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Woolworths



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Executive Summary:

The future of national brands is at risk.

Customer penetration in own brands is increasing¹, customer are progressively less loyal to brands, and switching behaviours continue to rise².

National brands run the risk of becoming irrelevant should they not react appropriately and step-up their game on innovation; reminding customers of the reasons to choose their product, or buying-in to the Private Label market.

To buck the trend we can consider four options:

1. Address the high cost of innovation and relatively small Australian market size³. Offshore lower-cost innovation fed with localised data, and adjusted hurdle-rates
2. Share the risk of innovation; Retailers must entertain shared investment, longer contract-terms, and exclusive partnerships⁴
3. Reduce the cost of failure. Adopt the Lean-Startup methodology⁵: launch fast, launch small, test frequently, and scale with confidence.
4. Diversify your portfolio; De-risk your range and become the go-to private label innovation partner for retailers.

Insanity is defined as doing the same thing and expecting different results. Will the Australian Retail Market act with insanity and simply hope for the best?

¹ WW & Coles Financial Reports F23, F24, H1 ASX Announcements

² Shopper Intelligence; State of the Nation 2024

³ [Build Australia; australia-becomes-the-fourth-most-expensive-region-for-construction](#) .

⁴ Expert Interviews; Woolworths South Africa, Albert Heijn

⁵ <https://www.ah.nl/over-ah/innovatie/labs>

Introduction – Learnings from the past:

In 1916 my Great Grandfather fell out of the sky. Flying a single speed biplane, Pop' was pushing the limits. Catastrophically, his fuel pipe froze – free-falling some 200 feet through the air. By some miracle he landed on a chicken coup & survived to tell the engineers of the [near] fatal design flaw. This single incident revolutionised bi-plane design – innovation was thinking beyond where pilots had flown before and towards where they might fly in the future⁶.

Fast forward almost a century, open any MBA textbook⁷, and you will find a couple of well-known retail stories.

In 1997, Apple was on the brink of failure⁸. Struggling with a fragmented and ballooning product line, declining revenues, and lacking vision - something had to change. The response? Investment in innovation through acquiring NeXT [Jobs' company]. With Jobs at the helm, Apple ruthlessly focused on the evolving customer need and pioneered a new category of computing; All-in-one 'plug-and-play' style devices.

On the contrary, Kodak, despite developing one of the first digital cameras, failed to embrace innovation⁹ and chose to prioritise film... but why? 1) Kodak assumed that customers would choose film quality and tangibility over digital, and 2) pursuing digital would damage superior film revenue streams. By missing the customer need and focusing on short-term profit they went into a tailspin and never fully recovered. Kodak filed for bankruptcy while Sony and Nikon rode the digital growth wave.

So what lessons must we take into our own context?

1. **Innovation is the act of deeply understanding and meeting customer needs;** Prolonged success means looking to where customer needs are going [Apple, Biplanes] over the success of the past [Kodak]
2. **Innovation requires investment;** Kodak had the answer at their fingertips through their ground-breaking digital prototype, while Apple invested in NeXT through takeover
3. **Innovation requires vision & executive mandate;** Jobs never allowed Apple to stagnate. Kodak intentionally chose to 'play it safe.' Pop' was living proof of a need to change.

So if you've heard the story... why are the Apple's of Australia so few and far between?

Let us dive into our own retail context.

⁶ Family interviews & Personal Histories - 2025

⁷ Out of Focus: The story of how Kodak lost its direction – John Larish, 2012

⁸ <https://www.businessinsider.com/apple-comeback-story-2010-10>

⁹ [The CDO Times; Case Study: Kodak's Downfall—A Lesson in Failed Digital Transformation and Missed Opportunities](#)

Application to Australian Retail

Customer purchase patterns have changed since Covid, posing a significant risk to the prevalence of national brands, and the profitability of the industry; Price sensitivity has increased across categories¹⁰, customers are more promiscuous^{11,12}, and customer switching into private-label has increased¹³. Without meaningful differentiation in quality [perceived or product attribute], customers will continue to choose price in a 'race to the bottom.' Compounding the challenge, we know that Australian innovation¹⁴ & high cost-of-doing-business¹⁵ put us behind our global peers¹⁶ - we are playing catch up¹⁷.

