

# Price Gouging Claims, Accounting Analysis, and Disclosure Strategies

Preliminary Case Reading Material by Kristian D. Allee

Amelia was a first-year investor relations associate for "Woolies" – the common nickname for Woolworths Supermarkets, the biggest supermarket chain in Australia. It's owned by the Woolworths Group, a major retail and finance company in Australia and New Zealand. Her first day on the job was August 1, 2023, and she was excited to be working for one of the most recognizable brands and biggest retailer in her home country.



Founded in 1924, Woolworths is the biggest supermarket chain in Australia with over 995 stores [as of June 2023]. Woolies sells groceries, household items, and more. With a distinctive Apple-like W logo recognizable to everyone in the country, it is definitely a household name.

## AUSTRALIA 100 2024 RANKING

2024	2023	Logo	Name	Country	2024	2023	2024	2023
1 =	1		Woolworths		\$9,820M	\$10,887M	AAA	AAA
2 =	2		Telstra		\$8,328M	\$8,891M	AAA-	AAA
3 =	3		Commonwealth Bank		\$6,759M	\$7,673M	AA+	AAA
4 =	4		Coles		\$6,289M	\$7,327M	AAA-	AAA
5 ^	6		BHP		\$6,098M	\$5,208M	AAA	AA
6 ^	7		ANZ		\$5,597M	\$5,139M	AA	AA
7 v	5		NAB		\$4,520M	\$5,342M	AA	AA+
8 ^	9		Bunnings		\$4,130M	\$3,629M	AAA	AAA
9 ^	10		Westpac		\$3,852M	\$3,472M	AA+	AA-
10 ^	12		Macquarie		\$3,413M	\$3,087M	A+	A+

Source: <https://brandirectory.com/rankings/australia/table>

However, only one month after starting her job at Woolworths Supermarkets, Amelia was faced with her first customer relations challenge, and she wondered if her dream job was really all that dreamy after all. On September 1, 2023 a masked man filmed himself defacing Woolworths supermarket stores in what he termed an “artistic expression.” The media called it an act of defiance. The man took another “take” at the supermarket chain’s long-running slogan “we are the fresh food people” and changed it to “The Price Gouge People,” ostensibly frustrated with rising supermarket prices, not just in Australia in general, but especially at Woolies. However, it wasn’t just Woolies that was “attacked” by this masked man. Rather, on the same day, he made similar artwork/protests at Coles, Woolworths’ primary competitor. That is, the man painted “Down, Down, Morality Down” at several Coles supermarket stores, playing with the classic Coles jingle, “Down, Down, Prices are Down.”<sup>i</sup>

Shortly after this “artistic display” happened Woolies (and their major competitor Coles) reported record profits. In fact, Amelia was part of the group that produced the report in October 2023, where Woolworths reported record profits in first-quarter sales revenue, with A\$12.96 billion in food retail sales, up 6.1 per cent. Woolworths also announced its Australian supermarket half-year profits of A\$929 million, up 2.5% on this time last year.<sup>ii</sup> Amelia was excited that the company was doing so well and wanted to showcase these profits to shareholders. Especially since the supermarket division of Coles, its biggest revenue-generator, logged sales revenue of A\$9.19 billion for the first quarter in October 2023, a 4.7% growth from a year-ago period.<sup>iii</sup> Amelia thought it was important that the shareholders knew how well the company was doing, something that investor relations employees are responsible for.

Amelia wondered; do I work for a company that price gouges people? Is my new employer a monster? **She knew that Australians were struggling due to the economy, primarily centered around inflation and housing, and other factors at play in a post-COVID world.** Yet, she didn’t think that Woolies was responsible for their suffering. In fact, she thought that working at a company that provided low-cost goods to consumers was in fact helping Australia and Australians. Was she misguided? She remembered in her “Accounting Analysis” class from college that she could likely use the company’s accounting financial reports to help her understand better what seemed to be going on here. Surely there was a way to use these reports to figure out if there was price gouging going on. In her new investor relations role, she wondered if she could use these accounting reports to better understand what was going on, and maybe even communicate that with investors and consumers (i.e., if what she found was an important part of the narrative).

### **The Duopoly’s Grip: Coles, Woolworths, and the Australian Consumer Landscape**

Coles and Woolworths, the two behemoths of Australian grocery retail, cast a long shadow over the nation’s economic landscape. Their dominance creates a complex scenario – one that offers benefits like convenience and price competition, while simultaneously raising

concerns about limited choice and potential manipulation of the market. Coles and Woolworths hold a staggering duopoly, controlling over two-thirds of the grocery market share.<sup>iv</sup> This immense power allows them to exert significant influence on both suppliers and consumers. Price wars, a hallmark of their competition which are notorious in the grocery industry, can lead to lower prices for essential goods. However, the relentless focus on price reductions can also pressure suppliers to cut corners, potentially impacting product quality, environmental concerns, and farmer livelihoods.

