



1 May 2024

Ms Sarah Redden
Acting Committee Secretary
PO Box 6100
Parliament House
Canberra ACT 2600
By email: supermarketprices.sen@aph.gov.au

Unilever Australia welcomes the opportunity to provide a submission to the Select Committee's inquiry on price setting practices and the market power of major supermarkets.

Australia's food and grocery manufacturing sector makes a substantial contribution to the Australian economy and is vital to the nation's future prosperity. As a major food, homecare and personal care manufacturer in Australia, we want to see Australian manufacturing continue to prosper through continued investment and innovation. Profitability of the sector is essential for all businesses and retailers across the supply chain to enable ongoing reinvestment in local operations.

Please see below the Unilever submission based on the Terms of Reference, as well as answers to questions on notice from Senator Louise Pratt.

General/Profit

Unilever is one of the world's leading suppliers of Beauty & Wellbeing, Personal Care, Home Care, Nutrition, and Ice Cream products, with sales in over 190 countries and products used by 3.4 billion people every day. We have 100,000 employees and generated sales of €59.6 billion in 2023.

Unilever key brands in Australia include Dove, Rexona, Lynx, Vaseline, OMO, Surf, TRESemmé, Continental, Weis, Ben & Jerry's and Streets. We employ over 900 people in our Australian business, across head office, state / regional sales offices and three local manufacturing facilities. Our manufacturing facilities are located in Minto and North Rocks, NSW as well as Tatura in regional Victoria. We are proud that more than 70% of Unilever products sold in Australia are locally manufactured.

Unilever's history in Australia dates back to the late 1890's, when Lever Brothers opened the first Sunlight Soap manufacturing facility in the southern hemisphere in Balmain, NSW. Since then, we have established strong relationships with our Australian consumers, suppliers and the retailers and businesses who sell our products.

We refer to all retailers as our customers. We have over a thousand customers - including Australia's largest retailers; discount retailers, pharmacy; foodservice, petrol & convenience



stores, entertainment destinations including theme parks, cinemas, and zoos; right through to smaller, family-owned retail businesses. We work in close partnership with our customers. We are continually investing into product innovation, brand marketing and packaging of the future, which in turn helps our retail partners to build their businesses.

Our global Underlying Operating Margin (UOM) in 2023 was 16.7%, with an operating profit of €9.8 billion. Please refer to our 2023 [Annual Report](#) for more detail on the latest 12 months. Our global 2023 UOM is lower than the reported UOM in 2019 of 19.1%. Our Australian operations deliver a lower absolute profit than our global organisation. Locally we have seen a modest increase in profitability since 2019, driven by a significant shift in portfolio* and other restructuring programmes largely over the period of 2019-2020. Over the last 3 years (2021-2023) profitability in Australia has seen a marginal decrease.

*The shape of our Australian business and portfolio of brands has changed considerably in the past five years. In 2019, we transferred our Lipton iced tea ready to drink tea business to a third party, and our household cleaning business is now managed by another Unilever division outside Australia. Globally, the spreads margarine business was sold in 2018 and more recently, in 2022 our global hot tea business was sold. We also recently separated and sold some of our portfolio of Personal Care brands.

Price Setting

The significant pressures faced across the whole food and grocery supply chain in recent years – including the pandemic and its aftermath, raw material inflation, energy prices, shipping and logistics disruption, increased wage costs and managing the impact of regulation have created an inflationary impact on grocery prices. These factors significantly impacted costs and uncertainty in an unprecedented way for Unilever, our competitors and our suppliers.

Although we have tried to absorb as many of these additional costs as we can, inevitably some of these have been passed on to our customers, the retailers, who in turn have reflected these increases in their on-shelf pricing. Although some of these cost increases were temporary – particularly those relating to the pandemic – others have been more enduring.

Ingredient inflation is one area where input costs have risen considerably in the last three years. For example, Unilever commenced local manufacturing of Hellmann's and Best Foods retail-size mayonnaise at Tatura, Victoria in 2023. These products were previously imported. Two key ingredients within mayonnaise which saw significant inflation since 2019 were canola oil and eggs.

Aside from ingredient inflation, other input costs which have increased significantly since 2019 in Australia include:

- **Wages** have increased across the board by **13.3%** since the start of 2019 and will continue to increase with July 2024 increases in the award and superannuation.



- **Trucking and Road Freight** has also increased since 2019 by **14.4%** mostly due to the increased fuel costs, toll increases, wages and truck shortages.
- **Electricity** has increased by up to **9.6%** since the start of 2019 due to coal and gas supply as well as an international shortage in fossil fuels. The Australian Energy Regulator has declared that prices will surge even further from 1 July 2024 by **20.8% to 23.9%**.
- **Manufacturing and Warehousing** have increased by **29.5% and 16.4%** respectively since 2019 due to rent increases, wages and energy.
- **Natural gas** has increased by more than **54.6%** since 2019.

Often the list price increases on products do not recover all of the costs incurred as a result of ingredient and other input cost inflation. We are very conscious of the continued pressure on consumers, which is why we look for savings within our business or other levers we can pull – such as mix, promotions, pack sizes and ingredient changes (for same quality and performance).

