

# Woolworths strategic analysis

Business



Woolworths Limited is a retail company made up of a range of businesses that provide customers with quality, range and value. This report focuses on two parts, Woolworths Ltd Strategic analysis and strategic review in order to provide advise to the Board and Senior Management of Woolworths to obtain a higher achievement in 2012. In the first part, the report demonstrates analyzing the business environment by SWOT analysis, key capabilities, major stakeholder interests and identification of generic business level strategy of supermarket unit. Then the second part provides analysis on two strategies from internal and external environment and the Corporate Balanced Scorecard analysis contributing better implement their strategic plans. 1.

SWOT Analysis Internal| External| Strengths| Opportunities| \* Wide range of trading divisions \* Location advantages \* Global sourcing and stable supply chain \* Experienced management team | \* Woolworths is a listed company. \* Widespread of internet \* Increasing immigrating population \* Acceptance of credit card payment| Weaknesses| Threats| Management risk of new appointed managers \* Increasing funds of new investments \* Low short-term profit \* Higher inventory cost| \* Regulations and nature disasters in new operating sites \* The rise in interest rates \* Challenge of forceful retailers' entry \* Strong Australian dollar| Strength Woolworths has many trading divisions in Australian and New Zealand, which cover wide range of industries such as supermarkets and petrol to ensure its EBIT growth. The sites of supermarkets are across Australian and New Zealand located in most of the shopping centers, so it is convenient for customers to find their nearest one, which can increase customers' satisfaction. In addition, the

expanding global sourcing and international logistics capabilities ensure the stability of supply chain. It provides cost advantage through other competitors and brings substantial profits to Woolworths. The experienced management team delivers continuous growth in profit every year and ensures the sustainable development in the intense competition industry.

**Weakness** Many new stores were opened in the last years, thus the management risk arise since new management teams must be appointed in new stores. In addition, investment cost and research cost increase at the same time. The increasing funds of expending investments including supply chain systems, multi-channel and stores leads to lower capital returns to shareholders. Moreover, due to the accelerated started up of new business in home improvement, the profit growth is relatively low in short term. In terms of inventory, higher level of average inventory held than last year brings increasing cost and higher inventory risk. **Opportunities** As Woolworths is a listed company, it is easy to collect funds in assistant with implementing of the new business.

The wide use of Internet leads to customers' preferring to shop online, which can save time. Woolworths takes advantages of online and has a strong lead position in multi-channel business. The keeping increasing immigrating population in Australia causes growing in number of customers. Most of Australian residents would like to use credit card rather than taking large amount of cash in pocket, so accepting card purchasing also help Woolworths boosting consumption growth. **Threats** More regulations to comply with and licenses to acquire cause the increase in managing and

operating costs when the company expands operating scale in different regions.

Moreover, nature disaster involving floods, cyclones and earthquakes happened in Queensland and Christchurch caused disruption to the business and some additional costs incurred. Saving rates increasing and uncertainty of global economic conditions have adverse influence on consumption growth. What is worse, the strong retailers' entry enhances the competition in the market, which is a challenge for Woolworth to keep its competitive advantages in the market. Because the exchange rate of Australian dollar keeps strong in the recent year, it shows significant deflation in both commodities and food. This trend also has adverse effects on consumption.

2. Key capabilities analysis (A) 2. Provide products to customers at competitive prices through multi-channels For this capability, strong financial support and effective saving processes as fundamental resources enable Woolworths Ltd to provide products at relatively lower prices. The effective saving processes include the global sourcing process and direct store deliveries also play an important role to achieve competitive prices by reducing inventory costs and operating costs. Besides, the long term and good relationships with suppliers makes Woolworths get this capability to get lower cost products. Then combining the online network and existing delivery system makes customers purchase more conveniently.

Last, Woolworths Ltd is also engaging in product expansion in different industries. 2. 2 Have a social responsible and customer friendly brand image  
Capability| Valuable| Rare | Non-substitutable| Costly to imitate|

Competitiveness| 1 Provide products to costumers at competitive prices through multi-channels| v| v| ? | v| Sustainability competitive advantage| 2 Have a social responsible and customer friendly brand image| v| v| ? v| Sustainability competitive advantage| A good brand image is build by positive name and concepts customers thought about the products and services provided. For Woolworths Ltd, it has experienced and capable stuffs providing daily high quality customer services and a management group concerning about community involvement. Moreover, the management team implements some programs such as fresh or free guarantee activity, reduction in carbon emissions and zero food waste project. These resources build up such a social responsible and customer valuable brand image.

