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Woolworths stops 'leakage' to Aldi

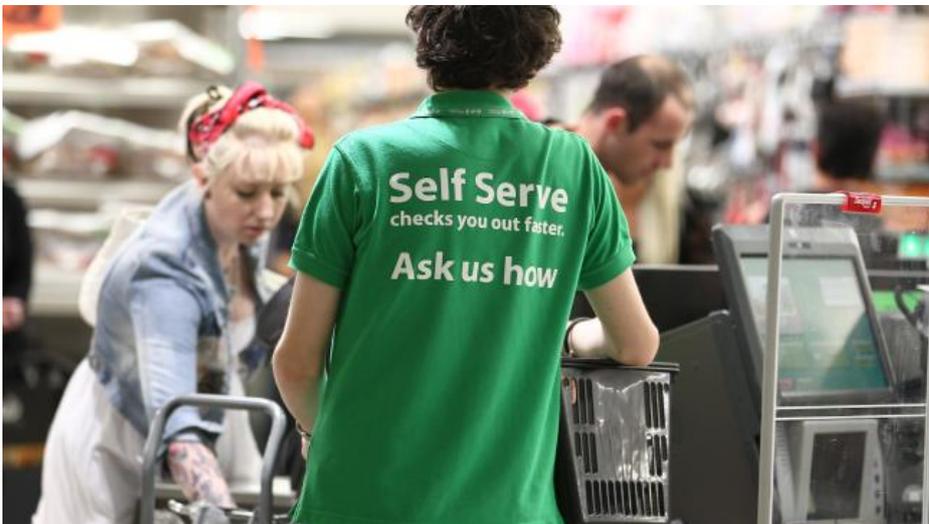
WOOLWORTHS has finally overtaken Coles in one key metric. It has everything to do with the way you stack your basket.



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Woolworths is winning back customers. *Source: News Limited*

THE average Woolworths customer now buys 9.3 items per shop.

And that number is finally going up. In the three months to January 1, Woolworths' items per basket increased by a modest 0.8 per cent on the same period in the previous year.

While only a small growth, it followed a 2 per cent decline in the first quarter, and a 1.9 per cent decline in each of the final two quarters of the previous year.

Woolworths hasn't previously disclosed its quarterly basket size growth, but it's safe to say it's the first time in a long while the reading has turned positive.

At Wednesday's half-year results, Woolworths revealed it had overtaken Coles in the crucial comparable sales growth metric [for the first time in more than seven years](#) in

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"That was really impacting us because they are big-basket customers," Woolworths boss Brad Banducci said. "They shop once a week, they don't shop through inspiration, they shop to a budget. We have stopped seeing that loss, basket size is coming back.

"How we keep it going forward, it is really us continuing to focus on these family segments and giving them what they need. We have stopped families leaving us, we haven't yet gotten to a position where they're coming back."

Mr Banducci said a lot of the growth in big-basket shops was coming on Sundays, but the supermarket was still struggling to get staffing levels right. "[It's] frustrating. We're much better but not where we need to be," he said.

Woolworths has invested around \$1 billion in lowering shelf prices over the past year and deflation accelerated in the second quarter to 2.6 per cent, up from 2.1 per cent in the first three months of the year.

Mr Banducci said prices for bananas, berries, avocados and grapes in particular came down in the second quarter, while meat costs continued to rise. Overall costs for beef and lamb increased by \$40 million in the first half, "a lot of which" the supermarket didn't put through to customers via higher shelf prices.

"The traditional red meat business is incredibly challenged in Australia," he said. "As red meat has become so expensive, we're seeing a real pop in white and pink protein, chicken and salmon, so [the seafood category] is up but it's really a transfer from red to pink."

He said consumer demand for fresh food had increased, partly due to the unusually hot weather — which was also making quality hard to manage — and chilled products such as yoghurts and low-sugar items had seen strong growth.

Woolworths is now 44 per cent complete in converting its [Homebrand products to Essentials and Woolworths-branded](#) items, but Mr Banducci said the retailer did not have targets for private label penetration in various categories.

The overall number over private label SKUs [stock keeping units] had actually decreased by 7 per cent, he said.

"It's proceeding in a very organic way," he said. "When we review a category as part of our standard procedure, we think through quite carefully the role of own brand, we don't have penetration targets. We need to think where own brand can supplement what we get from our supply partners."

PRICE REDUCTIONS MAY BE COMING TO AN END

Market research firm IBISWorld said the intense price competition that had characterised the supermarkets industry over the past five years appeared to be easing.

Grocery prices have increased slightly in 2017 and prices are expected to remain stable, or rise slightly higher over the rest of the year, according to IBISWorld.

"Price reductions have negatively affected profit margins and supplier satisfaction at a time when challengers to the traditional players, including Costco and Aldi, have also increased pressure on Woolworths and Wesfarmers. As a result, further price reductions have become less viable for the major two players," said senior industry analyst Nathan Cloutman.

CMC Markets chief market analyst Ric Spooner said Woolworths had achieved the first essential element to its turnaround strategy with ongoing improvement in supermarket sales.

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significant deterioration in margin.

Michelle Tabart, associate at consulting firm The Strategy Group, said the investment in price and service would "keep you afloat", but in the long term wouldn't win customer loyalty.

"The in-store experience has probably improved a bit, but it's not an experience that surprises and delights you as a consumer, and the same can be said for Aldi and Coles," she said.

Ms Tabart said long checkout queues, one of Woolworths' improved metrics, shouldn't be looked at as a problem to be solved but an opportunity to innovate, in the vein of Amazon's "seamless" checkout.

"Yes, it's probably not super feasible for Woolworths to roll out seamless checkout, but there are other technological advancements it could be looking into," she said. "For example, rather than standing at a self-service, you could be scanning items in the trolley."

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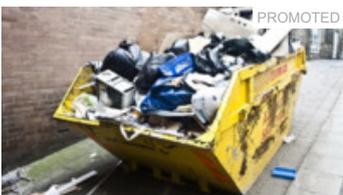
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