to provide a variety of healthy options to support a multitude of dietary needs and inspire a healthy lifestyle by making healthy eating satisfying, delicious and convenient across its product ranges. Woolworths assists customers to make informed choices through various customer communication channels, such as providing nutritional information on products and on its website.

4.4.3 The health, safety and wellbeing of its employees are at the core of its operations. Woolworths takes the time to understand health challenges facing its employees and assists in offering correct training and care programmes as well as ensuring that it is compliant with relevant legislation. Woolworths aims to create a safe and healthy environment with necessary support structures to enable employees to thrive in the workplace.

4.5 **Ethical sourcing**

Woolworths is committed to ensuring that both it and its suppliers operate in a way that respect workers' rights, maintain safe working conditions, uphold local employment laws and protect the environment and the welfare of animals. Woolworths' approach to ethical sourcing is broadly built around the following key elements:

4.5.1 Building internal awareness and capacity around ethical trade;

4.5.2 Ensuring it works with suppliers and business partners who share its values;

4.5.3 Monitoring supplier performance to identify issues;



- 4.5.4 Addressing problems where they arise and supporting its suppliers to align with Woolworths best practice;
- 4.5.5 Building capacity along the supply chain, as a means of improving social and environmental outcomes;
- 4.5.6 Engaging its stakeholders regularly on ethical trade matters;
- 4.5.7 Working with others to tackle complex and systemic problems that it cannot tackle on its own; and
- 4.5.8 Being open and honest about its challenges and progress.

4.6 Sustainable farming

- 4.6.1 A high proportion of the environmental impacts resulting from Woolworths' operations is linked to the farming and/or processing of products that it sells. As a result, Woolworths makes it its business to work together with its suppliers to minimise these impacts, and positively influence the environmental and social outcomes of doing business.
- 4.6.2 Challenges Woolworths face in its global supply chain include impacts of extreme weather events, soil degradation, declining water quality and increasing input costs. In South Africa, Woolworths is facing potential regulatory changes which may affect water allocation rights and land tenure and distribution. As well as monitoring and managing these challenges, Woolworths recognised its responsibility to ensure that its farmers and suppliers are meeting its exacting requirements for human rights and animal welfare.
- 4.6.3 Through Woolworths' work in promoting sustainable farming practices among its suppliers, Woolworths can improve soil health, protect water supply, restore biodiversity, support rural livelihoods, help communities adapt to climate change and ultimately help ensure it produces sufficient food to meet the needs of its customers.



4.6.4 Woolworths continues to work with suppliers of its private label products to achieve this through its Farming for the Future, Fishing for the Future, animal welfare and sustainable fibre programmes. Its work conducted in partnership with WWF-SA is aimed at driving further progress in dairy, beef, seafood and textile production as well as addressing food waste.

4.7 Waste

4.7.1 The disposal of waste to landfill is a growing developmental pressure across the globe, which is resulting in significant environmental, social and economic costs. In the foods industry, an estimated 1.3 billion tons of food produced worldwide (around a third of all food) and the resources used to produce it are going to waste each year. Concerns around food security, natural resource consumption and increasing environmental degradation compound these issues.

4.7.2 Woolworths recognises that the production of the goods it sells result in consumption of natural resources for their production and processing, and the generation of waste throughout their lifecycles. A key component of this waste is the packaging that Woolworths supplies its goods in, which serves a vital purpose in protecting its products but also poses a significant problem to the consumer in its disposal.

4.7.3 Woolworths is committed to reducing the amount of waste sent to landfill from its own operations, using recycled content in its products and packaging, and making it easier for its customers to recycle. Woolworths is also increasing its focus on reducing food waste in its supply chain, operations and customers' homes domestic waste makes up more than a third of all waste going to landfill in South Africa.

4.7.4 By making it easy for its customers to recycle the packaging from its products, Woolworths is helping to create a high-value market for consumer waste, supporting the local recycling economy, and minimising its dependency on limited natural resources. Woolworths



will carry on increasing its efforts around waste reduction across its entire value chain, including suppliers, operations and with customers.

4.8 Water

4.8.1 Woolworths relies on a steady and clean supply of water across its entire value chain to process and manufacture its food products, as well as to ensure the wellbeing and safety of its employees. Many parts of South Africa have been in the grip of the worst drought in 20 years, exacerbating the risk further.

