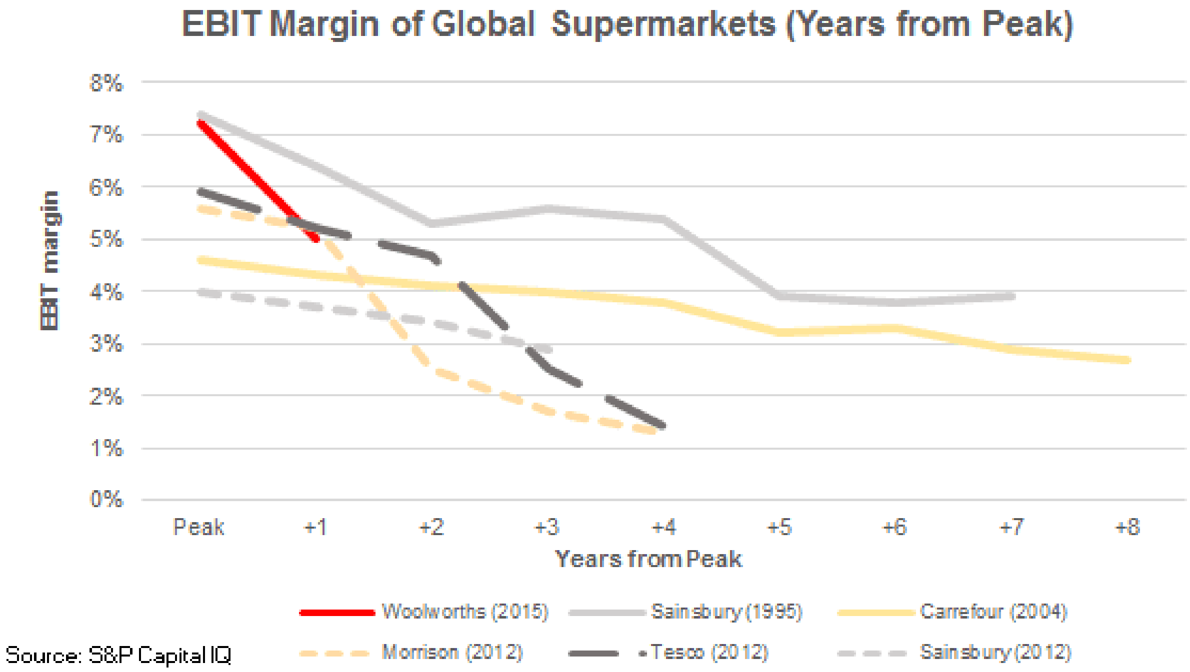
# No Quick Fix for Woolworths

After reporting yet another weak quarterly sales result today, Woolworths shareholders must be wondering when the pain will end.

While sales fell for the fourth consecutive quarter, management have undertaken a number of initiatives in recent months to address this. They have decided to sell Home Improvement division, which was bleeding more than $220 million in annual losses. A new CEO has been appointed after a painstaking global search. And today he announced an additional $150m will be spent in the second half of the year becoming more competitive on "price, customer service and loyalty", The company will also conduct a comprehensive review of the underperforming General Merchandise segment (mostly Big W), which is expected to make a loss in 2016.

Yet despite taking these steps, the overseas experience suggests it will be a long road back.




Global comparisons suggest Woolworths was earning unsustainably high profits. This attracted competition, which has been the catalyst for a fall in operating margins from more than 7% last year to 5% in the most recent half year year. But, as seen in the UK and France, once margins begin to decline, the path to reliable profitability is not a smooth or short one.

While management are taking the right steps in addressing recent earnings weakness, they now face the most competitive environment in the Australian supermarket industry for decades. Aldi is appealing to the frugal consumer, while Coles is going from strength to strength under Wesfarmers ownership. Any stabilisation in Woolworths' margins is a ways away yet.

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