

## Mars Australia Submission

Senate Select Committee on Supermarket Prices  
May 2024

Mars Australia welcomes the opportunity to make a submission to the Senate Select Committee's Inquiry into Supermarket Prices.

We know grocery prices are a major concern for the millions of Australians experiencing cost of living pressure. Therefore, we recognise the responsibility that comes to continuously work with our customers to deliver value to consumers.

We have a long and proud history of manufacturing products in Australia for Australians, with a diverse portfolio of confectionery and snacking, food and pet care products. Over 90% of our Australian products are manufactured in Australia and sold locally.

Mars Australia is part of the global privately held Mars Incorporated business, headquartered in McLean, Virginia, USA. Our brands can be found in nine out of ten Australian households and include BEN'S ORIGINAL™, DOLMIO®, EXTRA®, MARS®, MASTERFOODS™, M&Ms®, PEDIGREE®, SNICKERS® and WHISKAS®.

We currently operate at six manufacturing sites across New South Wales, Victoria, and Queensland and employ around 1,800 people directly. We are a proud and committed regional employer with most of our people based across our Ballarat, Wodonga, Bathurst and the Wyong manufacturing sites.

Over the past five years, Mars has invested around \$390 million in our Australian operations to grow our presence, secure and provide jobs, drive sustainability initiatives, innovation and technology developments and overall, contribute to Australia's food manufacturing sector and its sovereignty.

### Mars Australia's position

Mars Australia supports the Senate Committee's steps towards exploring the economy-wide factors that influence food inflation.

The complex issue of supermarket pricing has been well documented throughout the inquiry therefore our submission relates to the issues facing food manufacturers in Australia.

This includes the importance of operational viability for manufacturers to ensure the sector's long-term sustainability, the increasing cost of doing business in Australia and competitiveness for global investment, the cumulative effects of inflation across all manufacturing inputs and advocating for policy that improves the sector by promoting local investment and protecting suppliers.

As has been described throughout the inquiry, food manufacturers operate as part of a complex and interdependent supply chain that includes raw material and packaging suppliers, transport and logistic operators and retail partners, including supermarkets. The end price that consumers pay at the checkout balances costs and margins across this entire supply chain, sustaining all parties involved.

It is well documented the impact of cost pressures placed on these supply chains over recent years, including the COVID-19 pandemic, transport, energy and commodity price increases, workforce and skills shortages, wage growth and a volatile currency exchange rate. Overlaid with natural disasters and the conflict in Ukraine and other geopolitical pressures disrupting global supply chains, the combination of these factors (some unprecedented) has substantially increased costs across the end-to-end supply chain. This has invariably led to price increases for consumers at the checkout. It is not viable or realistic for suppliers to disproportionately carry the risks and costs that exist across the supply chain.

Mars Australia makes the following views and recommendations in response to the inquiry's terms of reference:

## The role of multinational food companies in price inflation

It is currently an exceptionally challenging operating environment for Australian manufacturers.

As referenced in the Australian Food and Grocery Council's (AFGC) submission, in the decade prior to the COVID-19 pandemic, the average CPI increase per year for food processing was 1.6 per cent per annum. Since 2020, the average CPI increase for products has been 4.4%. Furthermore, during this time, industry-wide profits have fallen, whilst capital investment has stagnated.<sup>1</sup>

For Mars Australia, our overall operating profit margin in 2023 was below 2020 levels, indicating that we are not profiteering through price rises. For some products, such as our Wrigley's gum range, we made the difficult decision to adjust prices for the first time in over a decade in response to the challenging operating environment.

Research completed for the AFGC, as noted in their submission, shows that supplier profit margins and returns on capital invested (including for multinational operations in Australia) measure below global peer equivalents.<sup>2</sup>

Profits are important for successful, sustainable businesses. Profits generated by Mars Australia allow us to maintain and pay higher wages including a 4-5% increase over the past 18 months for our manufacturing workforce. It has also helped secure global investment for Mars Australia, including the current \$100M+ wet-pouch facility being built in Wodonga, which will deliver 60 local jobs and additional benefits for the local economy.