Yet, as major employers, Coles and Woolworths contribute significantly to the Australian workforce. They provide employment opportunities across various levels, from store staff to logistics and management. Additionally, their vast store networks translate into substantial investments in real estate and infrastructure, contributing to economic activity.

However, the downside of the duopoly is the limited choice offered to consumers. With fewer major players, the variety of brands and product options can be restricted. This lack of competition can also give Coles and Woolworths significant leverage over suppliers. The ability to dictate terms and squeeze margins can leave smaller producers at a disadvantage, hindering innovation and diversity in the market. The arrival of discount supermarket chain Aldi, in 2001, has injected some much-needed competition. Aldi's focus on private label brands and lower prices has (somewhat) forced Coles and Woolworths to adapt their strategies. However, Aldi's market share remains considerably lower, currently at about 10 percent, highlighting the entrenched position of the big two.<sup>v</sup>

The limited competition has led to calls for reform from consumer advocacy groups. Concerns regarding the potential for price manipulation and the lack of choice have spurred discussions about measures to promote a more balanced market. These measures could include encouraging the growth of independent grocers and fostering a regulatory environment that fosters fairer competition.

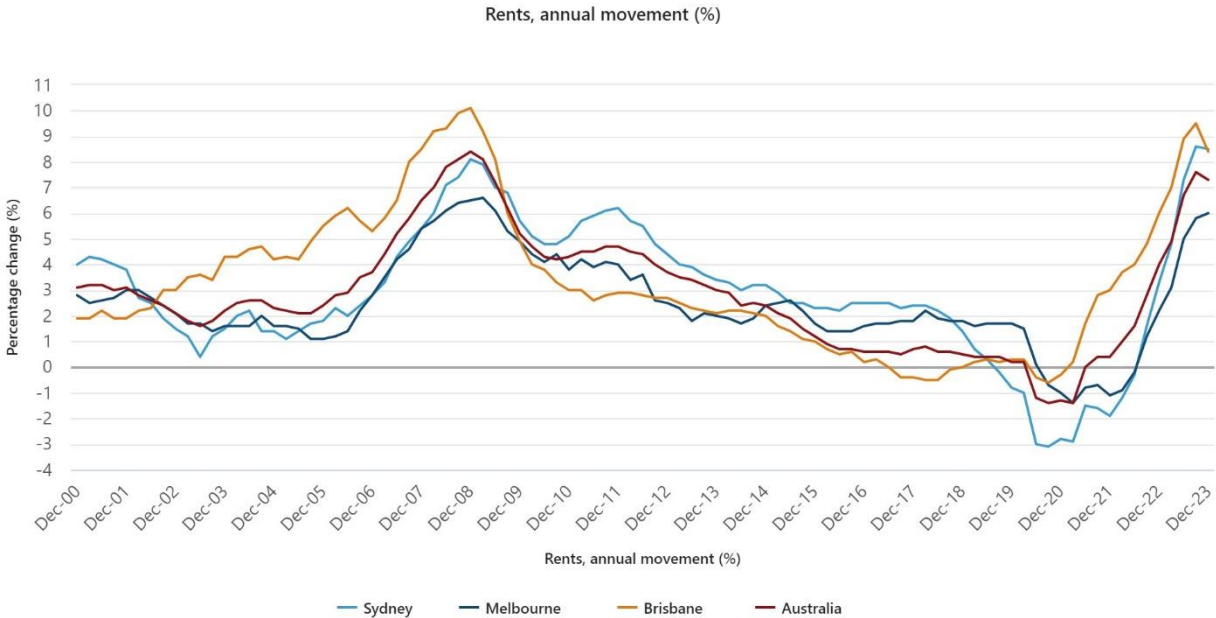
### **The Australian Economy: Housing, Inflation, and More**

Emerging from the COVID-19 pandemic, Australia's economy faced a complex tapestry of challenges, casting shadows over its once-shining trajectory. While initial resilience defied dire predictions, navigating rising interest rates, a volatile housing market, and structural dependencies exposed vulnerabilities beneath the surface.

A central concern with the economy lies in the Australian housing market, which boomed during the pandemic fueled by record-low interest rates and government stimulus. This exuberance, however, was short-lived as the Reserve Bank of Australia (RBA) embarked on a series of interest rate hikes in 2023 to combat inflation. This sent shockwaves through the housing market, causing prices to plummet and mortgage stress to skyrocket. One crucial factor amplifying this pain point is the prevalence of short-term, variable-rate mortgages in Australia. Unlike fixed-rate mortgages common in some countries like the United States of America, Australian mortgages often adjust every few months based on the RBA cash rate.

