

Australian Competition and Consumer Commission

GROCERY PRICE INQUIRY HEARING

**EXCERPTS FROM CONFIDENTIAL TRANSCRIPT OF
MR THEO KOUNDOURIS AND MR ERIC
KOUNDOURIS**

**CONDUCTED AT: RIDGES HOTEL, CANBERRA
DATE: 1:00 PM, TUESDAY, 8th APRIL, 2008**

...SECTION OF TRANSCRIPT REMOVED DUE TO CONFIDENTIALITY ...

MR O'DONOVAN: Right. Okay. So in terms of if you have to identify, you know, the biggest two or three things that are preventing you expanding competitively against the major supermarket, what are - what are the things that hold you back?

MR E KOUNDOURIS: I think, firstly, we take the areas. In Canberra, they - they will release shortly other sites in Canberra. The Government, I am sure, will do that. If it goes under the existing system, we are not going to get in, we know that.

In New South Wales, in Sydney metropolitan area in particular, all the real estate is so landlocked that you just can't find sites, and even if you do, it's very difficult, but there are opportunities there and if we had - as I said in my opening statement, people who make decisions on planning matters - it's assistance.

MR T KOUNDOURIS: It's a double-edged sword. We need to be bigger so developers will recognise us as a strong enough draw card to anchor their centres, and at the moment if you own a centre, you are an individual, and you've just built this new centre and you've got the choice between Coles, Woolworths or Superbarn, and you go, "Coles has 800 stores, Woolworths has 800 stores, and Superbarn has four", it's a real simple decision, so that's - that's one of our problems.

...SECTION OF TRANSCRIPT REMOVED DUE TO CONFIDENTIALITY ...

Australian Competition and Consumer Commission

GROCERY PRICE INQUIRY HEARING

**EXCERPTS FROM CONFIDENTIAL TRANSCRIPT OF
GOLDEN CIRCLE LIMITED**

CONDUCTED AT: RIDGES HOTEL, CANBERRA

DATE: 12.30 PM WEDNESDAY 9th APRIL, 2008

...SECTION OF TRANSCRIPT REMOVED DUE TO CONFIDENTIALITY ...

MR O'DONOVAN: Okay, so in terms of the customers that you face in food service are there a lot more customers than there are in retail?

MR SAWYER: Yes there is, yep.

MR O'DONOVAN: And does that mean that you're in a stronger negotiating position in terms of margins?

MR SAWYER: I suppose you've got less risk in terms of it because the structure of that marketplace

[REDACTED]

MR O'DONOVAN:

[REDACTED]

MR SAWYER:

[REDACTED]

MR O'DONOVAN: So market concentration is not one of the things you would – sorry, market concentration in retail, you wouldn't attribute to delivering lower margins to you?

MR SAWYER: I suppose in part, yes, but in other areas it depends a bit on which part of our business you're talking about.

[REDACTED]

...SECTION OF TRANSCRIPT REMOVED DUE TO CONFIDENTIALITY ...

MR O'DONOVAN: Okay. Now in terms of the price at which you can produce pineapples and cordial, have there been significant external impacts that have resulted in substantial price increases in the last couple of years?

MR SAWYER: Certainly the world commodity prices have impacted cordial and pineapple. In the case of cordial, oil obviously impacts on plastics and transport, so that's had some significant increases. We use apple concentrate in our cordial product from the fruit content point of view and apple concentrate's doubled in the last 15 months in terms of its price.

MR O'DONOVAN: And that's an internationally traded commodity?

MR SAWYER: Yes, it is, and one of the problems Australia's got is that we're small on a global scale with our – with internationally traded commodities.

MR O'DONOVAN: Do you have any sense of what the driver in apple concentrate is?

MR SAWYER: It was the failure of a crop, of the apple crop in Europe that drove it and then the – well actually it's a two-fold issue. In the first instance orange juice concentrate went up in – and there were some failures of crops in Brazil and in Florida, and most of the manufacturers then moved towards apple-based products because it was cheaper to use apple rather than orange, and then the apple crops failed and we're all in apple and, of course, the demand's gone through the roof and has done in price, so that certainly impacted on us.

MR O'DONOVAN: So in terms of the products you produce, is it just apple juice where we'd see that?

MR SAWYER: Metals for tin plate has certainly been a significant cost to us in terms of metal cans for pineapple.

MR O'DONOVAN: Just going back to the apple effect, which products would –

MR SAWYER: Basically most of our juices are impacted by that.

MR O'DONOVAN: Even an orange juice would have some apple in it?

MR SAWYER: No, but the construct of our marketplace has typically been a tropical fruit with apple as a blend, so it has quite a significant impact on our business in terms of a globally traded commodity.

MR O'DONOVAN: Sorry, you were talking about tin plate.

MR SAWYER: Tin plate for metal cans has been a significant cost increase over the last couple of years particularly. So –

MR O'DONOVAN: What sort of increase are we talking about?

MR SAWYER: From an overall point of view, cordial's gone up about [REDACTED] in the last four years from a cost point of view and pineapple's gone up about [REDACTED] so – and the other thing that's impacted pineapple particularly has been the impact of drought in terms of fruit shortages, so the prices of raw material, pineapple has gone up quite significant.

MR O'DONOVAN: Right. So even in – I assume pineapples are grown in tropical areas?

