

SUBMISSION BY PROCTER & GAMBLE AUSTRALIA TO THE SENATE SELECT COMMITTEE ON SUPERMARKET PRICES

This submission is provided in response to the request of the Senate Select Committee made on 26 April 2024.

ABOUT PROCTER & GAMBLE

Procter & Gamble is a global leader in the fast-moving consumer goods (FMCG) sector, focused on providing branded consumer packaged goods of superior quality and value to consumers around the world.

Procter & Gamble was founded in Cincinnati, Ohio, USA in 1837. Today Procter & Gamble employs approximately 107,000 people in approximately 70 different countries where we have a physical presence. Procter & Gamble has manufacturing operations in nearly 40 countries.

In total, Procter & Gamble products are sold in approximately 180 countries and territories, including more than 100 countries in which products are sold through third-party distributors.

We provide daily-use products where performance drives brand choice. We focus on understanding the needs of consumers and delivering superior products, packaging, brand communication, retail execution and value to meet those needs. Consumers trust that when they buy Procter & Gamble products for their everyday use, these products will meet their needs from the very first use, and they will see the value in products that work to deliver the benefits they seek.

Procter & Gamble is not a multinational food company and does not supply food products.

However, we do supply Vicks VapoNatuRals Throat Drops and Metamucil Fibre Gummies, two products within our personal health care portfolio that are classified as foods under Australian regulations. Together, these products account for less than 0.5% of sales of Procter & Gamble's Australian business.

PROCTER & GAMBLE'S AUSTRALIAN OPERATIONS

Procter & Gamble first established operations in Australia in 1985 - with the acquisition of Richardson Vicks. In 1989, that company changed its name to Procter & Gamble Australia Pty Ltd (Procter & Gamble Australia). Both Procter & Gamble and Procter & Gamble Australia report on a July 1 – June 30 fiscal year basis.

Procter & Gamble Australia distributes Procter & Gamble products in Australia. Nearly all these products are manufactured outside of and imported into Australia. Procter & Gamble has a contract manufacturing relationship for shave preparation products manufactured in Australia; nearly half of those products are produced for export. Procter & Gamble Australia's annual sales for fiscal year 2022/23 were AUD 775 million.

Procter & Gamble's Australian operations employ approximately 150 people. Our operational headquarters are located in Sydney.

We offer a broad range of products across multiple categories that cater to the daily needs of Australian consumers at various price points. These categories and products include:

- **Beauty Care:** *Olay, Pantene, Head & Shoulders, Herbal Essences*
- **Oral Care:** *Oral B*
- **Health Care:** *Vicks, Metamucil, Clearblue, Voost*
- **Home Care:** *Fairy, Ambi Pur*
- **Grooming:** *Gillette, Venus, Braun*
- **Feminine Care:** *Tampax, Always Discreet*
- **Fabric Care:** *Downy*

Procter & Gamble Australia only sells products under Procter & Gamble brands and does not manufacture or supply private labels or home brands for Australian retailers.

We have a long history of productive working relationships with Australian retailers. Procter & Gamble has direct customer relationships with Woolworths, Coles, Aldi, Costco, Chemist Warehouse, and Shaver Shop, among others.

Australia's two largest retailers have accounted for more than 50% of Procter & Gamble Australia's total business over the last five years. Based on publicly available financial reports, sales of Procter & Gamble products account for less than 1% of their total sales.

Australian retailers set the prices at which Australian consumers purchase Procter & Gamble products, as consumer pricing is at the sole discretion of retailers. Procter & Gamble determines the prices at which we supply products to Australian retailers.

THE IMPACT OF FACTORS AFFECTING GLOBAL SUPPLY COSTS

For the last few years, macroeconomic conditions have been challenging. During fiscal years 2022 and 2023, Procter & Gamble globally faced historically high inflation pressure. Cost of commodities and freight increased, and foreign exchange impacts rose to levels not seen in many years. The negative impact of these costs amounted to the equivalent of half of Procter & Gamble's global earnings over a two-year period.

Macroeconomic conditions have also impacted Procter & Gamble's business in Australia. While the factors impacting the Australian business and profitability are common to other global FMCG companies, the substantial increases in logistics costs over this period have been particularly important to Procter & Gamble because we import nearly all the products that we sell in Australia.

As a result, the Australian business is exposed to regional and global factors that impact the cost structure, including commodity input cost and foreign currency fluctuations and freight and logistics challenges. We rely on relationships with third parties, including suppliers, contract manufacturers, distributors, contractors, and external business partners, to deliver products to Australian consumers. These third parties are subject to their respective cost impacts and will set their prices to their customers and consumers with those impacts in mind.

Over time, Procter & Gamble has sought to address the impact of these cost increases through a combination of cost reduction and productivity improvements, product innovation, and, when needed, price increases to our customers.

PROCTER & GAMBLE'S RESPONSE TO INCREASED COSTS

Over the past three fiscal years, Procter & Gamble Australia's average annual catalogue price increases to retailers have been 7%. This price increase is reduced to 4-5% after accounting for Procter & Gamble funded incremental discounts and investments to retailers. This is broadly in-line with the average annual inflation rates in Australia of 4-7%¹ and the 7% average annual cost increases to Procter & Gamble during the same period.

