

**PO BOX 418
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Australia**

25 July 2018

Mr John Durkan
Managing Director
Coles Supermarkets Australia Pty Ltd
PO Box 2000
GLEN IRIS VIC 3146

Mr Bradford Banducci
Managing Director and CEO
Woolworths Group
Po Box 8000
BAULKHAM HILLS NSW 2153

Mr Jeff Adams
CEO
Metcash Group
PO Box 557
MACQUARIE PARK NSW 1670

Dear John, Brad and Jeff

RE: SECRETIVE GERMAN COMPANY NOW MOST TRUSTED BRAND IN AUSTRALIA

It is my melancholy duty to inform you that the decision has been made to close Dick Smith Foods Pty Ltd.

I would like to thank all of you for your support over the last 19 years. In that time, we have together managed to create retail sales of about \$480 million for Australian farmers and processors and given over \$10 million to important charitable causes.

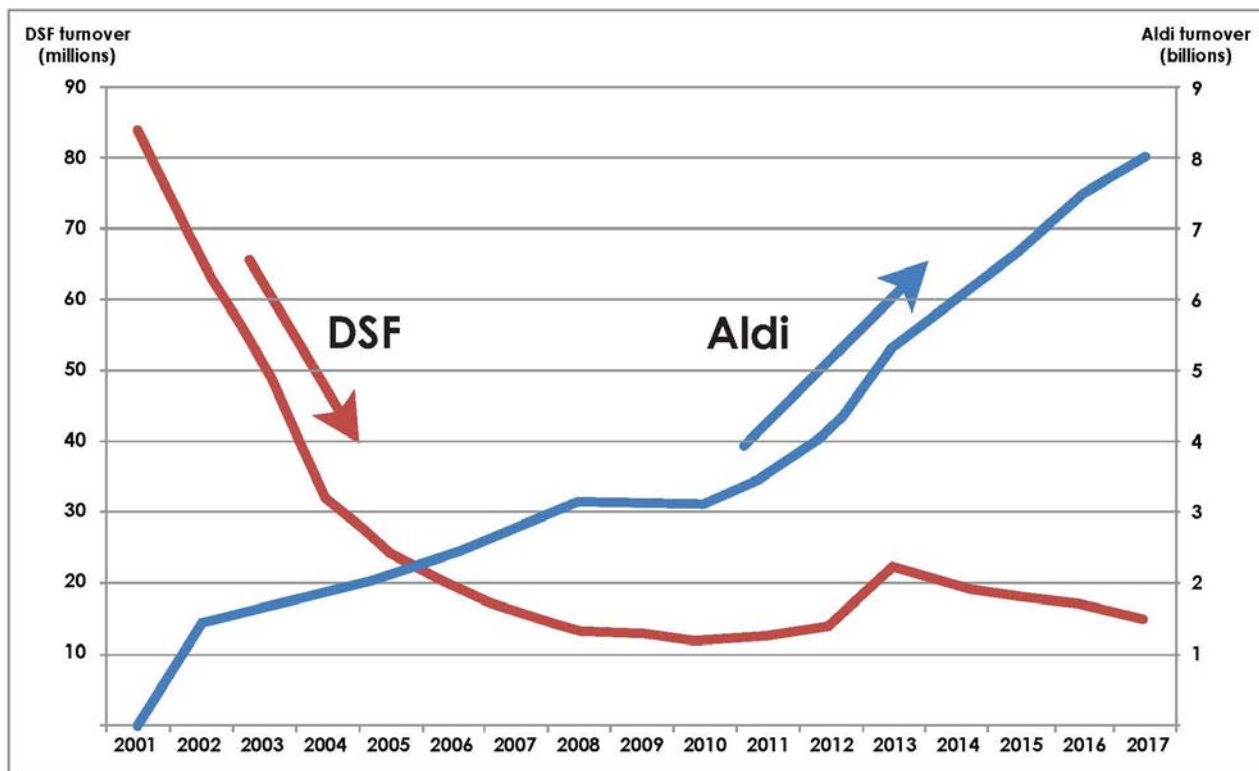
In recent times, the only way we have been able to achieve sales at an acceptable level (that would allow our products to have shelf space) is by discounting so much that we are often losing money. Most importantly, a number of our really good products such as the cream cheese, canola oil and some of the fruit spreads, have already been dropped.

We have done everything we can to get our costs down by operating as leanly as possible with minimum staffing levels. Of course, indirectly, many thousands of Australians have been employed through Dick Smith Foods.

