

# TRANSCRIPT

## LEGISLATIVE COUNCIL LEGAL AND SOCIAL ISSUES COMMITTEE

### Inquiry into Food Security in Victoria

Melbourne – Wednesday 21 August 2024

#### MEMBERS

Trung Luu – Chair

Ryan Batchelor – Deputy Chair

Michael Galea

Renee Heath

Joe McCracken

Rachel Payne

Aiv Puglielli

Lee Tarlamis

#### PARTICIPATING MEMBERS

Melina Bath

John Berger

Georgie Crozier

David Ettershank

Wendy Lovell

Sarah Mansfield

Richard Welch

**WITNESSES** (*via videoconference*)

Paul Harker, Chief Commercial Officer, Woolworths Group; and

Adam Fitzgibbons, Head, Public Affairs, Coles Group.

**The CHAIR:** Welcome back to the Inquiry into Food Security in Victoria. Joining us for this session are Mr Adam Fitzgibbons, Head of Public Affairs at Coles Group, and Mr Paul Harker from Woolworths Group. Welcome, gentlemen.

Before I continue, I will quickly read this information to you regarding the evidence you are going to present to us this afternoon. All evidence taken is protected by parliamentary privilege as provided by the *Constitution Act 1975* and further subject to the provisions of the Legislative Council standing orders. Therefore the information you provide during this hearing is protected by law. You are protected against any action for what you say during this hearing, but if you go elsewhere and repeat the same things, those comments may not be protected by this privilege. Any deliberately false evidence or misleading of the committee may be considered a contempt of Parliament.

All evidence is being recorded. You will be provided with a proof version of the transcript following the hearing, and transcripts will ultimately be made public and posted on the committee's website.

Before I introduce the committee to you, could you please state your full name, your position and the group you are with. Paul, do you want to start?

**Paul HARKER:** Yes. I am Paul Harker. I am the Chief Commercial Officer at the Woolworths Group.

**The CHAIR:** Thank you, Paul. Adam.

**Adam FITZGIBBONS:** I am Adam Fitzgibbons, Head of Public Affairs at Coles Group.

**The CHAIR:** Thank you, gentlemen. I will quickly introduce the committee to you. I am Trung Luu, Chair. Beside me are Mr Ryan Bachelor, the Deputy Chair; Mr Aiv Puglielli; Dr Renee Heath, as you can see on the screen; and also on Zoom joining us, Ms Rachel Payne and Mr Lee Tarlamis.

Thank you again for joining us, gentlemen. I know we have got your submissions, but I would like to open up for you to make a quick opening statement before the committee asks some questions. Paul, do you want to start?

**Paul HARKER:** Thank you, Chair. Woolworths has a long and proud history in Victoria, having opened our first store on Bourke Street in 1933. Today we are proud to be a significant private employer in the state, with over 40,000 Victorian team members, including 9400 team members in regional areas, working across our supermarkets, Big W discount department stores and also distribution centres.

At Woolworths we are acutely aware of the cost-of-living pressures on households and vulnerable Victorians. We know we have a key role to play in helping customers find ways to spend less on groceries and get the best possible value in challenging circumstances. We understand many of our customers are under immense cost-of-living pressure due to the combined impact of rising mortgage rates and repayments and rent alongside energy, insurance and transport costs. Grocery itself represents approximately 10 per cent of household income. Grocery prices have gone up by a compound annual growth rate of 6 per cent over the last two years. The key driver of grocery inflation is the higher prices we are paying to our suppliers, who are facing higher costs to grow, make, move and package products. Importantly, food inflation in Australia and at Woolworths has moderated. In fact we have experienced deflation in financial year 2024.

Throughout this recent inflationary period we have taken and continue to take steps to provide affordable grocery products for all Victorians. These include offering our own brand products at everyday low prices across pantry essentials, compelling weekly specials and including a best unit price search filter on our digital platform and on the Woolworths app in in-store mode. Our own brands offer affordable and healthier products for our customers which are on average 30 per cent cheaper than branded equivalents. One of the ways we provide consistent value for customers is through our national pricing strategy for packaged groceries, which

are sold at the same retail price in Woolworths supermarkets across Australia. Importantly, this means that regional customers benefit from competitive pricing, as we largely absorb the cost of distributing groceries to stores in rural and remote locations. Our everyday low prices specials programs are offered consistently across the country.

