



Good food, Good life

Nestlé Australia Ltd  
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29 April 2024

Ms Sarah Redden  
Acting Committee Secretary  
Senate Select Committee on Supermarket Prices  
By email [supermarketprices.sen@aph.gov.au](mailto:supermarketprices.sen@aph.gov.au)

Dear Ms Redden,

Thank you for your invitation of 22 April 2024 for Nestlé to appear before a public hearing of the Senate Select Committee on Supermarket Prices on 29 April 2024.

We are keen to support the work of the committee, however a number of key members of the team are currently on leave. This includes Sandra Martinez, Chief Executive Officer, who is currently on leave and travelling outside Australia. While we worked hard to find a way for appropriate representatives of our company to be available to appear before the committee on 29 April, either in person or remotely, we were not able to do this. We appreciate the opportunity to provide written evidence instead.

## **1. Nestlé in Australia**

Nestlé has a long history in Australia, going back to the 1800s, with a long term focus on creating value locally.

We opened our first Australian factory in 1911, and have been manufacturing locally ever since, with six factories operating today. Currently, we directly employ around 4000 people around the country, and in particular, are a key employer in the regional towns where we have factories: Gympie in Queensland, Blayney and Smithtown in New South Wales, and Wahgunyah and Broadford in Victoria.

Manufacturing locally means that we also source many ingredients and raw materials domestically. Grains including wheat, oats and barley, animal proteins used in pet food and sugar are among our Australian-grown ingredients. Local manufacturing also gives us the capacity to adapt our products to meet the tastes and lifestyle needs of Australian consumers.



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We have an increasing focus on sustainability, as we work towards the goal of reducing our emissions by 20% by the end of 2025, 50% by 2030 and reaching net zero emissions by 2050. To that end, in Australia we are now using renewable electricity in all our operations, have begun planting 10 million trees in partnership with Greening Australia, and are beginning work to help farmers who supply us to work on more regenerative practices. We have also made significant progress towards reducing our use of virgin plastic in packaging, and making our packaging recyclable, including a number of industry-leading innovations.

We recognise that the recent inflationary environment has been challenging for many Australians, and that the increases in food and beverages costs have contributed to cost of living pressures. We have continued to support Foodbank Australia in donating finished products to support those in need.

## **2. Where we sell our products in Australia: high reliance on major supermarkets**

Nestlé products are available through a wide range of retail outlets in Australia. This includes supermarkets, pharmacies, convenience stores, petrol stations, discounters, pet stores, vets, wholesalers and online.

While many of our products are well known to Australian shoppers, we also have product ranges that are not sold in supermarkets. These include some that are not suitable for sale in supermarkets, such as our professional food service business and highly specialised medical nutrition range.

While Nestlé serves a breadth of retail outlets in a diverse range of product categories, more than 60% of our revenue is from sales to Australia's two major supermarkets: without their support of both our existing products and the new products we develop, production in Australia would no longer be sustainable for Nestlé.

## **3. Local manufacturing is core to our business: stability is critical**

We are highly dependent on our local manufacturing network, with around 80% of our products (by weight) made in Australia. Most of these are made in our six factories; in addition, we work with 15 other Australian manufacturers and packers which have manufacturing capabilities that complement our own.



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While we produce primarily for Australian consumers, we also export to other Nestlé affiliates, primarily to New Zealand, the Pacific, Japan and South East Asia. Last year, this accounted for approximately 10% of our revenue.

Running cost-effective local manufacturing that keeps products on shelf at affordable prices and with consistent quality requires some level of certainty and a high level of stability. This includes stable supply of raw ingredients and materials, stable access to transport and other logistical services, access to skilled labour and certainty of demand. The Covid period – which saw increased and unforeseen consumer demand in retail sales, disrupted supply chains, including disrupted shipping, ports, local logistics and access to raw materials, as well as challenging labour management due to absenteeism and the safety measures we adopted to protect our teams – serves to illustrate the impact of instability at scale. Simply put, when running local manufacturing operations, the impact of unexpected costs or demand decline is high and cannot be easily absorbed.

Local manufacturing is also dependent on our ongoing investment to ensure local factories remain both productive and competitive, able to optimise capacity, efficiency and product volume. This is important for the longer-term competitiveness and success of the business, and will save costs in the future, even if it means increased costs to the business in the short-term. For this reason, we continue to invest in our factories.

For example, we are currently working on a \$32 million upgrade of our factory at Smithtown, on the NSW mid-north coast, to upgrade *Milo* manufacturing and introduce state-of-the art manufacturing technology which will support increased production capacity. The project is estimated to inject an estimated \$20 million into the local economy and support almost 200 jobs during the construction period.

Without this investment, in time the factory would become unviable as equipment ages, and both the manufacturing capability and the jobs would be lost to Australia. However, as manufacturing equipment of this nature is expected to last many years, having the confidence to invest rests on confidence in long term future demand for our products, and therefore on the ongoing support of Australian retailers.



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These are pressures shared by all manufacturers, regardless of size. It is important to note that while food manufacturers may export some products, food manufacturing does not lend itself to agile redirection of overstocked finished products as might be the case with some other goods. Food regulations, labelling regulations and import regulations, together with the perishable nature of the products, mean that accessing other markets with products made and packed for consumption in Australia is extremely difficult, for both those within a group of affiliate companies like Nestlé, and for smaller companies.

#### **4. Pricing pressures on Nestlé in Australia**

The huge spike in inflation we have seen over the last 18 months has presented the whole food sector with a significant challenge.

We operate in a competitive market, where we always want to provide value for our customers and consumers. Huge increases in input costs, friction and adjustments in global supply chains post-covid, the impact of climate change on farming, and the consequences of global conflicts and instability have all contributed to the tremendous pressure throughout the food system, leading to the problems we have today. We like others want to see inflation fall again.