Profits allow for reinvestment back into innovation, technology, sustainability initiatives and productivity gains, providing additional value to the Australian economy and community. It also ensures we can be competitive on a regional and global scale, to support international investment in local operations.

## Rising costs and its impact on inflation

While manufacturers have seen inflation slowing in some areas, offsetting the cumulative deficit of cost increases experienced over many years remains a challenge. Like many manufacturers, Mars Australia has faced increased pressure on input costs, experienced during and after the COVID-19 pandemic, driven by a range of factors (many of them global) including:

- Unfavorable \$AUD exchange rate, especially when purchasing international sourced commodities and product ingredients.
- On average, salary and wage inflation has been in the 3.5% - 4.0% range over the last 12 months.
- Volatility in energy pricing, with gas costs significantly increasing 106% (2022 - 2024) across all six Mars Australia manufacturing sites.
- Across Mars Australia, freight inflation has been severe, averaging an 11 per cent per annum increase over the last three years.<sup>3</sup> This trend aligns with findings in the AFGC's Supply Chain Disruptions Survey, where respondents reported a 78 per cent year-on-year increase in the cost of road freight and a 44 per cent increase for rail freight from 2021-22.<sup>4</sup>
- In terms of raw materials, we have also seen some unprecedented highs in ingredient costs needed to make our products. While we do expect these to reduce over time, for all Mars businesses, most commodities are still higher than pre-COVID. The below outlines some specific examples:

### Example of commodity per cent increases over four years, based on actual costs:

#### 4 years (Dec 2019-Dec 2023)

Tomatoes	170%
Rice	94%
Starch	72%
Sugar	58%

## Footer Notes

<sup>1</sup> As referenced in AFGC's senate inquiry hearing evidence - <https://www.afgc.org.au/industry-resources/sustaining-australia-food-and-grocery-manufacturing-2030>

<sup>2</sup> As referenced in AFGC's senate inquiry hearing evidence - [https://www.aph.gov.au/Parliamentary\\_Business/Committees/Senate/Supermarket\\_Prices/SupermarketPrices/Additional\\_Documents](https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Supermarket_Prices/SupermarketPrices/Additional_Documents)

<sup>3</sup> Source: Mars Annual Financial Reports 2020-2023. In addition, Transeco Road Freight Cost Indices show both linehaul and shorthaul cost movements have increased by 26% December 2023 vs Dec 2020 in Australia.

<sup>4</sup> As referenced in AFGC's senate inquiry hearing evidence - this was released to members and is not currently publicly available.

- On Cocoa specifically, global prices have risen more than 150% over the past 12 months (from \$2,657 USD to \$11,722 USD per tonne) reaching the highest level in 50 years. The El Niño weather phenomenon has been causing drier weather in Africa and South America, which are the world's two biggest producers of cocoa beans driving price-up.
- Sugar prices have risen to an 11-year high recently, driven by demand and weather outlooks.
- Purchased wheat gluten has increase over 50% with Russia placing export taxes on its wheat exports which has led to manufacturers paying more for the wheat they use for gluten production. This has led to an overall increase in protein market pricing throughout different regions worldwide.<sup>5</sup>
- Purchased poultry meal and fats for Mars pet foods have increased 30%, driven largely by strong and growing Biodiesel demand. High input costs in the Australian poultry industry on raw materials, labour and supply chain constraints have also increased price.

Mars Australia has absorbed most costs back into our business, only passing on a proportion of increased costs through pricing adjustments, when we look on average across all of our categories.

Price adjustments remain a necessary tool for suppliers to manage rising costs (many of which are out of the control of industry) while ensuring continued product availability and financial viability. Suppliers provide a recommended retail price (RRP) and maximum promotional price for products, noting the ultimate shelf price is set by the retailer.

## **Market concentration and corporate power on the price of food and groceries**

Competition plays a critical role in any industry. It drives increased investment, encourages research and development, promotes innovation, leads to fair prices, higher quality, consumer choice, and ultimately provides a catalyst for economic growth.

As a brand owner in Australia, Mars operates in a highly competitive environment. If you walk down any supermarket aisle – whether Petfood, Chocolate or Cooking Sauces – you will see hundreds of products across multiple brands which offer the consumer a varied choice on what they buy.

