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News Release

Woolworths one of top 25 global retailers

Woolworths is the first Australian company to break into the top 25 global retailers list, according to the Deloitte 2008 Global Powers of Retailing report launched today.

The report, which identifies the 250 largest retailers globally for the fiscal year 2006 (encompasses fiscal years ended through June 2007), notes that Woolworths jumped from 29th place to 25th place, while its competitor, Coles Group, remained relatively steady at 31st place (down one place).

Both Australian retail giants remained in third and fourth places respectively in the Asia-Pacific top ten. Woolworths had compound annual sales rates for the past five years at 11.8 per cent and Coles Group at 7.5 per cent.

Deloitte Australia's Consumer Business Leader, Andrew Griffiths, said that both Woolworths and Coles Group were punching above their weight given the size of the Australian retail market.

"Both Woolworths and Coles Group have been iconic brands for many decades having diversified with their retail offer from supermarkets to liquor, general merchandise and petrol," Mr Griffiths said.

The report also found that the Australian companies in the top 250 have, on average, the highest market capitalisation to assets ratio (also known as the Q ratio). In this category, Woolworths has risen from 13th place to 9th place and Coles Group leaped from 41st place to 20th place.

"The financial markets are valuing highly these Australian companies' non-tangible assets such as brand equity, differentiation, innovation, first mover advantage, market dominance, customer loyalty, execution, and customer experience," Mr Griffiths said.

"The Coles Group improvement is not surprising as it attracted so much takeover attention from Wesfarmers last year."

The West Australian retailer jumped an impressive twenty positions to 176th place with its compound annual sales rate for the past five years at 10 per cent.

"Wesfarmers position in future top 250 is expected to improve following its successful takeover of the Coles Group in November 2007. It will be interesting to see how it will revamp the Coles Group brands over the next few years," Mr Griffiths said.

Global sales up

The report also found the following:

- Total global retail sales for the top 250 rose to US$3.25 trillion, up eight per cent.
- With combined sales of US$978.5 billion, the world's 10 largest retailers accounted for 30.1 per cent of top 250 sales. This group comprises six US and four European companies.
- Wal-Mart Stores remained the world's largest retailer and increased its lead over second placed Carrefour Group (France). They are followed by The Home Depot (US), Tesco (UK) and Metro (Germany) to make the top five.
- Retailers from China and Russia entered the top 250 for the first time.
- On average, French companies had retail operations in 15.1 countries, while German retailers did business in an average of 13.7 countries. These rates are more than double the average of 6.2 countries for the top 250 and significantly higher than US companies (3.9 countries).
- Food and other fast moving consumer goods companies represent the largest sector with average sales of US$16.5 billion, but net profit margin for the group averaged just 2.8 per cent. As the basic need for food and shelter becomes increasingly satisfied around the world, consumer spending is turning more toward self-esteem. This is borne out by the increasing number of retailers in the top 250 that specialise in selling 'discretionary' products.
- Global economic growth in 2008 is likely to slow, largely as a result of a credit-crunch-inspired slowdown in the US. The main engine of global growth will continue to be China, India and the oil producing countries (Russia, Persian Gulf).

Top ten retail trends

The report identified the following top ten retail trends:

1. Social responsibility: The focus on social responsibility and product safety is likely to grow. Consumers appear to be willing to pay a price premium for products or services where there is a discernible focus on social responsibility.

2. Global consumer growth shifts away from the US: The geographic mix of consumer spending growth will shift away from the US and toward Asia.

3. Commoditisation run amok: Avoiding commoditisation is becoming one of the signal challenges of our time for global retailers. Those that differentiate on the basis of something other than price will be the winners of the future. This will mean differentiated retail formats, customer experience, and product mix. It may also mean focussing less on the mass market and more on niche oriented markets.

4. The rise of 'long tail' retailing: Some retailers are avoiding the mass market altogether and instead focusing on niche opportunities along the so-called 'long tail' which can be lucrative. As a result of improvements in IT, it is now possible to operate a portfolio of small, targeted businesses just as efficiently as one large business.

5. The fight to plant the flag in India: Expect to see more news emanating from this country. Global retailers and Indian companies will seek out one another for joint ventures.

6. Retail investment in services: As people move from young adulthood to middle age, they tend to spend less on goods and more on services (particularly finance and health related). Successful retailers will take advantage of this by using their existing brand equity to build new markets.

7. Emerging market investment in developed retailers: 'Sovereign wealth funds' are becoming key players in global capital markets. The global retailing industry has already been targeted by these funds and more are likely to follow.

8. Multi-channel integration: The best retailers will most likely focus on enriching the brand experience for distinct customer segments across multiple channels. They will use websites not just to sell, but to build brand identity, engage customers in dialog, and obtain feedback from consumers. Consumers visiting either the store or the website will experience a seamless brand, customer experience, and transaction capability.

9. Focus on customer experience: In the coming years, the world's best retailers will increasingly focus on offering consumers an experience that is enjoyable, informative, entertaining, and easy.

10. Retailers as world-class marketers: Some of the world's top retailers are aggressively hiring top marketers away from FMCG companies. Their goal is to become marketing powerhouses, to build strong brand identity in order to compete with other retailers and, increasingly, to compete with branded suppliers through private label sales.

The ***Deloitte 2008 Global Powers of Retailing*** report is available from http://www.deloitte.com.au

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