4.8.2 The demand for freshwater is growing globally, and in some cases is already limited by infrastructural constraints and threatened by pollution inputs from domestic, agricultural and industrial sources.

4.8.3 Growing public awareness regarding water use, conservation and access to clean drinking water has been driven by droughts, flooding, and in South Africa, concern about the impacts of acid mine drainage. Within Woolworths' supply chain and direct operations managing risks associated with assurance of supply is further complicated by the localised nature of water risks.

4.8.4 Woolworths continues to evaluate risks from water on an ongoing basis through use of recognised water risk assessment frameworks, engagement with suppliers through Farming for the Future and through engagement in water stewardship activities with WWF-SA.

4.9 Energy and climate change

4.9.1 In a growing number of studies, climate change is seen as among the world's top global threats, particularly in developing countries. The interlinked nature of the impacts of climate change also brings the potential to exacerbate other threats to economic well-being. Higher temperatures, water scarcity, rising sea levels and increased frequency of extreme weather events will affect infrastructure, logistics, business continuity, costs and access to raw material and resources.



4.9.2 The lead up to the COP 21 in Paris has seen increasing participation by private and public sectors as well as investors to ensure that mitigation measures are agreed and that these send a strong and clear long-term signal that there is a globally shared commitment to meet the 2°C limit to global warming. Whatever the outcome, energy prices and volatility will remain critical uncertainties and will continue to be of concern due to their potential to impact significantly across its supply chain. In addition, energy efficiency continues to be a key focus for Woolworths to ensure it reduces its usage, become more energy independent, thereby building greener and more resilient supply chains.

4.10 Results

4.10.1 The *Good Business Journey* programme has yielded several positive results. Notably, more than 90% of Woolworths' food is sourced locally and approximately 84% of Woolworths' procurement is from BEE Level 1-5 contributors.

4.10.2 Furthermore, Woolworths' Enterprise Development programme supports emerging black-owned firms in the Woolworths supply chain, including primary and secondary suppliers. The programme aims to address the challenges facing small black-owned businesses, and is designed to support the beneficiaries towards growth and business sustainability.

4.10.3 Woolworths also invests time in influencing established and bigger suppliers to transform. This has been paying off with some of its suppliers implementing meaningful transformation strategies.

4.10.4 These results are more clearly illustrated through the following case studies:

4.10.4.1 **Free range eggs milestone** - Woolworths is proud to have been the first major local retailer to stop selling whole eggs from hens kept in cages in 2004 – only whole free-range eggs are sold in



Woolworths' stores. Woolworths remains the only major local retailer to have achieved this. Of the 120 million eggs Woolworths sources every year, about half are sold in cartons; the rest are turned into pasteurised liquid or dried egg and used as ingredients in food products. As of 2015, over 99% of locally manufactured Woolworths private label food products listing egg as an ingredient are now made with free range eggs.

4.10.4.2

Seed and feed - The Seed & Feed initiative is an opportunity for Woolworths' customers to contribute to the EduPlant programme through purchases of specific vegetables chosen monthly and identifiable with a Seed & Feed sticker on pack. Every time a customer makes a purchase, a portion of the proceeds is donated as seeds and/or seedlings to an EduPlant school on their behalf. The seeds and/or seedlings are given to over 3 000 schools in all provinces participating in workshops where schools learn how to grow and sustain their own food gardens.

4.10.4.3

First retailer to remove sweets from checkout queues - In August 2015, Woolworths announced a decision to remove all sweets and chocolates from checkout queues, reflecting a commitment to providing healthier alternatives for children and parents at checkout, particularly in light of the many health-related issues faced by children in South Africa today. This is also in response to a significant amount of customer feedback received around this issue. Following the initial statement in 2015, a phased approach to removal of sweets was adopted, with all the sweets and chocolates from checkout queues in 104 stores replaced with better snacking options, such as nuts and dried fruit. As of June 2016, 171 stores had implemented the change across South Africa and elsewhere in Africa, which is more stores than Woolworths' initial timelines (166). These stores represent 50% of total Woolworths' stores and 70% of total sweets and chocolates sales, and include all of Woolworths' large format,



flagship stores. The remaining 50% of stores will be completed in a phased approach over the course of 2016/2017. This milestone represents a huge transformation for Woolworths, with both operational and financial impact.