In the 2023 financial year in Victoria we donated \$11.5 million worth of food, which is the equivalent of more than 6 million meals, to food relief programs. This is in addition to the \$300,000 worth of food donated directly to local school breakfast programs and the 5.9 million pieces of fruit given away through our free fruit for kids program in stores. We have largely provided \$75 million worth of food to hunger relief partners across our network in Australia and New Zealand, and we have also contributed over \$7 million in financial aid to the same key relief partners.

Our success in the last 100 years – and indeed in the years that lie ahead – has been based on balancing a strong focus on providing real value for our customers, meaningful employment for our team and treating our suppliers and stakeholders fairly. In recent times there has been an increasing focus on the relationship between retailers and suppliers. Woolworths was a founding signatory to the Food and Grocery Code of Conduct, which is overseen by the ACCC, which governs our relationships with suppliers. On this I would like to make three key points very clearly here today. Firstly, we consider compliance with the code to be the minimum standard for our supplier engagement. Secondly, we believe there needs to be greater education of suppliers particularly in the fruit and vegetable industry of their rights within the code, and we publicly commit to doing just that with all our suppliers to our business. And thirdly, we support the code becoming mandatory with penalties attached, so that where there is behaviour in any part of the industry that is not in keeping with the code, this is treated as unacceptable and penalised.

At Woolworths we seek to be the long-term partner of choice for suppliers, and in Victoria we work with some 800 suppliers right across the state. In the last financial year we purchased some \$10 billion worth of goods from them. In many cases we have worked with Victorian growers for very long periods of time. An example is Kalafatis Fresh Produce in Shepparton, where our relationship spans more than five decades. Today the company has more than half a million fruit trees across more than 800 hectares of orchards, and it was a recent recipient of the Woolworths organic growth fund grant to establish orchard infrastructure to produce organic pears and plums.

We are part of a highly competitive, efficient and innovative grocery sector. Independents make up 46 per cent of all supermarkets in Victoria. IGA has the highest number of stores in the state of any supermarket. Victoria has the highest representation of Aldi stores in the country, and the space is experiencing a strong and growing presence from some of the largest global retailers in Costco and Amazon, with Amazon, for example, competing with us directly on 6500 everyday needs products. In the past 12 months 87 per cent of Woolworths' Victorian customers also shopped at another supermarket. In fact at least one in five shopped with another grocery retailer the same day they visited a Woolworths supermarket. Consumers have ever more choice, and we believe this is a good thing. In this context it has never been more important to be price-competitive. It is critical in trying to win our customers' shopping basket, which we need to do on a daily basis.

Grocery retail more broadly is a high-volume, low-margin sector, and Australia has one of the most efficient and productive grocery sectors in the OECD. We make a reasonable profit – around 3 cents in the dollar – and much of that goes back to Australian households in the form of superannuation and dividends. We also make considerable investments back into our business so it is more resilient, innovative and efficient. I look forward to answering any questions the committee might have. Thank you.

**The CHAIR:** Thanks, Paul. Adam, would you like to make an opening statement?

**Adam FITZGIBBONS:** Sure. Thank you very much, Chair. For more than a century Coles has been an important part of the Australian community and economy, opening its first store in Smith Street, Collingwood more than a century ago. We proudly employ 120,000 team members, operate more than 850 supermarkets and 960 liquor stores nationally and process more than 17 million customer transactions each week. In FY 23 more than 39,000 team members worked in our stores in Victoria across 228 supermarkets and 239 liquor stores. Nationally we partner with 8000 valued suppliers, many who have worked with us for generations – in some cases more than 50 years, such as Montague Farms in Victoria. And with our customers and team members, Coles donates millions of dollars to the communities in which we operate.

