Woolies cuts prices to attract new market

Woolworths is slashing the prices of 245 items across a broad range of goods from Monday, 9 February.

By Adele Shevel 9 Feb 2009

The company, which has traditionally positioned itself at higher-income earners, has been attempting to lure more middle-income earners.

The so-called "Black Diamonds" have accounted for a growing proportion of Woolworths food sales, but this sector is amc the hardest hit by the tough economic environment.

Woolworths' chief executive Simon Susman has said the customer base was not as price insensitive as had been expecte

Julian Novak, divisional director for food at Woolworths, said the company was no longer a niche food business.

"We are shifting our strategy to develop a relevant and competitive supermarket business, whilst still maintaining the successful speciality food formula that sets Woolworths food apart," he said.

Novak added that the food business was now better positioned to cope with the slowdown.

"Our average food price inflation, at 12.1%, is also materially lower than the market."

Price cuts include a 32.8% drop in the price of a 2L bottle of sunflower oil, a halving of sour cream and a 40% reduction i the price of 750ml sunflower oil.

Other big price cuts are in organic vegetables, home goods and personal care products.

Chris Gilmour, an analyst at Absa Asset Management Private Clients, said that the margins at Woolworths had been significantly higher that those of its competitors.

"The bigger competitors have to get buy-in from their suppliers to cut margins," he said, adding that Woolworths is losing market share to competitors.

Gilmour said the cannibalisation occurring between stores was fine in a moving economy, but it was tough in an economy that wasn't growing.

Branded products are being tracked weekly to ensure they remain cost competitive with the group's major rivals.

Woolworths is also being forced to slow the aggressive pace at which it has been opening new stores.

The food division has a 9% market share, which has grown from just 4% in the past couple of years, and the group had sa it intended to grow this to 15% in the next few years.

But the emphasis now is on fewer, but bigger stores, which have greater dominance and productivity by virtue of their sca

"A lot more customers are treating us as their main shop, especially for some key lines," said Novak.

"We started the (latest) pricing strategy in the last year-and-a-half, but with the economic downturn we've put a lot more effort into it.

"We're negotiating with suppliers. If they get more volumes through the factory then we can give better prices to consume

It's the same quality but at a better price."

Source: Business Times

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