Price Changes

In the 12-month period to December 2023, the average percentage list price change (the amount paid by our customers for Unilever products) increased by 6%. Over the last 5 years, there has been a 17% average list price increase of our products, which is similar to data provided by the Australian Bureau of Statistics which highlights prices for food and non-alcoholic beverages increased in Australia by 18.8% over the last four years. Our average list price increase across all products in the past decade is 17%, highlighting the specific impact of the past 5 years – that is, all of the price inflation on our portfolio from the past decade has occurred in the past 5 years.

Unilever products which have seen the largest percentage increase in list price (the price paid by our retail customers) in Australia over the previous 12 months to December 2023 are Continental Cup A Soup Sensations (2 serve); Continental Cup A Soup Value Pack (2 Serve), Surf Laundry Liquid 1L, Blue Ribbon 2L and Omo Laundry Powder 1kg. While these products have seen the largest percentage increases in list price in the past year, many make up value offerings within a broader portfolio that has multiple tiers to offer consumers access to a variety of products at different prices per unit.

In the same time period, the following products have experienced the largest percentage decrease in list price: Paddle Pop Multipack 10, Cornetto Mini Multipack 6, Splice Multipack 6 and Rexona 40mL Roll On Deodorant.

Price differences – Australia and overseas

The price and product mix we sell to Australian retailers varies by category and market. As a global company with a global supply chain, there are many factors contributing to the cost of



our products including raw material inflation, energy prices, foreign exchange, shipping and logistics disruption, increased wage costs and managing the impact of regulation. We're fully focused on maintaining the affordability of our products in the context of cost inflation across the supply chain.

Given the complexity of our portfolio and volume of products we produce across a range of markets, it is not possible draw an average percentage difference in cost of our products in Australia versus other markets. Recently, we did conduct a comparison of the recommended retail price of a range of our best-selling products in Australia compared to New Zealand, and the average basket price was comparable.

Product Size

Cost-of-living pressures have seen a shift in consumer behaviour, with more now seeking out value alternatives, smaller baskets and own label products in some categories. We operate in competitive categories, and our products face competition from other brands and supermarket own-label alternatives. We work closely with all our retail customers to ensure that we have a range of products on offer at different sizes which suit shoppers with different household incomes. Often, hitting a particular price point is important to consumers so it can make sense in some cases to reduce a pack size rather than prices going up. Pack size is one of the levers we can pull but it is not the only one.

It is important to provide value across our range of products in order to meet the needs of different consumers. This is termed 'price tiering' which means offering a range of products at different price points so that consumers have the choice depending on their needs and budget. Rexona's aerosol range of deodorants provides a good example of this with three key formats across different price points that offer various levels of sweat and odour protection. The Base range (250mL) is our everyday offer which provides 48 hour sweat and odour protection. The Advanced range (220mL) is priced at around 1.1 times the base range and is for active days – offering 72 hour sweat and odour protection. The Clinical range (180mL), priced at around 1.4 times the base range, is for heavy sweaters and provides 96 hour sweat and odour protection. Similar tiering exists in other markets across the world, and in our other categories such as laundry, haircare, cup-a-soup and ice cream to give consumers a variety of choice based on their needs and budget.

Negotiating with Australian retailers

Each major retailer has a slightly different process for reviewing supplier cost price increase requests. Some retailers require only notification, while others require justification in the form of a template which assesses publicly available commodity costs for things like ingredients, packaging, international freight and utilities to justify the proposal. Increases in costs from warehousing, local transport/logistics, manufacturing or wages are not considered as justification by some retailers, however we know that these are critical and very real cost



pressures throughout the supply chain, and as such they do form part of the rationale in our choosing to adjust list prices.

New list prices are loaded into the Unilever system (SAP) and all customers are able to purchase products at the same list price. The majority of our customers order through “EDI” (Electronic Data Interchange) which is an automated process linking the Unilever system with the retailers system. Other customers who are not set up for EDI ordering will send orders manually via email through to our Customer Service team, which are processed through an automated tool called NEO.

There is only one list price per product, which means all retailers purchase goods from Unilever Australia at the same list price. Retail prices (the price seen and paid for by the shopper) are always at the sole discretion of the retailer. The price comparisons Unilever has provided above with respect to percentage increases and decreases in our portfolio, refer to the list price rather than the retail price.

We note from Senators’ questions at previous hearings, that the Select Committee is interested in how consumer sales data is obtained. All major retailers make the data available to purchase through their data partners. Data is purchased on a category basis via third party providers such as NielsenIQ, Quantum, Circana and Synergy.

We acknowledge the importance of the ACCC Supermarkets Inquiry which commenced earlier this year, with a final report to be prepared for the Treasurer by 28 February 2025. Unilever also acknowledges the recommendations within the April 2024 interim report on the Independent Review on the Food and Grocery Code of Conduct. Should the code become mandatory, Unilever supports the requirement of an independent arbiter of the code.

Kind regards,

Nick Bangs

Head of Country - Unilever Australia