4.10.4.4

Ovation Wines - Thokozani was started 10 years ago on Diemersfontein Wine Estate in the Western Cape by David and Sue Sonnenberg who wanted to set up a trust for their staff members. Diemersfontein Wine Estate has been supplying quality wines to Woolworths for a number of years. What began as an empowerment BEE project blossomed into a story of true human development and is a breakthrough in BBBEE business. Thokozani began with 35 staff shareholders. Each farm worker, with at least one year's service and a willingness to participate, was given shares in Thokozani, conditional on the workers staying and working on the farm for five years. Each month thereafter, participating members devote 2% of their salary to buying more shares in Thokozani. Thokozani wines have now shifted from 30% ownership by staff members, to 80% ownership by farm workers and the remaining 20% by Diemersfontein wines. The wine brand is run by the team who have nominated their own set of directors. Ovation is their new wine label, made exclusively for Woolworths, and comprises a collection of 3 three wines - a Sauvignon Blanc, a Merlot and a Pinotage.

5. Grocery retail sector

This part is directly responsive to the subject matter of the Inquiry, insofar as these may be applicable to Woolworths' and its food and grocery offering, by describing both public and private barriers to entry and expansion, as well as certain sector trends that create both challenges and opportunities for food and grocery retailers.



5.1 Regulation

5.1.1 Like most businesses, food and grocery retailers must comply with numerous laws and regulations covering, *inter alia*, anti-money laundering and anti-bribery and corruption; competition; consumer protection; cyber, data privacy and protection; food; governance; health and safety; labour and employment; liquor; marketing and advertising; tax; and transformation.

5.1.2 Several of these laws and regulations require food and grocery retailers to maintain or be issued with various documents, certificates and licences, periodically or on occurrence of particular event, often at significant cost and effort. Table 2 illustrates some of these requirements.

Table 2: Regulatory documents

Document	Frequency
Business	
Licence to Carry a Business / Trading Licence	New application with store opening. Div 2 & Div 3 - renewal annually
Certificate of Acceptability	New application with store opening
Certificate of Conformity for Gas Installations (where applicable)	Issued with store opening
Fire Clearance Certificate	Issued with store opening
G2 – Installation of Fire Detection Certificate	Upon installation or if changes are made to the system
G6 – Inspection and Servicing Certificate	Annually
Health and safety	
Mission Statement	Needs to be updated when there is a change in director
Assignment of Manager (16.2 appointment)	When there is a change in store management
Appointment of Health and Safety Representatives	Certificate valid for 12 months (annually)
First Aid Certificates	Valid for 1 year or valid for 3 years
Appointment and Acceptance Letters of Fire Fighters	Annually
Fire-fighters training certificates / registers / Appointment and Acceptance Letters	Valid for 12 months



Dock levelers, scissors lift and cardboard compactor training certificates	Annually
High Risk Medical Assessment Control Sheet	Annually
Health and Safety (HSR) training	Annually
Liquor	
Original or converted Liquor Licence and Bank or SARS receipt	New application with store opening
General Conditions (where applicable)	As issued per municipality
Current renewal Liquor Licence and bank or SARS receipt	Renewal annually
Extended trading hours approval letters – Western Cape	Renewal annually
Appointment of responsible person document	New application with store opening / conversion from franchise
Liquor window decal	New store, as and when liquor trading times change
Halaal	
Meat certificate	Annually
Poultry certificate	Annually
Interactive certificate	Annually
Probe calibration	
Receiving	Annually
Fish shop	Annually
Coffee shop	Annually
Butchery	Annually
Interactive	Annually
Bakery	Annually
Other	
VAT 103 Certificate	
CIPC (Companies and intellectual property certificate)	
Scale Calibration Certificate	Annually
6 Monthly Interactive Extractor Cleaning Certificate	Bi - annually
Interactive Sign-off Certificate	
Independent risk assessment	Annually
Letter of good standing	Annually



Broadcasting	
SABC	Renewal annually
SAMRO	Renewal annually
SAMPRA	Renewal annually
Film and Publication Licences	Renewal annually

5.1.3 Regarding in particular liquor laws and regulations, while Woolworths supports the concerns of Government in seeking to curb the social impact of excessive use of alcohol, the various measures that have been introduced to address these concerns at national, provincial and municipal levels are often inconsistent and not always effective and efficient. This increases the cost of doing business for many food and grocery retailers, or simply leads to non-compliance by some retailers, which skews competition between them.