We spend a lot of time listening to and seeking to understand our customers. We know many of our customers are dealing with challenges and the rising cost of living. Thirteen consecutive rate rises have exacerbated the cost of mortgages and rents. It costs more to run the family car, with fuel prices continuing to increase. The cost of education, health care, insurance, energy and transport also continues to rise. At Coles we cannot influence these household expenses, but what we can do and what we do do is give customers the best value possible on their grocery bill while balancing this with paying our suppliers fairly and reinvesting in our business to keep it efficient.

As a customer-led organisation our customers expect us to continue to provide a choice of quality products across a range of value propositions to suit their budget and the needs of their household, and we are committed to providing this. This is something we remain very focused on, because we know if we do not, customers have many other alternatives from which to purchase their food and groceries. We cannot provide great-quality products to our customers without our suppliers and our team members. We are proud to be the retailer of choice for many suppliers to range their products, and a number of them, as we have said, have been working with Coles for generations.

Coles has an Australia-first sourcing policy, which leads to all of our Coles own-brand fresh beef, lamb, pork, chicken, turkey, duck, milk and eggs being sourced 100 per cent from Australia, as well as around 96 per cent of all of our fresh produce in store.

Our team members are the critical link between our suppliers and customers. They are working every day to bring great quality into our stores and to give customers a welcoming experience when they shop with us. We are proud that thousands of our team members have worked with us for more than 20 years and that we continue to give many young Australians their first job. We are proud to say that in Victoria roughly one in every 90 working Victorians is a Coles team member. We are also proud of how, together with our suppliers and logistical partners, our team members ensured the provision of food and groceries across Australia during the difficult COVID years.

At Coles we believe we have a very important role to play in the communities in which we operate. During financial year 23, we supplied the equivalent of 40.1 million meals of unsold edible food to food rescue organisations, such as SecondBite and Foodbank. We support well over a thousand charities throughout local communities to feed individuals and families suffering food insecurity. Last year Coles supplied the equivalent of more than 5.9 million meals to SecondBite and Foodbank to support Victorian community groups.

More than a hundred years after opening its first store, Coles continues to be a successful Australian business, contributing to the Australian economy and all communities. This is because we listen to our customers and respond to their changing needs. We strive to treat our suppliers fairly and invest in long-term partnerships with them, and we value our hardworking team members. I am happy to assist the committee with any questions today.

**The CHAIR:** Thank you, Paul, and thank you, Adam, for your opening statements. I will let my deputy start with a question.

**Ryan BATCHELOR:** I think Aiv probably wants to get his performance on the road.

**The CHAIR:** Aiv, do you want to start?

**Aiv PUGLIELLI:** Yes. Thanks for joining us today. I would like to ask a bit about dark stores, which are implemented by both of your companies. Just for context, for those that do not know what these are, these are reported as being normal supermarkets with aisles, a deli and a bakery, but instead of customers it is dozens of staff filling the orders. There have been reports, though, in different parts of the country that the conditions are not necessarily always like a normal supermarket. For example, the ABC gave an example in Sydney of a dark store where the working conditions inside hit 34 degrees Celsius, and in response staff were given cold neck ties. I understand in Victoria there is a dark store from Woolworths in West Footscray. I think there are seven dark stores that you have got as of June 2023 – happy to be corrected. Coles have two but are looking to develop six more. I understand there is also more and more implementation and automation within those stores – robots the size of dishwashers – to fulfil some of the tasks that are occurring there. How are community businesses or smaller players meant to compete with these kinds of tactics? Whoever wants to take it.

**The CHAIR:** Paul or Adam, do you understand the question?

**Paul HARKER:** I am happy to contribute. We have two CFCs in Victoria, which are customer fulfilment centres, that we operate. The conditions that you spoke about that have been reported are not in any of the facilities that we operate. They are actually high-class facilities, and they provide an important service to people who choose to shop online.