MR SAWYER: Yes.

MR O'DONOVAN: So even the tropical areas have been draught affected?

MR SAWYER: Yeah, in fact, we've gone from the sublime to the ridiculous. We've gone from dry areas to we've now got a flood of pineapples because of the floods in North Queensland and Central Queensland, so we've had to take in pineapples earlier this year because of the floods there, so it's been a difficult area to manage just over the last couple of years.

MR O'DONOVAN: Right, so does that mean you've got more pineapples because of the floods?

MR SAWYER: We've got more pineapples now at this time of year just purely and simply – typically pineapples are a two-year crop, so what happens is the growers go through and they pick – they give you two or three picks through the life of the plant each year and it's depending on the size of the pineapple at that particular point in time and the ripeness of that pineapple. When you're in a flood situation, they pick everything, so it didn't matter whether it was a pineapple this big or a pineapple this big, they picked everything to get it out of the fields because of the flooding. So we've got a lot of pineapple in our business because of that.

MR O'DONOVAN: Okay, in terms of what that is it for consumers, is that going to reduce the price of pineapple product now that there's a glut, or is the way you've structured your business means there's not?

MR SAWYER: No. On the way that we've structured our business there won't be. Australian pineapple typically doesn't fill all the domestic demand. There are imported pineapple products coming into the marketplace now in terms of it, so the Australian crop won't fulfill the domestic amount.

MR O'DONOVAN: Okay, so you indicated there was like a [REDACTED] increase –

MR SAWYER: Yes.

MR O'DONOVAN: In the inputs, so in terms of production. In terms of what's happening further down the chain at the retail level, firstly are you able to pass those price increases through the chain?

MR SAWYER: Historically the business hasn't. It's over – up until the last couple of years, it's been typically taking about [REDACTED] price increases. [REDACTED]

...SECTION OF TRANSCRIPT REMOVED DUE TO CONFIDENTIALITY ...

MR O'DONOVAN: And generally speaking do all of their cost increases get pushed through to the consumer or is there – do you see that there's some competitive tension that prevents –

MR SAWYER: In the case of [REDACTED] they've taken – basically in line with the percentage increases we've given them, they've taken up on shelf. In the case of [REDACTED] it's been less than what we've given them from a percentage point of view.

...SECTION OF TRANSCRIPT REMOVED DUE TO CONFIDENTIALITY ...

MR O'DONOVAN: Now it's been put to us that what we see at the retail level between Coles and Woolies isn't true competition but is a form of market sharing where they effectively, I suppose, decide what margins they want to make and don't push the other very hard. Have you seen any evidence of that in terms of the way retail pricing pans out with the products you sell?

MR SAWYER: No. [REDACTED]

...SECTION OF TRANSCRIPT REMOVED DUE TO CONFIDENTIALITY ...

MR O'DONOVAN: Okay, from your point of view does it steal market share from your branded product, having a product like that in the market?

MR SAWYER: My view is yes. I mean it's growing, so it's certainly a competitive pressure for us in the marketplace that we're cognisant of when we're doing our

work in the marketplace on our brands, so it's certainly a competitive pressure in the category.

MR O'DONOVAN: Right, so when you go to assess whether it's a competitive – sorry, whether it's a profitable thing to do, do you also, in terms of supplying a generic, do you also consider the loss of market share that you're likely to take?

MR SAWYER: We do.

MR O'DONOVAN: You do?

MR SAWYER: Yep.

MR O'DONOVAN: [REDACTED]

MR SAWYER: [REDACTED]

MR O'DONOVAN: Right, and from the supermarket's point of view, is the margin that they're making on the [REDACTED] product better than the margin they're making on the branded product at the normal shelf price?

MR SAWYER: Yes, it is, from a percentage point of view at least.

MR O'DONOVAN: Right, but in dollar terms it might be –

MR SAWYER: In dollar terms it would be close between the branded product and the private label products. It's a higher percentage off the lower sales value.

MR O'DONOVAN: When you run a promotion and drop the price, is there a disadvantage for the supermarket when consumers substitute back to the branded product away from [REDACTED]?

MR SAWYER: Yeah, there would be.

MR O'DONOVAN: In your experience have you ever had pushed back from the supermarket in that they don't want you to run a promotion at a particular price point because it doesn't suit their category branches?

MR SAWYER: Not so much pushing back against us. It's the fact that they're starting to promote their own, so their reaction, I suppose, to our level of promotional activities to promote their own label. [REDACTED]



...SECTION OF TRANSCRIPT REMOVED DUE TO CONFIDENTIALITY ...

MR O'DONOVAN: Right, and you don't feel that it influences their retail pricing of your product, the fact that they're now competing in the category?

MR SAWYER: No, we've not seen any events of that, no. They've largely followed whatever recommendations we've put to them in terms of shelf prices and promotional prices, so based on that I haven't seen any evidence of we're coming under that sort of pressure.

MR O'DONOVAN: Okay, and then just in broad terms from what you've seen in the marketplace, do you think the retail market in Australia is competitive?

MR SAWYER: Certainly the two majors are very competitive against each other in terms of it, and Metcash certainly follows suit with where they go, so my sense is it's all fairly competitive out there that's for sure.

...SECTION OF TRANSCRIPT REMOVED DUE TO CONFIDENTIALITY ...