(B) For the first capability, according to report 63% of sales are increased by online, so costumers are willing to purchase online which means it is valuable. Although many businesses provide online shopping websites as the same strategy (cannot satisfy the Non-substitutable criteria), it ' s difficult for these competitors to achieve the competitive price, which offered by Woolworths. So it is rare to be possessed by competitors. Because of causal ambiguity generated by owing good relationship and reputation with suppliers and effective globe sourcing system, it makes competitors difficult to get as low cost as Woolworths Ltd to achieve competitive prices. In a word, this capability should be sustainability competitive advantage. For the second capability, as customers are preferred to have a better shopping experience and have high quality customer service, it is valuable of a customer friendly brand image.

For a business, building a friendly and social responsible reputation is a common strategy that is not non-substitutable, but it is hard to achieve the level of Woolworths processed which is rare. In order to build a social responsible image, the company has been evolved in community commitment from employees' benefits, environment friendly and safety, health performance. So it will be costly to imitate considered its social complexity, as it needs a lot of financial and management effort. As a consequence, this capability should be sustainability competitive advantage.

3.

Stakeholder analysis Stakeholders| Specific Interests| Shareholder Value| Employees| – Providing training and development for employees- Holding shares in the Company through participation in various equity based schemes- Protecting the safety and health of its employees – Reviewing and approving categories of employees who will be eligible to participate in long term incentive and equity plans| Opposed:- Employees asking for higher wages as the company's performances improved. Higher expenses might be incurred due to the training plan and protecting employees safety and health. Higher expenditure in employee relative cost would reduce shareholder wealth. Aligned:- Productivity will be increased with better reward systems to the employees. – Increased productivity due to higher employee loyalty and emotions. -Skilled workforce.

Customers | – Value for money – More variety of choices – Maintain best quality – Convenient accessible to the distribution centres: physical store& online shopping- Good service: shopping experience, general queries& after sell contact- Healthy options aligned with Woolworth's branding strategy|

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Opposed:- Spending money and time and allocating people on monitoring consumer sentiment and issues impacting on shopping behaviour and new products and brands are tested- Investment in the new distribution channel will reduce the returns to the shareholders. Aligned:- Sales improvement ; amp; cost saving due to the online distribution channel expanded-

Customer's loyalty: as customer demands are fulfilled. | Suppliers| – Long term, profitable relationship- Collaborative, fair and focused on mutual benefit – Abiding ? by voluntary codes of conduct? in supplier trading relationships| Opposed:- High bargaining power of suppliers will lead to the higher costs incurred. Aligned:-Build stable supply relationship. -Gain discount due to private label reductions. Community| Be good neighbours and invest in local communities:- Health and wellbeing – Sustainability and environment – Education and employment – Rural and regional| Opposed:- Responsible retailing commitment spending: Daily Intake Guide; training staff for responsible selling (liquor, etc.

); labour conditions; local fresh produce, etc. – Ongoing investment and dedication to achieve Woolworths' Sustainability Strategy 2007-2015 and monitor results: such as: electricity saving; carbon emission; water saving, etc. Aligned:- Woolworths continues improving its efficiency and performance, therefore, its ability of generating profit will be upgraded- Showing care for society leads to a increasing reputation both in geographic and financial environment. | 4. Generic business level strategy Supermarket business unit of Woolworths Ltd operates hybrid strategy, which helps company obtain competitive advantage by emphasizing on branding design, service, and quality at a low cost. Product differentiation: Woolworths Ltd has

underpinned product quality from increasing fresh guarantee, developing the expansion of Macro Wholefoods Market range and continued development of Select and Home Brand products.

Furthermore, supermarket unit are also focused on key categories such as produce, meat and fresh bakery and an expanding ready-to-eat meal solutions range with a contemporary and innovative store formats. This will give customers a friendly and safety-shopping environment and high quality fresh food. \* Cost leadership: Supermarket unit reduces prices of more than 5, 000 products and leader of price initiatives in meat, produce (Fixed Price Guarantee) and liquor. In order to achieve cost leadership, Woolworths Ltd implements direct store deliveries particularly in liquor to reach further cost reduction. At the same time, by increasing market share, customer number, basket size and items sold, a number of initiatives like improvements in buying, benefits gained from global sourcing, significant savings in shrinkage and improvements in freight costs have been taken in place.

Service differentiation: Woolworths Ltd is continuing to lead on service metrics from mystery shopper store visits. This part contains provide online shopping channel and delivery service of products. Besides, the company is focusing on service excellence through liquor delivering innovation of exclusive labels and value to customers. 5. Strategic Recommendations – creating shareholder value 5.

1Multi-channel strategy 5. 1. 1Suitability: the multi-channel strategy is designed to adapt the changing of shopping requirements of customers. Woolworths provides a platform for customers to purchase goods online and



in turn can directly acquire the demands of customers. In addition, faced with the strong competition in the market, the strong lead in multi-channel enhance competitive capabilities of Woolworth and delivers more profits and market shares to the company.