Figure1: Left; Innovation leaders compared through Asia – Australia ranks 17th Right; Australian labour costs are the 14th highest compared to 53 global peers



Considering this risk, it is essential that we buck the trend of under-investment and innovate immediately. To do so, we can apply the learnings of the Biplane, Kodak and Apple and examine three key barriers to innovation, providing solutions to help national brands and their manufacturing partners navigate this challenging landscape.

¹⁰ <https://ecommercenews.com.au/story/australians-prioritise-value-for-money-as-economic-pressures-mount>

¹¹ <https://www.foodmag.com.au/brand-switching-rise-putting-brand-loyalty-risk/>,

¹² <https://foodinstitute.com/consumerinsights/survey-88-of-shoppers-willing-to-switch-brands-to-save/>

¹³ Simon Ford, Shopper Intelligence, State of the Nation 2024

¹⁴ <https://theconversation.com/australias-innovation-problem-explained-in-10-charts-51898>

¹⁵ Independent analytics on destatis data tables; https://www.destatis.de/EN/Themes/Countries-Regions/International-Statistics/Data-Topic/Tables/BasicData_LaborCosts.html

¹⁶ <https://www.pc.gov.au/media-speeches/articles/great-productivity-divide>

¹⁷ [The Australian Financial Review; /australia-is-now-an-economic-problem-child-mckinsey-](https://www.afr.com/australia-is-now-an-economic-problem-child-mckinsey-20230801)

As a kicker, you must consider the alternative path; becoming the go-to private-label innovation partner, diversifying your product and customer portfolio.

Barrier 1: The Elephant in the Room - “Innovation in Australia is just too expensive”

Australia's small market size and high cost-of-doing-business create a significant hurdle for innovation¹⁸. This drives local underinvestment & piggybacking of offshore innovations into the Australian market. The challenge lies in the success rate of these global innovations. Consider the launch of Starbucks in Australia; the American proposition did not resonate as strongly with the Australian local cafe culture leading to a closure of 2/3rds of its fleet by 2008¹⁹. In private label; low-cost imported furniture lines have struggled to compete with IKEA, falling short of Australian quality expectations²⁰. While in food, US influencer-brand launches have tended to ‘fizzle’ quickly with low-repeat purchasing among Australians²¹.

The answer therefore lies in disaggregation of the need... To reclaim their relevance as go-to-brands, Australian FMCGs need cheaper access to innovation, with a hyper-focus on the unmet local-customer need. Offshore innovation hubs fed by local data. The Philippines deodorant market sets an excellent case-example. At the turn of the millennia, P&G, with its Cincinnati innovation-centre, disrupted the market by introducing existing technology [dry-stick-deodorant] to the market. Unilever responded by identifying & addressing the root cause of the under-penetrated [<30%] market; unit price. Many Filipino households could not afford the purchase outlay. By deploying a small pack-size-format, tailored to local consumers, they re-captured the market²². While Apple capitalized on the unmet-need of convenience and accessibility, Unilever brought the market to the customer [much like Twisties have done with their low-cost small-pack-size in New Guinea²³].

Taking a different angle, research demonstrates that innovation thrives when executives [and employees] are rewarded for successful-launches and protected when bets inevitably fail²⁴. How? Incentive-change. In the world of coffee, the Nespresso machine succeeded only 10-years after concept-development²⁵. We are clinically wired to avoid pain and failure²⁶ and often reward those who bring safe incremental benefit.

¹⁸ [Build Australia; australia-becomes-the-fourth-most-expensive-region-for-construction report/](#)

¹⁹ <https://www.castusglobal.com/insights/how-starbucks-missed-the-mark-in-australia>

²⁰ <https://foodinstitute.com/focus/missing-the-mark-private-label-is-failing-at-target/>

²¹ Interview; Australian Retailer – 2025 – Prime product performance interview

²² Interview with SEA FMCG Exec – 2025

²³ <https://goodmanfielder.com/brands/twisties/snacks/>

²⁴ ANZ's Chief-Transformation-Officer argues that “CTO roles can be a poisoned chalice” and that transformation only takes place when incentives change – OPEX Summit 2024 Key Note Address

²⁵ <https://perfectdailygrind.com/2020/08/a-brief-history-of-coffee-pods-nespresso-keurig-capsules/>

²⁶ Simon Sinek – Youtube Series 2019 – Performance vs Trust

How then can we expect our Category Managers with annual incentives and 2-year-tenures to not act as Kodak did? If we want to innovate as Apple has, we must organise and incentive very differently.