5.2 Other barriers to entry and expansion

5.2.1 While there may be some barriers associated with the entry of an entirely new food and grocery national chain, these are not necessarily significant. For example, a national clothing chain could leverage off its current retail space, knowledge and experience to begin trading food and groceries. Also, a new entrant could decide to forego selling food and groceries in shopping centres and instead trade from large stand-alone stores. Indeed, this is precisely how, for example, Pick n Pay and Shoprite entered the food and grocery market in the 1960s. Furthermore, a new entrant could seek to differentiate itself from the market incumbents in precisely the same way as Woolworths has done over time.

5.2.2 Woolworths does however recognise that a potential new entrant might face the following barriers:

Obtaining retail space

5.2.2.1 A national chain would need to secure, through purchase or lease, a large number of retail stores (sufficient to secure national



coverage). Woolworths considers that finding space to open a national network of stores is likely to be more difficult than finding additional stores for the purposes of expansion. It is also relevant to note that the large retail chains typically have specific requirements for the sizing and layout of their stores to ensure consistency across the chain, and as such not all retail space that could be used for retailing would be suitable for a national chain.

5.2.2.2

In addition, long-term exclusivity clauses in lease agreements inhibit the ability of retailers from entering into or expanding into a shopping centre. These clauses may also encourage the proliferation of shopping centres in an area which might be sub-economic and dissuade entry. Exclusivity clauses should therefore only endure for as long as is necessary to recover a retailer's initial investment and for no longer than five years. However, such time limits should not apply to the period of a lease (including renewals), as well as usage and tenant mix clauses, since these do not constitute an outright restriction on entry or expansion.

Capital costs associated with retail space

5.2.2.3

In Woolworths' experience, the fixed costs of opening a store ranges between R 3 million and R 75 million, and that on average 35% of these costs would not be recoverable if the stores were closed (i.e. they would be sunk).

Head office costs

5.2.2.4

It is reasonable to expect that a new national chain would have to invest in a head office and in other costs associated with managing a national retail business.

Distribution

5.2.2.5

In order for national chain to operate efficiently it is necessary for



that chain to possess an extensive distribution network. This does not mean, however, that the chain must itself own and manage distribution centres and logistics infrastructure. These functions may be outsourced to independent third parties or suppliers may deliver directly to each store in the chain. The latter is particularly the case with some of the large retail chains with whom Woolworths competes.

Economies of scale

The ability to achieve scale economies inevitably allows food and grocery retailers to charge lower prices, and as such failure to achieve economies of scale might be seen as limiting the extent to which a new entrant could be price competitive with incumbent large retailers. However, economies of scale are not the only determinant of efficiency and competitiveness. As noted above, through its product range and other in-store retailing disciplines Woolworths is able to trade efficiently off less retail space and achieve comparable economies of scale to those enjoyed by Pick n Pay and Checkers/Shoprite, thereby competing effectively with them.

Marketing/branding

5.2.2.6 Woolworths devotes significant resources to market research, advertising and brand development in order to develop its brands and the loyalty of its customers. However, this forms a fundamental part of Woolworths' strategy to compete with other retail chains through a differentiated strategy.

5.2.3 While smaller retail chains and independents would face some of the same barriers to entry faced by large retail chains, these barriers would be far lower. Smaller retail chains and independents do not need to incur costs associated with distribution centres and head offices, while costs associated with marketing/branding would also be expected to



be lower.

5.2.4 In terms of retail space, small retail chains and independents would still need to secure suitable space to sell their products, but they would clearly require fewer stores than a large retail chain and would most likely be able to be more flexible regarding the retail space they could occupy since they would not need to ensure consistency with the rest of their stores. In addition, the fraction of set up costs that are sunk is likely to be lower for a small chain or an independent entrant than for a large retail chain, again because the store's fitting and signage does not need to be consistent with those of a group. Large retail chains also incur sunk costs associated with integrating new stores into their national networks (e.g. IT and cabling), which are unlikely to be relevant for a small chain or an independent entrant.