5. 1. 2 Feasibility: the experienced management team and professional human resources can guarantee the online shopping strategy operating and monitoring well. The keeping improving supply chain ensures the delivery fast and cellar masters acquisition enhances the multi-channel liquor offer. 5. 1.

3 Consistency: the multi-channel strategy consistent with the generic business level strategy – hybrid. Some specialized discounts, sale promotion and service are provided for customers shopping online. This strategy can satisfy customers with lower price and different needs. 5. 1. 4 Shareholder value: more customers can be attracted with the implementation of multi-channel strategy.

As a result, Woolworths receives a boost in the profit, and the shareholder value increase as well. 5. 1. 5: Shareholder value implications ; amp; Proposals to management Woolworths' stakeholder group| Assessment of impact on this stakeholder group (positive, negative or neutral)| Proposal to better align stakeholder interests with shareholder value | Employees| Positive: Employees would benefit from more employment opportunities and training programs, which strengthens employees' sense of belonging. | Customers| Positive: more flexible accessibility to goods and service; wider range of customers will be attracted; increasing customer expectation due to

the larger capacity of service potentially encourages future buying| Except expand distribution channel, increase profitability of each channel, therefore increase revenue paid out to shareholders;| Supplier| Positive: Having more channel means more inputs are needed and therefore the suppliers are better off. | Negotiate discount due to bulk purchase, therefore reduce the cost of purchasing input.

Community| Positive: Integrating social networking brought vitality of competition market; saving land resource for neighbor's benefit and the community's| | 5. 2Cost consciousness strategy 5. 2. 1Suitability: lower cost of the goods can solve out the problems, which save rate and exchange rate increase. Because of the uncertainty of global economic, customers will worry about the future, if the price of products are low they still willing to buy.

In the other hand, lower cost provides the competitive advantages so that Woolworths can attract more people to choose it. 5. 2. Feasibility: Woolworths has experienced management team to control the price and try to make it lower. Furthermore many different places have Woolworths; lower cost can ensure every customer buy the same products in cheaper price. As the new stores opened so will increase investment and research cost, lower cost may reduce its management risk.

5. 2. 3Consistency: there is no doubt that cost consciousness strategy fits the generic business level strategy. It can meet customers' need because they always want to buy a good product with cheaper price, the lower cost the cheaper price. 5.

2. Shareholder value: this strategy can help to foster customer loyalty and thus increase customer base, which leads to a higher shareholder value as well as profits. 5. 2. 5: Shareholder value implications & Proposals to management Woolworths' stakeholder group| Assessment of impact on this stakeholder group (positive, negative or neutral)| Proposal to better align stakeholder interests with shareholder value | Employees| Negative: Some employees might lose their jobs as the company reduces cost. Hence fewer employees will be employed.

| Provide sufficient compensation to the employees in order to maintain the company's reputation. Customers| Positive: Cost saving and efficiency can be created by ' Quantum' initiatives leveraging scale will support service functions such as research feedbacks, lower price or service improving| | Suppliers| Negative: Cost-reduced production model means that we may try to decrease the suppliers ' price, even change to another cheaper suppliers. | | Community| Neutral: Brand strategy influences other retailers ; amp; the industry; over restraint could undermine expected improvement of community benefits: spending on energy efficiency, technology in territory; investment of supporting sustainable agriculture, etc. Keep up with the new; amp; important regulations that draw most attention of market and investors, such as carbon emission, make investment that could win capital appreciation| 6. BSC for Woolworths Reduce cost Reduce cost Increase revenue Increase revenue Increase profit Increase profit Attract new customer Attract new customer Strategy Map Strategy Map Object| Measure| Target| Initiative| Increase profit-Increase revenue-Reduce cost| -% change in sales-% change in profit-ROE| -5% increase in sales-ROE; 15%| N/A| -Increase

customer satisfaction and retention-Increase new customer| -% of satisfied customers by annual survey-% Increase in number of new customers per year| -More than 90% customer satisfaction rate-Increase 5% of customer than previous year| -Build customer relationship network-Develop new customers via advertisement and promotion| -Improve online store-Excellent service-On-time delivery-Improve supply chain ; amp; global sourcing| -On line trading volume-Customers feedback-On-time delivery rate-Inventory storing time| -Volume achieve expected sales-More than 99% customers show satisfaction -More than 99% on time delivery rate-Just-in-Time| - Improve supply chain management-Diversify and increase products available in online store| Develop IT system-Employee training in skill, knowledge and service- Global sourcing process| -IT system performance evaluation- Employee qualification- information of global supplier (number, region, price)| -100% of trained new employee-More than 95% of attendance rate| - Employee incentive program-Good training program| On-time delivery On-time delivery Excellent service Excellent service Increase customer satisfaction and retention rate Increase customer satisfaction and retention rate Improve online store Improve online store Improve supply chain ; amp; global sourcing Improve supply chain ; amp; global sourcing Develop IT system Develop IT system Global sourcing processGlobal sourcing process Employee training in skill, knowledge and service Employee training in skill, knowledge and service 7.