So how do we drop the cost of failure? We overcome two key barriers...

Barrier 2: Manufacturers wear the risk; Shared Investment:

The current model, where manufacturers bear the cost of innovation, is unsustainable. Costs impact margins on existing ranges, becoming unattractive to retailers, or manufacturers choose to under-invest in disruptive innovation. The solution involves longer contracts, exclusive innovation partnerships²⁷, or shared investment.

Let us look to the market-leading South-African retailer, Woolworths. Key innovation partners hold exclusivity contracts, generous 5+ year supply agreements, and innovations tend to have a 70-80% success rate²⁸. Suppliers invest in innovation [resource & capital] as they have come to expect strong support in execution²⁹, and that failed innovations give room for their next big-bet.

From a local-perspective, consider the Coles-Finest Range in ready-meals. In 2020 Coles purchased Jewel of India manufacturing³⁰, creating a vertically-integrated supply-partnership. Direct investment aligned incentives with their key manufacturing partner. With a guarantee in volumes, underpinned by tight cost & contract management, Coles & Jewel have taken market leadership in the private-label elevated tier.

So how do we emulate these examples? Retailers, you must step up and empower your category managers to lean into shared investment. Change DOAs on contract-terms, provide volume or range guarantees, and grow investment funds like those of Woolworths in the Dairy & Agriculture spaces³¹. FMCG companies, your role is to elevate the conversation to the appropriate decision makers across the isle – an account manager will not succeed in this conversation at range-review time.

Solving for the root cause, however, is to drop the cost of failure – thus introducing the Lean-Startup.

²⁷ Woolworths Ferrero Exclusive NPD Partnership - <https://www.ferrero.com/au/en/news-stories/news/ferrero-gives-aussies-a-taste-of-new-frozen-dessert-range>

²⁸ Woolworths South Africa Retail interviews – 2024 – 70-80% success rate measured 12 months post launch – excludes projects cut pre launch with 70% of projects rejected during the NPD process

²⁹ <https://supplychaindigital.com/company-reports/woolworths-creating-lasting-legacy-south-africa>

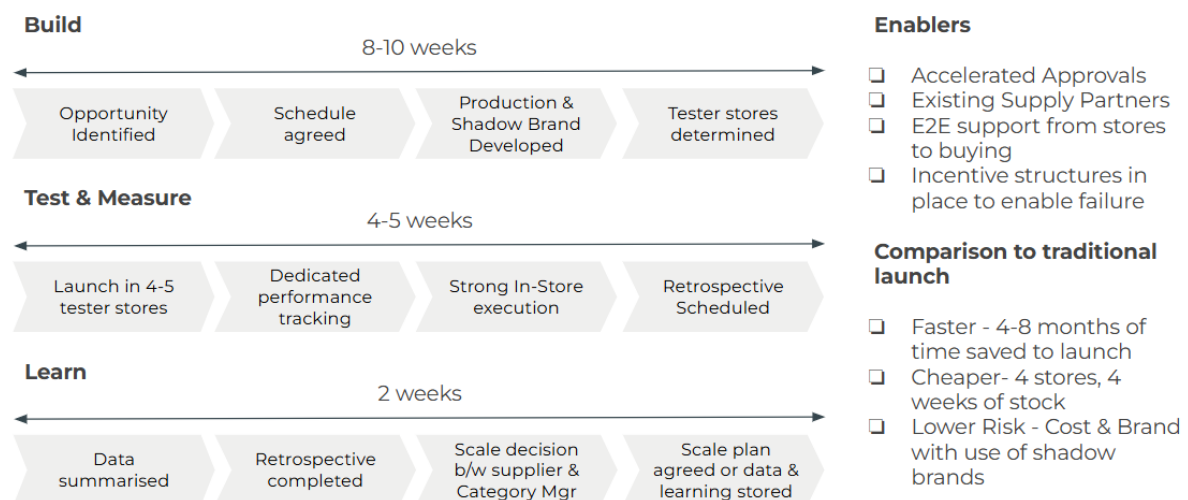
³⁰ [Consultancy.com.au - coles-acquires-ready-to-eat-meals-producer-jewel-fine-foods](https://consultancy.com.au/coles-acquires-ready-to-eat-meals-producer-jewel-fine-foods)

