

Australian Competition and Consumer Commission

GROCERY PRICE INQUIRY HEARING

**EXCERPTS FROM CONFIDENTIAL TRANSCRIPT OF
NOVO FOODS LIMITED**

CONDUCTED AT: DUXTON HOTEL, PERTH

DATE: 10.00 AM TUESDAY 22nd APRIL, 2008

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COMMISSIONER KING: Okay. So just from your knowledge of the retail prices, if we took a box of let's say 700 gram generic, you know [REDACTED] today, how would that retail price compare to say the equivalent egg which would be a branded egg of course, because there just weren't generics to the same degree, in say the early 1990s and my understanding is the retail price of, you know, a [REDACTED] is about 2.59, 2.60 today, is that, you know, what would it have been like in the early '90s?

MR LENDICH: I haven't got that data, but it probably wouldn't have been - - -

MR SAVENAKE: \$1.99 probably.

MR LENDICH: Yes.

MR SAVENAKE: 10 years ago, I suppose.

COMMISSIONER KING: Okay. From the smart consumer's perspective if the smart consumer said, well, you know, I used to buy it for a buck 99 and now I've switched from the branded to the generic, it's a pretty small price increase. It's, what, 25 per cent or something - - -

MR LENDICH: That's what I think I've indicated today is that the - I suppose the return to the industry has been minimal over that period of time.

COMMISSIONER KING: It's also - the price increase for the consumer has been minimal - - -

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THE CHAIRMAN: Okay. Well, then and the next question I was going to ask you which is that the ABS, with which you've had some issues, says that the egg inflation rate between the '90s and today is about 100-and-something-odd per cent, 102 per cent or thereabouts. But if you take 1.99 as your starting point and you take 4.34, you're well and truly - - -

MR SAVENAKE: Yes. Also, you know, free range retails for around \$6 and that \$6 sale was probably \$5 10 years ago but it was only worth 1 per cent of the market.

THE CHAIRMAN: Yes.

MR SAVENAKE: Now, it's worth 20 per cent, that \$6, so that average price across the total industry would have increased.

COMMISSIONER MARTIN: Yes.

MR LENDICH: Yes. So that weight of average, if you take into account the free range is now – and also, obviously, if you're just averaging, organic eggs can be selling at \$9 or \$10.

MR SAVENAKE: That's right.

MR LENDICH: It sort of can skew the data somewhat.

THE CHAIRMAN: Approximately what is the percentage of generic branded eggs that have been sold, relative to branded?

MR LENDICH: Well, about 60 per cent in Coles and Woolworths, if you take free range and caged together. If it's just caged - - -

THE CHAIRMAN: No, leave out – just take caged.

MR LENDICH: Probably 70 to 75 per cent.

MR SAVENAKE: 70 per cent, yes.

MR LENDICH: So it's about 25 to 30 per cent max is branded.

THE CHAIRMAN: I will leave you to do the volume weighted - - -

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**EXCERPTS FROM CONFIDENTIAL TRANSCRIPT OF
MRS MAC'S PTY LTD**

CONDUCTED AT: DUXTON HOTEL, PERTH

DATE: 10.00 AM TUESDAY 22nd APRIL, 2008

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MR O'DONOVAN: Is the cost of labour becoming a major impact on the costs of your business?

MR MACGREGOR: Yes, it is. It is also, as you would be well aware, very difficult to acquire the numbers of people and skilled people that you require. [REDACTED]

[REDACTED]
[REDACTED]
[REDACTED] It is very competitive.

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MR O'DONOVAN: Okay. In terms of the market structure, from your point of view would it make any difference if there was another major supermarket player in terms of the returns that you think you would think get or do you think that really – so, as soon as you are dealing with a customer of a certain size, whether there is three, four or five of them of that size, they are all going to get pretty much the same deal. What – would it make a difference if there were more players in the supermarket market?

MR MACGREGOR: Not in terms of, you know, improving your GP. I wouldn't have thought so.

MR O'DONOVAN: It would be comforting if there were players.

MR MACGREGOR: Certainly to have your eggs in more baskets would be great. For the obvious reasons you are not as exposed if you have got greater available penetration. In terms of – where it does vary it really the policies that the retailers pursue in terms of what their strategies are because it does vary from one retailer to another. That is really where that have a fairly detrimental effect on not just our business but obviously a lot of peoples business, if I guess those strategies or undertakings of the retailer are not in the best interests of your own business.

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MR O'DONOVAN: Sure. All right. Then in terms of – looking now then, just at the supermarket side of the business and the – well, actually, starting with your wholesales prices, have they increased steadily in the last few years?