Conclusion In this report, Woolworth's SWOT analyses have been done initially to show the external and internal environment. Grounded on resources referred to within SWOT analysis, company's capabilities can be

identified: Provide products to costumers at competitive prices through multi-channels and have a social responsible and customer friendly brand image. Both of them are rare, valuable, and costly to imitate and eventually become sustainability competitive advantages even though they are not typically non-substitutable. Then, to align with main stakeholders' value, two of the key strategies that the company is pursuing are assessed by implication to stakeholders and relative proposals are presented. Finally, product differentiation, cost leadership and service differentiation as business level strategies that identified from Woolworths Ltd Annual Report contributes to the Corporate's strategic map and Balanced Scorecard (BSC) to demonstrate results of actions have taken by the company via financial measures. As do the key strategies the company is pursuing: multi-channel growth strategy and cost consciousness strategy of which the assessments was agreed on good suitability, feasibility and acceptability.

However, apart from the significant analysis and performance measures, some limitations should be considered when implementing and developing in practice, in the case of BSC, since Woolworth's comprehensiveness and integrity in business sections, how to weight different measures in reward system as well as selecting the actual measures properly. Appendix 1 Segments| Implications| Political| \* Various State and Local Government food licensing requirements and environmental regulations must be complied with. \* Operates in a number of counties with differing interest rates and tax rates. | Economic| \* The change of foreign exchange rate makes the same Australian dollar buy more materials through other countries and other operating suppliers cheaper. \* The increasing interest rates have adverse

effects on stimulating consumption. Because the economic conditions in key markets affected by the global financial crisis, there discretionary consumer spend.

| Social-cultural| \* Consumer confidence was impacted by increasing cost of living pressures which led to less of purchase. \* Increased competition from private stores, especially at lower price point. \* Australians would like to use credit card instead of cash. | Technological| \* The wide use of internet provides Woolworths an opportunity to move forward with its plans to turn its website from average to world class. | Demographic| \* The increase of immigrating population provides Woolworths a good opportunity to sell more products.

Global| \* World travel increasingly widespread supports Woolworths more customer. \* Growing economy provides Woolworths a large frontier market. |

Appendix 2 Porter's Five factors Threat of new entrants (medium) \* Low barriers to entry \* Large funds required to establish store chains \* Large number of loyalty members Threat of new entrants (medium) \* Low barriers to entry \* Large funds required to establish store chains \* Large number of loyalty members Substitutes (high) \* Several competitors provides same products and services \* Most of the brands can be found in competitors \* Woolworths plays a leading role in multi-channel strategy. Substitutes (high) \* Several competitors provides same products and services \* Most of the brands can be found in competitors \* Woolworths plays a leading role in multi-channel strategy. Bargaining power of customers (high) \* Customers have many choices \* Customers have rich shopping experience \* customers has control to force retailers to sell particular products Bargaining power of  
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customers (high) \* Customers have many choices \* Customers have rich shopping experience \* customers has control to force retailers to sell particular products Bargaining power of suppliers (low) \* Many companies produce similar products \* It has its own private label “ Select” Woolworths has contracts with both domestic and international suppliers.

Bargaining power of suppliers (low) \* Many companies produce similar products \* It has its own private label “ Select” \* Woolworths has contracts with both domestic and international suppliers. Rivalry among existing firms (high) \* The product and price in this industry is lack of differentiation \* Stronger competition entered the market last period \* Increasing interest causes lower growth in consumption demands Rivalry among existing firms (high) \* The product and price in this industry is lack of differentiation \* Stronger competition entered the market last period Increasing interest causes lower growth in consumption demands APPENDIX 3 Resources| Tangible | Intangible | Financial Increasing in fundsSolid earning growth Physical A wide ranges of stores Delivery equipmentFavorable locations Technology Online networkGlobal sourcing processOrganizationEffective cost saving processes| Human Experienced and capabilities of employeesProfessional management teamInnovation and creativity Environmental sustainability brand image Product expansionReputation Community involved reputation Green focused and pursuing fresh products Good and long term relationship with suppliers| Reference 1. Hanson, D. , Dowling, P. J. , Hitt, M.

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Daily Intake Guide(DIG): Already more than 65% of private label products have the DIG thumbnails and Woolworths has committed to front-of-pack nutritional information labelling on 100% of our private label products by June 2012. 4. Laurannah, 2011, Porters 5 Forces Woolworths, OPPAPERS, US. Viewed 7th September 2012. ————— [ 1 ].

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