³¹ [Woolworthsgroup.com.au - woolworths-dairy-innovation-fund-.html](https://woolworthsgroup.com.au/woolworths-dairy-innovation-fund-.html)

Barrier 3: Reduce the cost of failure; The Lean-Startup:

In a similar vein to WWSA, Albert Heijn [AH] are market-leading innovators in the Netherlands. Despite a failure rate of up to 80% on new-news innovations, supply-partners continue to invest... and innovate - how & why do they do it? While large-scale launches are too risky and expensive, failing fast & failing cheap give all the upside without the downside risk. AH use the Lean-Startup-methodology.³²

Figure 2: The lean-startup development approach yields significantly reduced time and cost to launch, dropping the risk for all parties involved



The Build-Test-Learn cycle³³ materially reduces the time-to-launch and risks associated with failed innovation. Stock write-offs, brand damage, and resource or capital losses are reduced while manufacturers & retailers can be first to market. To give a little more flavour, Fresh products are created using advanced kitchen trials while LL products are purchased from supplier catalogues at higher unit-costs but negligible-volumes. The risk to brand damage is removed using white-labels and simplified artwork.

“Should the product fail, it doesn’t feel like failure or delisting”³⁴; The supplier is protected, and the retailer learns quickly. If the product is successful, the regular investment cycle is considered and economies of scale can be realised. Testing this among FMCG fresh suppliers in the AU market, one quote stands out from a Chief Commercial Officer “If Woolworths came to me next week and said they wanted to try something in a 4 store trial for 4 weeks? [I would say] Absolutely.”

Considering the simplicity of this concept, and the apparent appetite among manufacturers I am astounded that Australian retailers continue with their traditional waterfall launch-at-scale methods.

³² <https://www.ah.nl/over-ah/innovatie/labs>

³³ The Lean Startup – Eric Ries - 2012

³⁴ Expert Interviews; Albert Heijn ex-Executive - 2024

The Alternative Path: Private-Label Innovation:

Taking a different approach, consider the product portfolio of a manufacturer as an investment portfolio. Warren Buffet's no'1 rule in investing is to "never lose money"³⁵, and that diverse non-correlated assets yield the strongest result³⁶. How can FMCG companies diversify their interests? A strong pipeline of sustaining innovation, an ambitious and separately managed pipeline of disruptive innovation [empowered by the options above]... and why not get a piece of the pie from your biggest existential threat... private label.

Manufacturers, through targeted investment, can become the driving force behind private-label innovation & capitalise on the trend of private-label growth. Developing exclusive-private-label products provides fixed-cost-dilution and a de-risked portfolio, while elevated 'better' tiers can still provide adequate margins. The conditions required for this investment strategy include choosing the right categories [where customers are actively trading into PL], the right retailers [who will share the investment], and the right timing in your capital investment cycle [retro-fitting lines for low-cost high-volume ranges is challenging]³⁷.

B&J, for example, play across three tiers of the ready meals market; My Muscle Chef on the premium health-conscious tier, Woolworths elevated ready meals, and the Woolworths entry level lasagnes. My Muscle Chef sells direct to consumer and through varied retail channels while the Woolworths ranges are exclusive. When consumers trade down from the premium offer, they are trading directly into another portion of the portfolio. The balanced portfolio provides B&J a unique advantage in the meals market.

Conclusion

And so, will you choose to look forward and beyond the horizon or lean on the success of the past? It is true that changing customer behaviours & the high cost-of-doing-business are significant headwinds but now is the time to innovate. Executive endorsement and sponsorship, dropping the cost of failure through shared risk & changed incentives, and reducing the cost of innovation through Lean-Startup principles and offshore innovation... by pulling these levers A-brands can keep their relevance, and protect their share & the premium which they charge. At the same time, FMCG private-label partnerships are few and far between... get in first and de-risk your portfolio.

Will we trust our existing models & hope for the best like Kodak or take a bet and invest like Apple? Insanity is defined as doing the same thing and expecting different results. Will the Australian Retail Market act with insanity and simply hope for the best?

³⁵ <https://www.marketwatch.com/picks/this-is-warren-buffetts-first-rule-about-investing-heres-what-to-do-if-your-financial-adviser-breaks-that-rule-01635799738>

³⁶ The Holy Grail of Investing – Tony Robbins- Warren Buffet Quotes

³⁷ Chief Commercial Officer Interview – Chilled & Dairy FMCG - 2025