The ability to offset a portion of cost increases without passing 100% of these increases to retailers is the result of Procter & Gamble's continuous focus on cost reduction and productivity improvement.

¹ Reserve Bank of Australia, *Inflation Overview* (web page, accessed 29 April 2024), <<https://www.rba.gov.au/inflation-overview.html>>.

Where Procter & Gamble has increased prices to retailers to address a portion of input cost increases already incurred, it was not in excess of cost increases observed to date. Whenever possible, we also increased prices together with product and/or packaging improvements to continue to deliver great value to consumers by improving their experience with Procter & Gamble products. Product and packaging improvements require investments, and if the value proposition is right, customers and consumers are willing to accept these product innovations that provide meaningful benefits and address unmet needs.

Importantly, where we do seek to increase Procter & Gamble's prices to Australian retailers, we are often required to provide detailed information justifying such increases. Retailers review this information and have the final decision on whether to purchase products at the suggested prices and what, if any, additional investments they may seek to negotiate from Procter & Gamble with respect to discounts and promotions on those products that may decrease their net purchase price and/or help drive their sales of Procter & Gamble's products to consumers in their stores.

In the context of pricing, it is also important to note that consumers seek value in different ways – some look for larger sizes and some prefer smaller sizes; some like to shop in major retailers, some like club stores, while other consumers prefer independent retailers and others prefer to shop online. Consumers are very intentional about their definition of value.

Price and performance are both critical parts of how consumers define value in the retail categories in which we operate. That is why Procter & Gamble focuses on delivering superior products to consumers at a variety of accessible sizes, price tiers, and retail channels. It is also why we offer a selection of products across categories to cater to different consumer preferences and needs.

Moreover, when we seek to increase prices for products that we sell to retailers, we do so in a highly competitive commercial environment with both global and local competitors. Commonly, we compete against other branded products, as well as retailers' private-label (home brand) brands. Additionally, many of the product segments in which we compete are differentiated by a range of price tiers (often referred to as 'super premium', 'premium', 'mid-tier' and 'value'-tier products). Procter & Gamble offers products to both Australian and other consumers in countries around the world at several price tiers and pack sizes to offer the best overall performance and value to all the consumers we serve.

PROCTER & GAMBLE'S RELATIONSHIP WITH AUSTRALIAN RETAILERS

Procter & Gamble Australia has a long history of productive and effective working relationships with the Australian retailers with whom we do business. We offer products to these Australian retailers via a catalogue system, where the retailer can place an order for one or more units of that product at the catalogue price.

Procter & Gamble Australia directly serves many Australian retailers, including Woolworths, Coles, Chemist Warehouse, Aldi, Costco, and Shaver Shop, among others, and we indirectly provide Procter & Gamble products to others through third-party distributors. Procter & Gamble supplies our products to all manner of large and smaller retailers, and we value our relationships with each.

As noted earlier, over the past five years, sales to Australia's two largest retailers represent more than 50% of Procter & Gamble's Australian sales, and based on publicly available financial reports, sales of Procter & Gamble products account for less than 1% of their total sales over the same period.

Australian retailers have sole discretion to set their retail prices to consumers. When we plan to increase price on a product, we submit the planned pricing to retailers. They evaluate, and often seek justification for, and negotiate with us regarding, the new prices, discounts, and other investments from Procter & Gamble that they seek to drive additional sales on-line and in their stores and to reduce their net purchase price. As part of this process, Procter & Gamble provides cost justifications for price increases that typically include input cost increases in the cost of goods, manufacturing costs, and shipping costs, and we often agree to provide discounts and funding for promotions to ensure products remain affordable to retail customers and consumers, as well as other investments for point-of-sale materials like displays, catalogues, etc. to drive better shopper experiences. In the end, retailers make the final decision on which products they choose to purchase and sell to their customers, and they have sole discretion to set the retail price for the consumers who shop in their stores or on-line. We have built productive relationships with Australian retailers for many years following this process.

PROCTER & GAMBLE'S RELATIONSHIP WITH CONSUMERS AND THE COMMUNITY

Procter & Gamble is committed to improving the lives of the consumers and communities in which we live and work. For nearly 40 years, Australian consumers have trusted that when they buy Procter & Gamble products, those products will meet their needs from the very first use, and they work. We cherish the trust that Australian consumers place in us.

Despite significant supply chain disruptions that all companies faced during the Covid-19 pandemic, we continued serving Australians who counted on Procter & Gamble brands, and we stepped up to help communities with their health and hygiene needs.

In addition, Procter & Gamble Australia has proudly supported Foodbank, Australia's largest food relief organization for more than 20 years. In fiscal year 2023, Procter & Gamble donated over 40 tons of our household and personal care consumer products to Foodbank.

Procter & Gamble brands are uniquely positioned to help in times of disaster, bringing a sense of normalcy and confidence to those suffering from natural disasters. In recent years, Procter & Gamble provided support in response to the Covid-19 pandemic, Australian bushfires, and floods.

Procter & Gamble is proud of its relationship with Australian consumers and retailers and is committed to its service to this important market.

1 May 2024