This leaves borrowers exposed to sudden and significant increases in their monthly repayments, exacerbating financial strain when rates rise.

The RBA's tightening of monetary policy was a necessary but painful response to surging inflation. However, the rapid rise in interest rates, from a record low of 0.1% in 2021 to 3.25% by the end of 2023, significantly impacted household budgets and business confidence. Mortgage holders facing ballooning repayments had less disposable income, dampening consumer spending and economic activity. Businesses, particularly those with variable-rate loans, saw borrowing costs surge, impacting investment and hiring decisions. All of these factors also combined to affect rents in an enormous fashion, as can be seen from the ABS graph below:



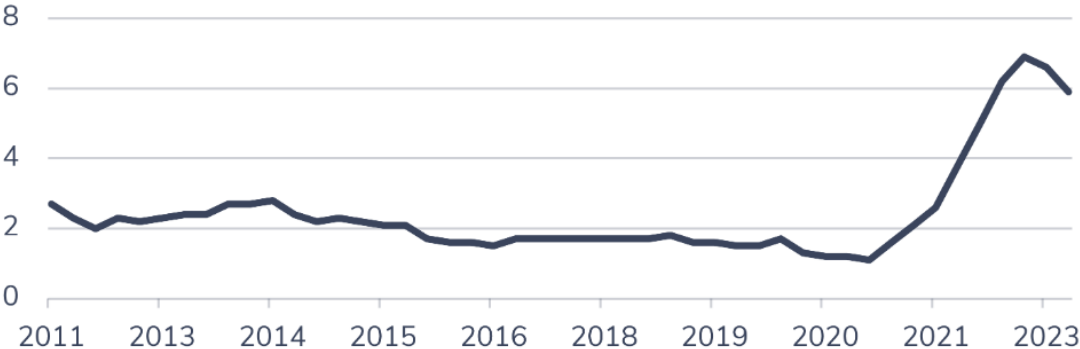
Source: Australian Bureau of Statistics, Consumer Price Index, Australia December Quarter 2023

Beyond the housing market and interest rate woes, the 2023 surge in inflation engulfed the everyday lives of Australians to even a greater extent. While the initial shockwaves of the pandemic had somewhat subsided, rising prices impacted nearly every aspect of life, from grocery bills to utilities costs, and ultimately, the well-being of the average citizen.

The lingering effects of the pandemic and the war in Ukraine significantly disrupted global supply chains. This led to shortages of essential goods and raw materials, pushing production costs upwards. Furthermore, Australia's reliance on resource extraction made its economy vulnerable to fluctuations in global commodity prices. As energy prices skyrocketed due to the war, this further impacted production costs across various industries, and hit consumers hard in a majority of the various types of consumer goods.

As pandemic restrictions eased, pent-up consumer demand collided with a limited supply of goods, contributing to price hikes. Additionally, the significant fiscal stimulus packages implemented during the pandemic fueled inflation by injecting more money into the economy. However, the consequences of inflation were felt most acutely at the most basic level – the grocery store. For many Australians, the once-mundane task of buying groceries became a source of stress and anxiety. The price of essential food items like meat, vegetables, and dairy products witnessed double-digit increases. This eroded household purchasing power and forced families to make difficult choices, such as cutting back on the quantity or quality of food purchased. These significant effects on consumer purchasing power can be seen below:

**Chart 1: Trimmed Mean Consumer Price Index  
(12 month % change)**



Source: ABS, Vision Super

With meat becoming increasingly expensive, many Australians turned to cheaper alternatives like pasta, rice, and processed foods. This shift towards less-nutritious options raised concerns about long-term health implications. Food insecurity, a condition where individuals lack access to sufficient and nutritious food, became a growing concern. Low-income households and marginalized communities were particularly impacted, with some relying on food banks or facing the impossible choice of paying rent or feeding their families.

The impact of inflation wasn't confined to grocery bills. It created a ripple effect that impacted various aspects of life, such as transportation costs. Fuel prices soared throughout 2023, adding a significant burden to transportation costs. This impacted not only household budgets but also businesses that relied on fuel-intensive logistics. Then, the overall sense of economic insecurity and rising prices negatively impacted consumer confidence. This led to decreased spending, further hampering economic growth and creating a potential downward spiral.

Furthermore, broader economic performance remained sluggish in 2023. GDP growth, while positive, trailed its pre-pandemic pace, hovering around 1.8% compared to the OECD average of 2.5%. This slowdown reflects numerous factors, including slowing global trade, the ongoing Ukraine war, and the reliance of the Australian economy on resource extraction, particularly mining. While mining has traditionally powered Australia's economy, it has also made it vulnerable to global commodity price fluctuations. In 2023, a combination of declining demand and supply chain disruptions caused commodity prices to fall, impacting the revenue and investment of mining companies, further dampening economic growth.

