

**PUBLIC SUBMISSION TO ACCC GROCERY INQUIRY
BY ARNOTT'S BISCUITS HOLDINGS PTY LTD ON 11 MARCH 2008**

This submission is made on behalf of Arnott's Biscuits Holdings Pty Ltd and its three main operating businesses in Australia:

1. Arnott's Biscuits Ltd (ABN 44 008 435 729)
2. Arnott's Snackfoods (ABN 38 424 554 643)
3. Campbell Australasia Pty Ltd (ABN 28 004 456 937)

Our submission is divided into two sections:

- Section A provides a general overview of the three businesses.
- Section B answers the questions posed to suppliers of grocery products on page 22 of your Issues paper.

SECTION A - OVERVIEW

Arnott's Biscuits Ltd

Arnott's Biscuits was formed in 1865, employs more than 2,800 Australians and makes a range of biscuits including *Tim Tam*, *Shapes*, *Vita Weat*, *Jatz*, *Salada*, *Sao*, and *Scotch Finger* at three bakeries:

- Virginia, Queensland
- Huntingwood, New South Wales
- Marlestone, South Australia

During its last three financial years, Arnott's Biscuits has made capital investments of more than \$83 million in its business. It spends around \$196 million per annum buying ingredients for its products including approximately:

- 80,000 tonnes of Australian flour and grains
- 28,000 tonnes of Australian sugar
- 3,139 tonnes of Australian dairy products

Arnott's Snackfoods

The Snackfoods business was acquired by Arnott's in 2002 and employs more than 450 Australians and makes a range of salty snacks including *Kettle*, *Thins*, *CCs*, *Cheezels* and *Tasty Jacks* at three sites:

- Smithfield, New South Wales
- Knoxfield, Victoria
- Shepparton, Victoria

During its last three financial years, Arnott's Snackfoods has made capital investments of more than \$17 million in its business. It spends around \$70 million per annum buying ingredients for its products including approximately:

- 55,000 tonnes of Australian potatoes
- 2,500 tonnes of Australian maize
- 1,800 tonnes of sunflower oil

Campbell Australasia Pty Ltd

Campbell's has been operating in Australia since 1961 and employs more than 300 Australians and makes a range of soups, stocks and beverages including *Country Ladle* soups, *Real Stock* and *V8* juices at Shepparton, Victoria.

During its last three financial years, Campbell's has made capital investments of more than \$10 million in its business. It spends around \$67 million per annum buying ingredients for its products including approximately:

- 7,500 tonnes of fresh Australian vegetables
- 2,500 tonnes of Australian poultry meat
- 1,200 tonnes of Australian beef.

SECTION B – ANSWERS TO QUESTIONS 66 TO 69 OF THE ISSUES PAPER

- 66 *What are the major influences on the prices you receive for your produce? How are your prices determined? What proportion of the retail price of the product do you receive?*

The major influences on our pricing are:

- input costs including ingredients, packaging, labour, energy and logistics costs;
- the price of substitute products;
- the level of consumer demand for our products.

The net price we receive from our customers reflects three variables:

1. the wholesale list price we charge for our products;
2. the trading term arrangements we agree with individual customers. Trading terms include rebates and discounts in return for agreed promotional activity usually recorded in a joint business plan agreed with the customer;
3. the promotional programs we run.

The wholesale list prices of products sold by Arnott's Biscuits, Arnott's Snackfoods and Campbell's are set out in price lists published by each company:

- Arnott's Biscuits' wholesale price list sets out prices that apply to all customers. From 28 April 2008, the prices will be subject to a service charge or discount dependent on the volume of product purchased in any single order;
- Arnott's Snackfoods' wholesale price list sets out prices that apply to purchases by grocery customers and impulse channel customers. The list also includes freight charges for deliveries to North Queensland, Tasmania and Darwin.
- Campbell's wholesale price list sets out prices that apply to all customers.

The proportion of the retail price we receive varies product by product and depends, among other things, on whether the product is on promotion and the applicable trading terms arrangements with the customer.

- 67 *Have the prices you receive for your produce changed over the past 1 to 3 years? What have been the major reasons for any change in the prices you receive? Have your costs of production changed over the past 1 to 3 years? Have the prices you receive for your produce changed by more or less than your cost of product? Please provide details.*

The information presented below is for our last two full financial years (F06 and F07) and for the first half of our current financial year (F08).

Price increases vary from product to product and are not taken across all products at the same time. The below table sets out the average percentage increases in each of our three businesses' wholesale list prices.

	F06	F07	F08 YTD	F06 to F08 average
Arnott's Biscuits	2%	0.26%	5.2%	2.98%
Arnott's Snackfoods	1.9%	0%	0%	0.76
Campbell's	2.8%	0.4%	1.45%	1.86%

On average, our direct production costs have increased at a rate faster than our prices over the last three financial years. This mainly reflects significant ingredient cost increases especially wheat, dairy and oils (Arnott's Biscuits), potatoes and oils (Arnott's Snackfoods) and vegetables (Campbell's).

68 *To whom do you sell your produce? What supply arrangements do you have with the buyers of your produce? Do you sell any of your produce to the MSCs? If so, what options do you have if you decided not to sell to the MSCs (other than grocery retailers or wholesalers, food processors, exports, etc)?*

We sell to a full range of customers including:

- supermarkets including Coles, Woolworths, Aldi, IGA and Foodworks
- distributors including Metcash
- foodservice customers including Bidvest
- convenience stores including petrol stations.

We have trading term arrangements and joint business plans with most of our customers.

Given the popularity of our products and demand for them, we have never considered not selling to the MSCs.

69 *If a MSC put pressure on you to lower your prices would you attempt to "make this up" by charging more to other wholesalers and retailers, or would you also lower your prices to other wholesalers and retailers so they can remain competitive in grocery, wholesaling and retailing?*

No. The net prices we receive from our customers reflect trading term arrangements which are based on performance criteria.

Mark Alexander
Managing Director