It is clear that it will become more difficult for small and medium sized Australian owned food processors utilising Australian produce to compete in the current marketplace.

The aim of Dick Smith Foods was to be "As Australian as you can get", which meant we supported Australian farmers and manufacturers. It's an important contribution to sharing the wealth in Australia because our manufacturers pay a higher minimum salary in Australia compared to other countries.

The driving force of our closure, however, is Aldi. Look at the following graph which shows Aldi's growth and our demise.



I have always predicted that Aldi will be incredibly successful in Australia, and they are. In fact, it is clear they will completely change the face of retailing in this country.

It won't just be Aldi, it will be Costco and Amazon as well. These companies do not share the wealth with Aussie employees in a way that has been traditional in our country. They have ascertained that while all modern democracies have a minimum wage, there is no law in relation to minimum staffing levels. They use this loophole to employ less staff, so the wealth is directed to the owners of the business rather than shared in a fair way with employees. There are reports that Aldi stores have less than 25% of the staff of one of your stores of similar turnover.

Chris Kohler of *The Australian* has reported that Aldi is now "Australia's most profitable supermarket chain". It is quite clear that they can't sell at lower prices and be the most profitable chain unless there is something else to their formula. There is, and it is simple – sack Australians (or don't employ them in the first place) and don't share the wealth.

Aldi also has the advantage of not having the extra costs of being publicly listed, with the quite substantial staffing overheads (of mostly Australian employees) that are involved.

Aldi is a secretive organisation, however from what I can find out, it is privately owned in Germany by the son and daughter of Mr Karl Albrecht – the original founder. These family members are worth over \$30 billion USD (\$40.63 billion AUD) and even though it is claimed that they don't take money out of Australia (they clearly don't need to) the wealth they possess, that is created here, must be staggering.

Imagine that – instead of the wealth from the profit of the company being shared with many tens of thousands of typical Australian shareholders through their superannuation and pension funds, it all goes to a brother and sister in Germany. By a fluke of birth, they are multi-billionaires, when we have five million Australians who live pay packet to pay packet, with no reserves at all.

I have written to the owners of Aldi, Mr Karl Albrecht Jnr and his sister Beate Heister, asking them about their plans for Australia. A copy of that letter is attached at the end of this document.

The Aldi formula is simple. That is, reduce the number of products available – allowing staffing costs to be reduced – and primarily sell in-house brands. This means that prices cannot be compared. I understand an Aldi store typically has 1,700 products compared to your 20,000+.

The Aldi concept is ruthlessly astute and it is clear that unless your companies move towards this system, you will very likely become uncompetitive.

As your companies have been forced to reduce the product range so that you can lower your overheads, our products have been dropped from the shelves.

I am not complaining about Aldi. They are brilliant in the global stakes of “extreme capitalism”, as most consumers always want the cheapest products and don’t link this with fellow Australians – or perhaps their children and grandchildren having a job.

The most trusted brand in Australia is now Aldi. Imagine a foreign owned, secretive (the owners never give media interviews), multinational company being rewarded like that. They have arrived in Australia relatively recently so they have played no part in creating this incredible democracy or contributing to our economic wellbeing over many decades – like your companies have.

The most trusted brands in Australia – latest Roy Morgan survey July 2018

1. Aldi
2. NRMA
3. Bendigo Bank
4. Qantas
5. Bunnings
6. Kmart
7. The ABC
8. IGA

It is not just battlers who support Aldi. Many wealthy Australians also support Aldi – and in fact say positive things about Aldi and negative things about your companies. This is sad and hardly consistent with the support you have given Australian companies such as our own.

It looks as if there is nothing we can do about this. It is simply modern “extreme capitalism”. That is the reason I am closing Dick Smith Foods. I don’t want to follow such companies as Windsor Farms, Cowra Canneries and Aussie Farmers Direct, and be forced into unviability with the chance of many losing substantial amounts of money.

Windsor Farms was forced on the road to bankruptcy when Aldi started selling Australian canned beetroot at 75 cents per can. This product had typically sold for \$1.30 per can. Very quickly, your companies matched the price – I can understand you had to do this. Within six months, Windsor Farms and their Cowra Cannery (the only Australian owned cannery remaining) had to close. All the loyal, hard-working staff, many of them Aussie battlers, lost their jobs. The investors lost millions of dollars, and small businesses in the Cowra area were never paid, with substantial amounts owing. I understand the unsecured creditors were over \$750,000. The local transport company in Cowra lost \$550,000 and their local electrician lost nearly \$30,000. The main shareholder lost over \$6 million. He was a wonderful Australian who did everything he could to keep the company going.