5.2.5 In terms of economies of scale, it is clear that while small retail chains and independents are readily able to obtain supplies from wholesalers, they would most likely be unable to achieve economies comparable to those of the large retail chains due to their smaller purchasing volumes. The cost differences to which these scale effects give rise could conceivably limit the extent to which such retailers can compete directly on price with large retail chains, although in practice this is unlikely to constitute a barrier to entry since small retailers are able to compete effectively through differentiating themselves from larger retail chains, for example through improved service levels or geographic proximity to demand.

5.2.6 In addition, it is relevant to note that wholesalers also bear the cost of stock holding, which would otherwise be borne by the retailer itself. Where small retail chains and independents are able to operate outside of the confines of having to hold stock they will not only incur lower costs, but are also able to be more responsive to changes in consumer demand than would be the case for a large retail chain, thus placing them at a competitive advantage.



5.3 Sector trends

- 5.3.1 In addition to the above, a range of economic, social, political and technological factors are shaping the current and future landscape in which retailers operate and consumers make their buying decisions. Woolworths has identified the following trends in the retail generally and in South Africa particularly:

Trading environment

- 5.3.2 The South African economy remains under pressure with little relief expected for consumers in the medium-term. This has been driven by both external challenges, including weak commodity prices and China's economic slowdown, and domestic headwinds such as increasing interest rates, rising petrol prices and curtailed unsecured lending. In March 2016, Moody's placed South Africa under ratings review, raising concerns of a downgrade in the country's sovereign credit rating to junk status. The food shortages caused by the severe drought earlier this year have worked their way through the economy and the price of food has risen substantially. Further increases are expected as South Africa will have to import large amounts of staple food at volatile exchange rates.

Shifts in consumer spending and behaviour

- 5.3.3 The face of retailing is evolving quickly with online shopping experiencing growth rates in excess of in-store shopping globally. Within online shopping, mobile is experiencing the strongest growth. Online shopping has created more price savvy consumers who expect the in-store experience to add value, be relevant, personalised and entertaining, whilst experiencing an efficient and effective online shopping alternative. Mobile and related technologies are enabling consumers to interact with each other and with retailers directly. This affects every part of the customer journey from researching products and prices before purchase, to post-purchase feedback.



The effective use of technology

- 5.3.4 Technology is developing rapidly and impacts all aspects of retailers' businesses. Effective systems and processes are critical in reducing costs, increasing flexibility and driving efficiency and productivity. Customers are also embracing technology, particularly mobile and social media, impacting how retailers communicate and transact with them across all channels. The ubiquitous nature of technology has resulted in an increased threat of cyber-attacks and compromised infrastructure and data security.

People, culture and diversity

- 5.3.5 Competition for talented employees is intensifying with targeted recruitment and poaching of core talent by local and international retailers, offering above market related salaries. In South Africa, retailers have a further obligation to transform in line with the revised BEE Codes of Good Practice.

Sustainability

- 5.3.6 Retailers continue to experience a significant change in mind-set among consumers that doing business is no longer only about profit, but also creating shared value and meeting responsibilities to contribute to economic development and give back to communities and the planet.

6. Conclusion

- 6.1 Woolworths' vision is to be the destination of choice in its customers' world of food through having the "mind of a supermarket and the soul of a deli". Woolworths is on a journey to become a big food business with a difference, maintaining its leadership positioning in fresh produce, innovation and quality, while expanding its ranges at competitive prices to deliver value to its customers.



- 6.2 Like most businesses, Woolworths and other food and grocery retailers must comply with numerous laws and regulations. However, some of these unduly increase the cost of doing business for many retailers, or simply lead to non-compliance by some retailers, which skews competition between them.
- 6.3 While there may be other barriers associated with the entry of an entirely new food and grocery national chain, these are not necessarily significant. Woolworths nevertheless recognises that a potential new entrant might face certain barriers. These may include long-term exclusivity clauses in lease agreements, and if so in Woolworths' view should only endure for as long as is necessary to recover a retailer's initial investment and for no longer than five years.
- 6.4 There are also a range of economic, social, political and technological factors which are shaping the current and future landscape in which food and grocery retailers operate and consumers make their buying decisions. These create both challenges and opportunities for retailers.

29 August 2016