**Aiv PUGLIELLI:** Okay. So just checking: was that two CFCs in Victoria?

**Paul HARKER:** Correct.

**Aiv PUGLIELLI:** And dark stores more broadly – how many?

**Paul HARKER:** I do not know what you are referring to. A customer fulfilment centre is where we have a store that customers do not access directly but our team members obviously are personal shoppers for them. So we have two CFCs in Victoria.

**Aiv PUGLIELLI:** Right. And with respect to Coles, Adam, did you want to add something?

**Adam FITZGIBBONS:** Yes. Certainly the online offering that we have for customers is one that is very much valued by them, and it is certainly one that Coles is continuing to invest in. As you have pointed out, there are a number of ways that those orders are fulfilled. In some instances, they are team members walking the floor and shopping for those online orders in the same way that other people would go and do their weekly shop. There are stores, which you referred to as dark stores, where there are only team members in those stores. We are also investing in the Ocado partnership in Truganina, where we will have a dedicated warehouse that is exclusively focused on providing online orders in a very efficient way. What that actually addresses is one of the biggest concerns a lot of customers have around online deliveries, which is substitutions as well as ranging. Having that facility in Truganina will effectively reduce our substitutions to near zero in most instances and also provide for better services and more efficient online delivery for those customers. As I said in my opening statement, we are a customer-led organisation, and that is why we are moving down that path.

**Aiv PUGLIELLI:** Yes, you did make that point. Just a further question – I went shopping, and I bought a product that both of your supermarkets sell. Just because you are on Zoom, to make it clear, it is the Perfect Italiano 450 gram Perfect Melt 4 cheeses. Do either of you want to take a swing at how much this costs for your supermarket? Adam.

**Adam FITZGIBBONS:** I do not have that piece of information specifically in front of me. As I am sure you can appreciate, we have 20,000 SKUs in store, but I am very happy to come back with that price.

**Aiv PUGLIELLI:** Understandably. \$7.50 in the case of Coles. How about for Woolworths?

**Paul HARKER:** I am happy for you to enlighten me. We have 27,000 products in our range. I do not personally know the price of every single product.

**Aiv PUGLIELLI:** No, all good. I am happy to – so \$9.50. I mean, in the case of Coles I remember that slogan of ‘Feed your family for \$10’. I mean, for \$7.50, what, is it a handful of cheese each and who knows what they are going to do with the remaining \$2.50? Pretty bleak. How much does a dairy farmer make out of these prices?

**Paul HARKER:** We do not source cheese from a dairy farmer. We source it from a processor, who obviously makes cheese.

**Aiv PUGLIELLI:** Sure, but the purpose of the question is: how much does a primary producer get paid out of that price?

**Paul HARKER:** Given that we do not have a relationship with the person providing the ingredients to the person who provides the product, I cannot answer that question.

**Aiv PUGLIELLI:** Can you give me an assurance that that person is paid well?

**Paul HARKER:** We hold our suppliers to an extremely high standard, and our trading terms and everything else would suggest that they have to abide by the laws. I think milk prices are a publicly reportable number and you can actually go and see it. It is the start of a new dairy year now, where all of the processors will have published the price that they are paying for dairy milk, so that is publicly available information.

**Aiv PUGLIELLI:** Right. And with respect to Coles, Adam, how much is the primary producer making out of that price?

**Adam FITZGIBBONS:** I could not comment on that actual specific product, but I do echo Paul's comments around the transparency of milk products through the dairy code. What I can say is that last financial year, of Coles' revenue of \$40.5 billion, \$33 billion of that was returned to suppliers for the cost of goods sold. And our margins last year were 2.57 per cent, so that would give a broad indication of the margins that we make across the business.

**Aiv PUGLIELLI:** Sure. My time has expired, but if possible, could you both take on notice to try and source information for me as to how much the primary producer would make with respect to that price?

**Paul HARKER:** Happy to take it on notice, but I actually think the law prohibits me compelling a supplier to share the make-up and the ingredients of their product. I do not know if I will be able to assist, but we will do what we can.

**Aiv PUGLIELLI:** Right. Thank you. How about for Coles – same answer?

**Adam FITZGIBBONS:** Yes, we will take that on notice. I understand the nature of the question, and so we will seek to provide an answer.