Like everyone else, Nestlé has been affected by cost inflation.

We have seen significant and prolonged cost inflation in many areas related to supplying and producing food and drinks, including our ingredients and raw materials, packaging, transport, labour and energy.

We are continuing to work hard to reduce the impact, taking many steps to find opportunities within our business to find savings and absorb cost increases. We have not passed on the cost increases in full.

While the Committee has heard evidence that inflation has come off in some areas, it is important to appreciate that this varies for different inputs. For example, the prices of some of the ingredients that are significant to the largest product ranges in the Nestlé business in Australia, cocoa and robusta coffee, have continued to rise into 2024 and are reaching time highs. For example, cocoa beans have increased 200% since the start of the year, off the back of already record prices.



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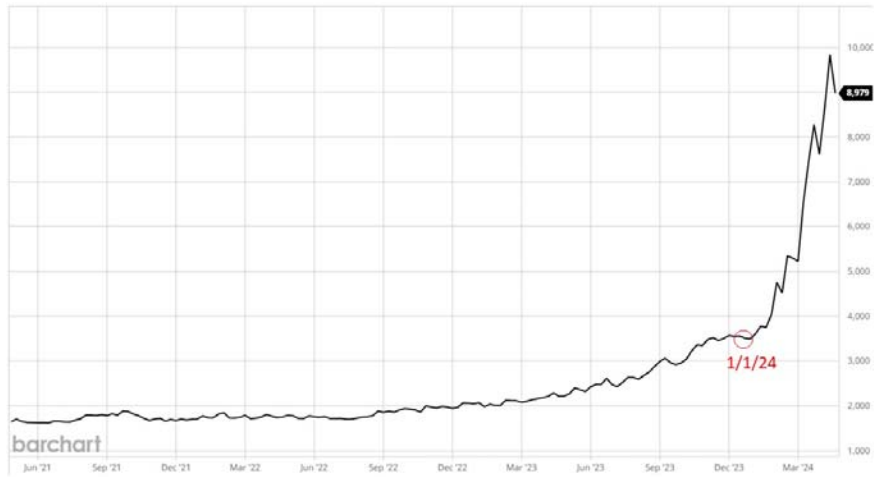
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### London Cocoa Futures,

GBP/MT, 1/5/21-26/4/24



### Robusta Coffee Futures

USD/MT, 1/5/21-26/4/24





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## **5. Nestlé Australia profit margins**

Nestlé Australia works to an end-December income year, reporting its financial results to ASIC annually.

Our 2023 report illustrates that we have not passed on cost increases in full.

In 2020, 2021 and 2022, the net profit for Nestlé Australia as a percentage of sales has been consistent at mid-single digit levels, falling more than 30% last year. This was on the back of increasing sales – but our costs increased even more.

## **6. Our approach to how we price**

Nestlé has a set cost price list for all our products which applies to all of our customers. Retailers are completely free to set their own base and promotional pricing and actively do this to drive value messages for key products, including some Nestlé products.

Increasing cost prices is not something we take lightly, nor is it an easy process. There are a number of considerations we take into account:

- In light of the cost of living challenges faced by so many, we want to keep our products both affordable for shoppers, and competitively priced at the shelf.
- We want to be uncompromising on our ingredients and manufacturing to ensure the safety, quality and taste of our products.
- We want to pay fair prices to all our suppliers, including farmers and small companies.
- We want to ensure our ingredients and raw materials are sourced in ways that are both socially and environmentally sustainable, and our operations and packaging are increasingly sustainable.
- We want to pay competitive wages to employees.
- And as we well, we want to cover our costs and make a reasonable return.

All of this must be done in a manner that is respectful of everyone involved.



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Our approach to pricing must also take into account retailer strategies which often centre around value. At their sole discretion they compete with one another by offering competitive deals both across brands and through their own label products.

When we have had to increase cost prices we have been very mindful across our categories on the value offering and how we can offer the best possible value and offer promotional activities that are meaningful to our customers. This is reviewed constantly as we want to ensure that our strategies to our customers can offer a sustainable value offering in the context of extraordinary input cost pressures.

Pricing a product too high is also not in our interest, as it risks our relationship with retailers and shoppers, and in turn, demand for our products and the stability of our manufacturing, and can impact the viability of capital investments made in our manufacturing.

- **Supermarkets** compete on price, so will always want to buy and sell at the best price possible: pricing negotiations are a normal part of doing business. We also invest significantly into retail price promotions via supermarkets which help provide value and significant discounts on our brands through nearly all retailers and channels. We fund these discounts regularly, so that our brands are regularly available to consumers on special or have a value offering in one of the retailers.
- **Consumers** have significant choice – not just between premium brands, but also with retailers' own-brand products, as well as with the growing number of other channels through which they can meet their needs for food and beverages. This means we drive efficiencies to keep prices as low as possible, as we cannot afford to be complacent.

## 7. Food and Grocery Code of Conduct

The application of the Food and Grocery Code of Conduct has continued to evolve over time, and we welcome the recent Interim Report of the Food and Grocery Code of Conduct Review.



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As both suppliers and retailers have developed a good understanding of its use, and use the principles of the Code and a common language/framework, since its introduction the Code has helped generate constructive relationships between retailers and suppliers with swifter resolutions where there is disagreement.

We welcome improvements that promote good faith, clear understanding and fairness between suppliers, regardless of their size, and retailers or wholesalers.

### **Conclusion**

Thank you again for the opportunity to provide this information.

Yours sincerely

A large rectangular area that has been redacted, obscuring the signature of Margaret Stuart.

**Margaret Stuart**  
**Director, Corporate Affairs & Sustainability**