MR I. MACGREGOR: [REDACTED]

MR O'DONOVAN: [REDACTED]

MR I. MACGREGOR: [REDACTED]

[REDACTED] It's problematical whether those benefits are being passed on to consumers. I'm not in a position to say yes or no to that, or what parts might be and what aren't, but certainly they're making a greater margin than they've ever made before. In our category, we know that for a fact. I think that's something that has driven us to try and take a stand against it because once you're in that situation where you've had to cut your margins in order to get a share of the market, then it's, yeah, it can be on the slipper slope, depending on the volume of business concerned. It can occupy this proportional share of your market at a much, much lower price or lower – sorry. Not lower price, lower contribution. Now, whether these additional margins are being passed on to consumers is not for me say. That's presumably what you're there to find out, but it is problematical.

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MR O'DONOVAN: Right, okay. I suppose the competitive position between them, or including independents, isn't such that you've seen your retail prices being pushed down by tension at the retail level? You haven't seen that.

MR I. MACGREGOR: I don't think so.

MR R. MACGREGOR: We have over the years. It's varied. You know, we've had situations where [REDACTED] supermarkets here in WA, buy a product for [REDACTED] and sell it for [REDACTED], you know, and they use it as a loss

leader, you know, just to get backsides in the door. Obviously the old theory that if we can get them in we might lose a bit on that, but they'll buy their full pantry list and we'll make good margin on the other stuff. So yeah, they have done it and they still do do it on occasion, but having said that, I don't know of any retailer now who will actually sell for less than they buy. That's almost a thing of the past and that's sort of gone. We've never encouraged that. In fact, we hate it.

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MR O'DONOVAN: But in terms of the retail price if you go into a Coles or Woolworths will you see your products on the shelf at the same price in both places?

MR R. MACGREGOR: Similar, very similar. They're very conscious of making sure that they're not miles apart in price. It might vary 5 or 10 cents a pack or something but it's within the same realm.

MR O'DONOVAN: If you make a change to your wholesale price how quickly is that reflected in the retail price?

MR R. MACGREGOR: Straight away.

MR O'DONOVAN: Straight away.

MR R. MACGREGOR: Well, when I said "straight" - - -

MR I. MACGREGOR: Once it becomes effective.

MR R. MACGREGOR: Once it becomes effective. I mean, promotional periods, that's the only time we alter price unless it's part of a formal review, that's the - - -

MR O'DONOVAN: Well, I think that was the point of the question, I think it's - - -

MR R. MACGREGOR: Promotional prices, you mean, when we discount?

MR O'DONOVAN: No, no, talking about just general price movements.

MR O'DONOVAN: No, no, when you put through a general price – do you ever put through a general price rise - - -

MR R. MACGREGOR: Absolutely.

MR I. MACGREGOR: Yes, we do, yes.

MR R. MACGREGOR: That is reflected immediately.

MR I. MACGREGOR: [REDACTED]

MR R. MACGREGOR: Yes, yes.

MR I. MACGREGOR: As soon as that price rise – the date is due, they obviously reflect that.

MR R. MACGREGOR: Yes.

MR O'DONOVAN: Are they resistant, either Coles or both Coles and Woolworths or both of them? Are they resistant to prices or price rises?

MR I. MACGREGOR: [REDACTED]


[REDACTED] But as you would understand, it's a highly competitive environment that we all operate in, in food and beverage and price increases are looked at long and hard before any decision is made and all the factors that are influencing those costs are obviously factored in when we do make a move.

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MR O'DONOVAN: Just one last question, do you think that they would have – they would behave differently in terms of their approach to getting supply if they had a much smaller market share, they were only 20 per cent of the market instead of 40 per cent of the market? [REDACTED]

MR MACGREGOR: They wouldn't have – if that was the extent of their market influence, they most emphatically wouldn't have the leverage that they have now. [REDACTED] because they do have the leverage and they do have the big market share. If they were back to the level that you've suggested, then it would be – if we didn't – if a supplier was uncomfortable with what they were being required to do, they would have a much better potential of saying no with that level of market share. [REDACTED]

[REDACTED]



For a while there, that was as – that was fantastic, because you hedged your bets, your volatility, and I suppose, your exposure being diminished radically, as you had such a broad customer base. Then it was just wins and losses, you know, but since the retailers now picked up all the P & C business, it's gone full circle, you see, you're getting tied back into trading terms and leverage, to use that word, and it's just bizarre, because it's not the supermarkets anymore, it's now P & C, which is a very, very dominant, I suppose outlet base, when it comes to food and commodity lines now throughout the country, I mean it's probably the biggest, next to supermarkets themselves, it is.

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