These products can be made by other multinational companies, smaller companies or even private label products. This competition is a critical part of our operating environment and holds us to account – companies cannot simply make products more expensive, as consumers would turn to competitor offerings which they felt offered more value for money. Companies need to maintain volumes to keep scale, that allows for offsetting operating costs and achieving margin.

It is fair to state that there is less diversity in the retailer landscape than the supplier landscape. Factually, Coles and Woolworths have a larger market share within the supermarket sector, than other retailers such as Aldi, Costco, Amazon and IGA/Metcash. This is one of the reasons why Australia has a grocery landscape which is distinct when compared to the UK or the US. What is true across any market globally though, is that all players involved will be striving to be the retailer of choice with consumers and win them into stores or online. This is not unique, or indicative of misconduct.

The Australian retailer landscape does create a unique operating context to operate within. Any significant disagreement with one customer can have a significant impact. A challenge with one major retailer can impact a proportion of a business, and a challenge with two major retailers can impact the whole business. This context is one of several dynamics at play in any commercial negotiation but heightened due to Australia's retailer landscape.

Mars Australia has long-standing, successful partnerships with all our retail customers built on conducting our business relationship in a fair and equitable manner. Negotiations can be robust, however, generally these are largely healthy mechanisms in which Mars Australia and supermarkets achieve alignment, with value to the consumer a shared objective.

### **Footer Notes**

<sup>5</sup> Based on Mars Australia financial actuals.

## Improvements to the regulatory frameworks that add value

We support the ACCC's current review of the Food and Grocery Code of Conduct and Inquiry into Australia's supermarket sector examining the pricing practices of the supermarkets. Both vehicles will likely identify outcomes that will benefit the whole supermarket sector.

We note Dr Craig Emerson's Food and Grocery Code of Conduct Review interim report recommendation, that the current code be made mandatory. Mars Australia supports this, if endorsed by Government. Mars Australia works today with retailers based on this code in good faith with its intent to build trust, improve standards and conduct, which we believe the current voluntary code achieves today. If making the Code mandatory further improves trust and transparency across the sector, we view this as a positive step.

We also support further steps to strengthen the dispute resolution process in the Code, especially based on evidence from some suppliers on fear of retribution being a major obstacle to the use of the Code today. This includes supporting the recommendations in the interim report, to strengthen protections for complaints including new channels for making informal complaints and access to independent dispute resolution.

Regarding the ACCC's current inquiry into Australia's supermarket sector, we look forward to understanding recommendations and outcomes when publicly released and welcome the opportunity to participate.

## In conclusion

We again reiterate the challenges facing Australian manufacturers, with increased costs driving declining margins and stagnating investment, resulting in a currently unsustainable period for the sector.

Australia is known as an expensive place to manufacture food products locally. Our Mars Australia manufacturing sites are among the most expensive in the global Mars network, this attributed to wages, cost of local raw supplies and lengthy supply chains to reach Australia with imported materials and ingredients.

Suppliers rely on profits to fund further investment in their operations and increase productivity. The AFGC inquiry submission outlines, how investment in the sector has been languishing for the past decade, with the sector's compound annual growth rate for turnover being 4.8 per cent over the last five years and capital investment seeing a 0.3 per cent decline.<sup>6</sup>

Without increased investment in the sector, Australian food and grocery manufacturers will find it increasingly challenging to compete with imported products, with increased risk of production moving offshore.

In order to continue to proudly make Australian products, the sector needs innovation and investment to make sure we can continue to have an Australian food industry that is competitive globally – from farmers and brands, to retailers and consumers.

The strategic partnership between Australian retailers and suppliers is key to supporting Australian manufacturing and jobs, balancing the necessity of profit for sustainable business while delivering value to Australian consumers.

Mars Australia encourages the Australian Government to work towards policies that include investment tax incentives, increased domestic private/public partnerships and investment into job creation. These are all areas that will deliver domestic manufacturing growth, capability, and productivity to boost the sector's competitiveness and resilience into the future.

## Footer Notes

<sup>6</sup> As referenced in AFGC's senate inquiry hearing evidence - <https://www.afgc.org.au/industry-resources/sustaining-australia-food-and-grocery-manufacturing-2030>