**Aiv PUGLIELLI:** Sure.

**The CHAIR:** Thanks, Aiv. Renee, would you like to ask anything?

**Renee HEATH:** Thank you so much for your submission and presentation. I just have a question: a lot of people are saying that if you break up the duopoly it would lead to more competitive behaviour and a reduction in price. What do you think about that statement – fair, reasonable, unreasonable, inaccurate, accurate? I should not have started giving words, but what are your thoughts?

**Paul HARKER:** I think in our opening statement I made it very clear around the fact that there are not only two places under which you can buy your groceries in this country. In fact, it is a highly competitive market. There are two full-service supermarkets and there is obviously a discounter in the market, which is actually a very good thing for consumers because it anchors private-label pricing in the market, and we compete heavily. There is a very large IGA network, particularly in Victoria, where nearly half of the stores in the state are actually independently owned and run. There is a very vibrant independent fresh food sector with independent grocers, butchers, bakers and the like, and of course we now have the likes of Bunnings, who are now also playing in the grocery non-food sector for consumers, and of course Amazon, which is one of the world's largest retailers. Amazon is competing with us on a daily basis, and they see Australia as a high-growth market for them, not just in non-food but also in shelf-stable food. I would disagree with the notion that there is not a lot of choice in this country. I think there is a lot of choice, and that is a good thing for consumers.

**Renee HEATH:** I do not know if you want to add anything, Adam?

**Adam FITZGIBBONS:** Yes, thank you very much. I just want to echo Paul's comments but also build upon them as well. We absolutely agree that there is a healthy level of competition within the sector and Australia, certainly comparable with countries internationally with a similar population size. I think there needs to be high degree of caution when considering policies of the type that you have described and caution against some of the unintended consequences. Coles has state-based pricing and in many instances national pricing. The reason that we are able to deliver that and ensure that those regional communities have access to groceries at the same price that capital cities enjoy is in large part because of our scale. If you start impacting the scalability of the business, it just means – say, for example, if you were to reduce the amount of stores that we operated, supermarkets operate on a very highly fixed cost base. It costs a lot of money to develop and maintain the supply chains that we actually have, and that cost is defrayed across a large number of stores. If you reduce

the number of stores, you do not likewise reduce the fixed cost base of the distribution network. What that actually leads to is, ultimately, fewer stores across which to defray the costs of operating the business. That can have unintended consequences that do impact regional communities, but it also can increase the cost of groceries more broadly.

**Renee HEATH:** I was going to ask about the scalability and about – of course I have a view on this – whether it does keep prices down. So thank you for answering that. If, for instance, certain political parties were to get their way, what would that mean for employees, for communities, for people that have had stable jobs and for the economy in general?

**Adam FITZGIBBONS:** I am happy to pick up on that. I think it is really difficult for us to speculate on exactly what the impact would be, because I think that there are a lot of challenges that need to be answered before we could respond to that. I think that speaks to who would actually purchase – was there to be a policy of divestiture, what would that actually look like and how would that be determined? I think all of those factors would factor into what the impact would be, but in the absence of any clarity it is hard to speculate.

**Renee HEATH:** I just want to ask about energy costs. I think it might have been you Paul that mentioned that growers are facing higher costs. Do you have a view on any policy conditions that would reduce those costs?

**Paul HARKER:** Thank you for the question. I am not an expert on energy policy. What I can say is that when cost of living impacts in this country, what we will hear from our customers and our suppliers and obviously experience ourselves is that the rising costs of energy are a significant contributor to either why prices are going up or why customers have less to spend in their weekly budgets.

**Renee HEATH:** Thank you. That is my time.

**The CHAIR:** Thanks, Renee. Michael, do you want to ask questions?

**Michael GALEA:** Thank you, Chair. Thank you both, Paul and Adam, for joining us. There has been lots of, I think it is fair to say, accepted commentary around grocery prices and the increases that we have seen. I know other colleagues have gone into some of the factors. I am curious to know from both of your perspectives: what impacts have the grocery price increases over the last few years had on the way in which customers are engaging with your team members? Specifically, have you seen any instances of increased customer abuse and violence towards your team members in stores?