What was the reason for this? Simply the astuteness of Aldi in obtaining a short term marketing advantage. Aussie consumers were not complaining about the \$1.30 normal price for Australian beetroot.

Another example of Aldi astuteness is peanut butter. One of our most popular products has been our OzEnuts Peanut Butter made with Australian grown peanuts from Queensland. Your companies were even patriotic enough to keep our shelf space when the farmers could not produce any peanuts for a three month period because of flooding.

This has been to no avail. Our peanut butter sells for \$4.80 for a 375 gram jar – that is \$1.28 per 100 grams. The best we have ever been able to do is to discount it to about \$4.00 per jar – and even then the charities we try to help would get no money at all. Not only is OzEnuts made from Australian grown peanuts but the processing is done in Australia using Australian workers, getting proper Australian wages.

Now let's look at the Aldi equivalent. It is called Bramwells, and they have been selling a 500 gram jar for \$2.39. That is \$0.48 per 100 grams – less than half of the price of our Australian product.

How can Aldi sell it so cheaply? It is extreme capitalism. They don't use Australian peanuts and they don't even use Australian labour to process the peanuts into paste. Their product comes completely out of Argentina. Some wages in Argentina are at subsistence levels. Aldi exploits this and no doubt sells it all around the world. Imagine the cost (and the fossil fuel energy) of shipping peanut butter from Argentina to Australia, yet they can still sell the product 62% cheaper.

It has become obvious to us that very few Australians are prepared to pay extra to support Australian farmers, and fellow Australians being paid the higher minimum wages that we have here. It is very sad.

It is clear to me that as you are forced to reduce your product lines to compete with Aldi, our lines and those of other small companies like us, will have to be dropped. That is just logic and common sense.

Now that I have made the decision to close Dick Smith Foods, we will be winding it down over the next 12 months. Yes, at the present time the company is successful and viable. However it is clear that this will not go on forever, so I have made the decision before the inevitable takes place and we are forced into bankruptcy.

We could reverse the declining sales and probably do really well by following the Aldi system and sourcing our products from the country in the world that has the lowest costs and wages. However we won't do this as it would be against the very principle on which Dick Smith Foods was founded. That is, to support Australian farmers and producers, and honest and viable businesses employing as many Australians as possible.

I am concerned about our suppliers – especially Spring Gully, MON and Freedom Foods. I have come to an arrangement where they will be able to take over the products and deal with you directly. Naturally, they have told me they are concerned your companies will use this as a reason for deletion of their Australian products. I ask that you consider keeping them. I have agreed that they will be able to keep the Dick Smith name while they phase in their own brands, where they will be able to source from overseas so they can become competitive again. I sincerely ask you to keep the products on the shelves as long as you can.

It is clear that the writing is on the wall for many Australian food processing businesses.

At the present time a number of Australian owned food production companies supply Aldi, however in many cases Aldi has forced them to provide the product under an Aldi brand name. This is incredibly astute. It means the Aussie company develops no goodwill for their own brand, and Aldi can quickly change to another supplier, perhaps from an Australian grown and processed product to one from overseas. A number of these small businesses tell me they are happy at the present time to at least be able to supply Aldi. Of course, I am sure they are aware that the secretive Aldi owners in Germany can make an instant decision to drop our Aussie suppliers and go to the lower cost overseas supplier.

I believe it is imperative that your companies (Woolworths, Coles and Metcash) stay in business. It looks as if the only way you can do this is by matching Aldi as far as possible, dramatically reducing staff levels and reducing your product range. What a terrible disaster for typical Aussie workers.

A number of Australian financial journalists claim that Aldi only wants a maximum of 20% of the market share in Australia and will then stop expanding. I'm not sure if this is factual. The greed of modern global capitalism is unlimited. Aldi's original Chief Executive in Australia, Michael Kloeters, told me the reason they are in Australia is because they decided in Germany that if they did not continue to grow, they would in fact go backwards. The only way they can continue to grow is to expand in other countries and keep taking the market share from others. Presumably we will eventually end up with two retailers in the world – just as we have two airline aircraft manufacturers.

I wonder if all the Aussies who support Aldi and have voted for them as the most trusted brand will then be concerned that their children and grandchildren can't get a proper job?