Thus, when inflation in Australia hit a painful 6.2% in June 2023, the highest in over two decades, it translated to everyday necessities costing significantly more, from a 20% jump in fuel prices to a 9% increase in the average grocery bill.

### **The Problem: Record Profits**

Supermarket giants Coles and Woolworths recorded profits in excess of A\$1 billion with a nearly 5 per cent increase on the previous year in 2023. Furthermore, a significant part of these profits are from the groups' grocery arms, with Woolworths seeing a nearly 20 percent rise in earnings while Coles recorded a 2.9 percent rise. But the question lies in whether these major profits are coming at the expense of Aussies' wallets, or simply because of a change in habits due to the harsh economy. For example, Australian households, feeling extreme pressure from the cost of energy rises, a housing shortage, and increases in the prices of everyday necessities like petrol could result in a trickle-down effect where Aussies that simply can't afford to eat out, must buy their food at the supermarket. Moreover, when times are tight consumers are far less likely to buy goods at boutique and specialty shops (like butchers and corner bakeries) and buy goods from the bigger retailers where prices will be (even marginally) lower.

### **The Task, The Question, and The Potential Solution**

Amelia spent time collecting what she considered to be the necessary information to examine whether her company (Woolies) and Coles were guilty as charged for price gouging and being morally bankrupt. As can be seen in Tables 1 – 4, Amelia collected income statement and balance sheet information on the two Australian grocery giants and furthermore calculated all of the ratios she had learned about in her accounting analysis class. Using this information, she wondered if she could solve the conundrum?

Furthermore, she had a question. Whatever she found, she wondered if she should take action on the matter. That is, if she found evidence that her company, Woolies, was not price gouging was there a potential solution? What could she, or the company do, in terms of investor and customer relations to help quell the storm?

## TASK:

Using the attached tables analyze the data and try to find evidence on whether Woolies and Coles' record profits are due to price gouging or normal business profits (associated with increases in traffic due to some of the reasons explained above).

As an investor relations associate, what would be your plan to address the issue at hand and could you use your analyses above to help inform investors/consumers/company executives on what seems to be happening at the companies and how this might be messaged to the world?

A common conundrum in business is the disclosure puzzle. That is, should a company disclose information or put out a press release when good or bad things are going on in the company, especially when things are bad? By not disclosing they are not addressing the problem, and face potential penalties, but by disclosing they are “advertising” the problem and the message that they share might not be well received and may even worsen the problem. What should Amelia advise Woolies to do in this situation? Sit tight and stay silent or should they face the problem head on? If they stay quiet, is there evidence in the financial reports that suggest that this is the best strategy (i.e., do they have something to hide)? If they choose to face the problem head on, what should they talk about? Would the financial information that you analyzed help in the production of the disclosure and in the overall disclosure tone and message?

## DELIVERABLE:

As Amelia, create a **one-page memo** outlining a disclosure plan for Woolworths Group with respect to the price gouging claims that have been leveled against the firm. This memo is an internal memorandum that you will be giving to the Chief Relationship Officer (CRO) of the company. The CRO is responsible for aligning the company's goals with the best interests of the customers. The memo should discuss whether the company should issue a disclosure to the investors/press/customers and if so, why? If not, why not? What role does accounting analysis play in this disclosure plan? The plan could have many steps, one step, or look like whatever your group comes up with. The memo should look like a memo in terms of structure and format. Furthermore, regardless of the decision in the memo (i.e., with respect to the disclosure decision), you must write a **one-to-two-page press release** as if the company was going to address the issue head on. That is, what would you advise disclosing to investors/press/customers regarding this pressing issue? How would you approach it? What role would accounting analysis play in this press release (if any)?

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<sup>i</sup> <https://www.news.com.au/lifestyle/price-gouge-people-mystery-mans-crusade-against-coles-woolworths-caught-on-video/news-story/1ab5cf2fbeaca1b7b23fc393683467ab>

<sup>ii</sup> <https://www.sbs.com.au/news/article/the-rise-and-fall-of-woolworths-ceo-brad-banducci/wgs61yisd>

<sup>iii</sup> <https://www.reuters.com/business/retail-consumer/australias-coles-posts-nearly-4-rise-first-quarter-sales-2023-10-25/>

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<sup>iv</sup> <https://www.accc.gov.au/by-industry/food-and-groceries>

<sup>v</sup> <https://www.youtube.com/watch?v=yoo6XVxpiU8>