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How Post-It notes are helping to reinvent Woolworths

By **Patrick Hatch**

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The first things you notice inside Woolworths' newest corporate office are the small tabs of coloured paper stuck on almost every wall.

Australia's largest retailer is two years into its WooliesX experiment, which brought together its digital, e-commerce and loyalty teams into a single division to try and drive innovation into the 94-year-old supermarket chain.

The Scan&Go app allows customers to scan products as they shop and pay without going through a checkout.

WooliesX opened its office in the trendy inner-city Sydney suburb of Surry Hills, to give it a better chance of attracting computer programmers and data scientists who might baulk at the idea of commuting every day to Woolworths' head office in Bella Vista - a 50 minute drive away.

Being detached from the Woolworths mother ship has also allowed it to develop a slightly different, Silicon Valley-inspired way of doing business.

Which is where the Post-It notes come in. They form part of an "agile" management system based on how the music streaming giant Spotify operates, and show what people are working on and how each project is advancing.

The need for all this was Woolworths' realisation that customers' expectations were changing - around their online experience, levels of convenience and the level of personalised service they receive - and so Woolies had to change too.

"It was really those three things that we were focused on, and all of that was that driven by digital and data," says WooliesX managing director Amanda Bardwell.

"Our aspiration for WooliesX was always that it would create a team that was dedicated and focused on digital, and that it would create a digital movement across Woolworths. That's been exciting to see that take hold."

Online sales now account for a relatively small 3.7 per cent of Woolworths turnover. Like at arch rival Coles, that is growing fast, at about 25 per cent year-on-year.

In an environment of intense competition from Coles and Aldi and continued shelf price deflation, online is delivering one-third of Woolworths' overall sales growth.

Credit Suisse retail analyst Grant Saligari says WooliesX was about creating an environment that could support innovation Woolworths needed to compete in an online world.

"You have Coles doing a number of initiatives there; Amazon is not big in Australia yet but it's growing it range," he says.

"The thing supermarkets don't want to be is last to the party. They see an opportunity to establish… another piece of competitive advantage."

Bardwell sees no reason why online grocery shopping in Australia won't catch up to other markets. In the UK and South Korea, for example, it makes up around 15 per cent of sales.

She nominates in-store pick up and ultra-fast home deliveries as the two offers that will deliver the fastest growth over the next 12 months.

Those two sales channels need a large physical network to serve as mini collection and distribution centres, dispelling the idea that the rise of online means the death of bricks and mortar stores.

"How close are you to the customer and that speed of delivery, we think, is gong to become increasingly important," she says.

Two hour delivery, for a $19 fee, is now offered in parts of Melbourne, Sydney and Brisbane, and same-day delivery slots are being booked out as soon as Woolworths makes them available.

About 100 stores now also have some sort of "drive through" collection option, where orders are brought out to customers without them having to leave their cars.

Shattering assumptions that inner-city professionals would be the quickest to adopt online innovation, Woolies has found regional customers - who might drive to their nearest town once a week with a long list of task - were embracing the drive-through service the most enthusiastically because of the time it saves them.

Online sales are driving Woolies' revenue growth, but an equal focus for the WooliesX team is the overlap between their digital presence and what shoppers do in physical stores.

Traffic to Woolwroths' website is growing by about 50 per cent year on year and around half the people who visit its website will then go into a physical store within four days.

Woolies has done things like build a shopping list function on its website and app, which in store shoppers can sort by location and use to navigate their local store.

The website is getting better at predicting which products certain customers will be interested in, and the digital team is also looking at augmented reality and further developing its voice activated assistant through Google Home.

One experiment already being used is checkout-free shopping through its Scan&Go smartphone app, which shoppers use to scan each items as they shop. They then pay with a few clicks on their way out the door.

Similar to concepts at Amazon Go stores in the US and at China's Alibaba supermarkets, a trail of Scan&Go started in Sydney's Double Bay store in September and is now in five more locations to see how it works in different store sizes.

A major part of the online puzzle for Woolworths is closing the profit margin gap between digital sales and traditional store sales.

For its part, Coles is trying to make online more profitable by encouraging larger orders, and will build automated distribution [centres to drive down the cost of fulfillment](#).

Bardwell says each online sales channel is now profitable in its own right, and would become increasingly so as they build scale and use technology to make each step of the supply chain more efficient.

But she says it is important to remember that people who shop online shop in store too.

"If we do a good job of serving them on both of those channels they will shop with us more overall," she says.

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