Amazon will also do incredibly well in this country and take further sales from the traditional Australian owned businesses. I understand the Amazon CEO Jeff Bezos is worth over \$150 billion US dollars (that is over \$200 billion Australian dollars) personally and is the ultimate "extreme capitalist". He hasn't invented a product such as an iPhone or a computer operating system. No, he has developed a way of having fellow humans sacked. That is, selling products using automation and robotics where the wealth is shared less through employing as few as possible.

American billionaire Nick Hanauer states that "there is no example in human history where wealth accumulated like this and the pitchforks didn't eventually come out."

Will the wealthy ever learn? No, I don't think so.

Thanks very much again for your great support in the past.

Yours faithfully



Dick Smith

Enc

DICK SMITH

**PO BOX 418
Terrey Hills NSW 2084
Australia**

25 July 2018

Mr Karl Albrecht Jnr and Ms Beate Heister
C/- Mr Tom Daunt
Chief Executive Officer
Aldi Australia
1 Sargents Road
MINCHINBURY NSW 2770

**AN OPEN LETTER TO THE GERMAN OWNERS OF ALDI, MR KARL ALBRECHT JNR
AND MS BEATE HEISTER**

Dear Karl and Beate

**RE: ALDI HAS BEEN VOTED THE MOST TRUSTED BRAND IN AUSTRALIA AND IS NOW REPORTED
AS OUR MOST PROFITABLE SUPERMARKET CHAIN**

In Australia your Aldi company has been phenomenally successful. It has not only taken billions of dollars of business from existing Australian owned companies, but it has now been voted the most trusted brand in Australia, and it has also been reported that it is our most profitable supermarket chain. What an extraordinary achievement.

On 9 May 2000 I met your Chief Executive here in Australia and asked him why you decided to open in Australia. He said, "Dick, in Germany if we don't keep expanding we would be going backwards. Our plan is to expand throughout the world."

Karl and Beate, I understand you are the son and daughter of Mr Karl Albrecht senior, who came up with the Aldi "plan". That is, basically sharing the wealth less. Your father, who started the great expansion of the company, worked out that by having a lesser selection of products, you could therefore employ less workers. This would result in lower prices and higher profits.

This plan has worked incredibly well in Australia. So well that the larger Australian owned supermarkets are criticised by many, whilst your company is praised.

I have an important question to ask you. When will enough be enough?

A number of financial journalists in this country claim that you only wish to gain a certain percentage of our retail market – possibly around 20% – then you will stop expanding. Is this true? This would appear completely at odds with what I know of your company.

Your formula of employing less staff per dollar turnover compared to the typical Australian owned supermarkets will ultimately mean less Australians employed.

We already have a problem in Australia. We have 14% youth unemployment and over 20% youth underemployment – that is, where our young people can't get a proper full time career.

Our tradition here is one of openness. However I notice much of the reporting on your company mentions secretiveness. It appears that neither of you have ever conducted a media interview on your plans for the expansion of Aldi.

Can I ask why you are so secretive? Surely being worth \$30 billion US dollars (that's \$40.63 billion Australian dollars) you have a responsibility to be open and explain your long term plans to all those who are affected.

I would like to invite one or both of you to come to Australia and explain your plans here to Australian parents and to our politicians.

Are there plans for endless expansion and endlessly selling lower and lower priced goods? Will these goods, just like your peanut butter, come from countries like Argentina where wages are extremely low? Won't this mean our Australian farmers and food processors will never be able to compete with such low prices?

I was once told by journalists that you have both actually been to Australia but you came here secretly. Why would you do that? You may not realise that your astute low cost business practices will have a huge influence here. Some of our politicians believe that your way of doing business is fantastic and we could learn a lot from you.

I am not criticising your organisation, as from what I can see, you comply with our laws. However, I personally invite you to come to this country and explain your long term plans. You may not realise that our present major retailers (Coles, Woolworths and IGA) are predominantly Australian owned by tens of thousands of Australian shareholders – quite often typical working Australians, through their superannuation and pension funds.

Your formula is extremely astute. You are privately owned, so it is not possible for Australians to share in the wealth creation of your company, and you also don't have the costs of publicly listing on the stock exchange which would result in the employment of many additional Australians.

From what I can understand, all the extraordinary wealth goes to both of you and your family members. You are not even known as philanthropists, or known as having signed the Bill Gates Giving Pledge.

I sincerely ask you to come to this country and explain what you are planning to do in the medium and long term future that will affect our children and grandchildren.

Yours faithfully



Dick Smith