**Paul HARKER:** I think we have shared that unfortunately a small number of customers sometimes vent their frustrations on our team members, which of course is completely unacceptable. It actually seems to be a very post-COVID phenomenon. Even before inflation started to come into play in a significant way we had started to see an increase in violence and aggression to team members, which is really disappointing considering the considerable efforts that our team members went to to keep everyone safe during COVID and to turn up to work every day and provide that tremendous service to people in difficult circumstances. But yes, unfortunately we have seen an increase.

**Michael GALEA:** Adam, would you agree with that?

**Adam FITZGIBBONS:** Yes. I would, regrettably, echo Paul's comments there as well. It is certainly a phenomenon that we saw rising during COVID and regrettably has not subsided in the way that we would like. As Paul said, the vast majority of people do the right thing, but there is a minority unfortunately, and even that to our mind is too much. We value the safety of our team members enormously and we have been working very closely with the SDA and the ARA to have legislation changed around the country to actually make it a specific offence to abuse or conduct violence against any of our team members, and we are very grateful to all those jurisdictions passing that.

**Michael GALEA:** Indeed. I am sure you are aware that Victoria has recently announced that we will be making similar legislation quite soon as well, and I am looking forward to seeing the engagement that both your companies in particular as some of our largest retailers but also others will have in that process. Other states are already engaging, as you will be aware – South Australia, Northern Territory and others. I would think it is fair to say as well for both of you even as customers you have seen the difference in stores over the

past few years. There is more – I am sure Coles has the same, but I know in Woolworths in particular there is signage about ‘Zero tolerance of aggressive behaviour towards our team’. Legislation is going to be a very big part of this in sending that message to the community that, I think as you said, Paul, essential workers got us through the pandemic and they kept our shelves stocked. What other measures have Woolworths and Coles implemented in order to keep your team safe?

**Paul HARKER:** There is a broad range of measures, and some of that involves technology. I think you will have seen in some stores we have body cameras. They are not always on, by the way, and normally a team member will highlight the fact that they are turning them on, but just having that available around our team members on their person acts as a deterrent. Knowing that their behaviour will actually be witnessed by other people is something that keeps people in check. There was also some work that was done with training. We have invested quite a lot in and are using VR training, which if you sit through it is actually quite confronting because we re-create some of the scenarios that our team members may have experienced. That is done through VR to make it more real for them, which helps them understand how to manage and control the situation and most importantly how to disengage and keep themselves safe, because we do not encourage our team members to try and arrest poor behaviour but if it escalates to remove themselves from the situation.

I would also say from a legislation point of view, correct me if I have got the jurisdiction wrong, but actually one of the jurisdictions has taken the steps of actually letting us act on our team members’ behalf when they are experiencing behaviour from individuals in a repeated way, in the sense that we can take out orders against that individual on our team members’ behalf, which also means that our team members do not have to go through the horrible scenario of trying to manage that outcome. I think that is something that we were very pleased to see, and I think that we have actually enacted that for a number of our team members. From memory I think it is the Australian Capital Territory that has led with the ability for us to act on our team members’ behalf and to ban repeat offenders from coming in and interacting with our team.

**Michael GALEA:** That is particularly good to know as we look towards those recommendations and, especially as that legislation is coming to Victoria, what some of those best practice models are that we can adapt here. Certainly from my conversations with retail workers, I would probably agree with both of you that it definitely hit a high point in COVID and has not really gone down from there, so I am very much looking forward to seeing that legislation come through. Chair, do I have much time left, or was that the buzzer?

**The CHAIR:** That was the buzzer. We will come back to you, if you like, if you have a few more questions.

**Michael GALEA:** Thank you. I will maybe come back if there is time. Thank you very much, both.

**The CHAIR:** Thanks, Michael. I will jump in now, Paul and Adam. Understandably with the rate rises and the cost of living, eventually products will go up due to production, transport et cetera. I know you mentioned you have your own brand, which is 30 per cent cheaper, and best price practice, and I think Adam mentioned national pricing, which gives regional areas a good price for produce. With price increases due to cost of living on most products across the board, I am wondering if there is anything that both companies, Coles and Woolworths, have implemented to prevent or to subdue the increase in prices on essential products which would help alleviate the cost of living for the ordinary Australian or Victorian?

**Paul HARKER:** Thank you for the question. I think it is very hard to define what is an essential product. I think the things that we think about traditionally actually only make up 10 per cent of someone’s weekly grocery shop, and I think depending on the community that you come from and your cultural background, what a lot of people would argue is truly essential is on quite a broad spectrum. But if you think of some of the basic commodities in our business, we actually have got a broad range that you can choose from, with own brand often being the opening price point in that category, and these are typically items where we would run much lower margins than we would in other parts of the store in acknowledgement of that. But there is also obviously intense competition when it comes to those everyday essentials. They are volume items; they are very important in people’s baskets. So the very nature of competition actually keeps a lid on those areas when it comes to prices, so I think that is a sign of very healthy competition in this country.

**The CHAIR:** Thanks, Paul. Adam.

**Adam FITZGIBBONS:** I understand the questions you are asking, and there is certainly a lot of pressure, particularly on those core household items that families look to to provide the value in their basket, and it is



something that we are very conscious of. We do spend a lot of time speaking to and listening to our customers and also of course having a look at purchasing habits. We seek to have everyday low pricing and we also have weekly specials. What we do is we seek to make sure that the specials that we are putting on particular products – excuse me if you can hear the tannoy. We certainly seek to ensure that the specials that we have actually align to what people are seeking to purchase, and that is across specials and everyday low pricing. I will use the example of Coles' Simply range pasta, which is less than a dollar. We are very committed to making sure that that is available to consumers at all times. We have seen the shift in customer behaviour as well over the past couple of years where families are purchasing more in bulk and purchasing more value-conscious items, such as mince. And so we are very conscious of working with our suppliers to make sure that we can provide specials that are of value to our customers but also in such a way working very closely with our suppliers to make sure that that is also sustainable on their side of the business as well. We are very conscious of that balance that we have to provide both to customers and suppliers.

**The CHAIR:** Okay. Just following on from that, we heard a lot of evidence relating to people being more constrained in relation to what they purchase now and how it will affect their health in relation to nutritious food. So going onto the nutritious food, regarding meat and fresh produce, have both companies got any specials or ongoing specials in pricing regarding that produce?

**Paul HARKER:** For me, we are obviously a full-service supermarket, so I think the average store has over 25,000 SKUs. We talked about those everyday essential items where I think own brand plays a really important role. There was a recent CHOICE survey where we actually looked at that and compared like to like, so the discounters' own brands to our own brands, and found that the difference in price was around 1 per cent. So there is a significant saving on those core everyday essentials people can have buying own brand.

I think interestingly as well when you talk about the affordability of healthy food, the more commodity based, less processed products are typically very cheap. We have done work in fruit and veg with our Odd Bunch range, which not only addresses food waste on farm but also provides great affordability to customers in fruit and veg. But interestingly, I just wanted to share that in the 2024 *Living Healthy Report* there was an investigation done into what a healthy food shop costs compared to the average Australian household. So if you take the ABS data, the average household typically spends around \$233 a week or so on their groceries. But that typical trolley that you will see does not meet Australian dietary guidelines. So if you actually took that same trolley and you said 'I'm going to meet the Australian dietary guidelines' you would see that customers would probably save about 7 per cent. That same trolley, but meeting the Australian dietary guidelines, is \$216.05. So the notion that shopping healthier actually cost you more – if you actually shop based on the recommendations around the dietary guideline in a full-service supermarket, you can actually save money compared to what people are currently spending on their weekly shop.

**The CHAIR:** Thanks, Paul. Any comments at all, Adam?

**Adam FITZGIBBONS:** I would just build on Paul's comments and also my previous response, which is: we do work very closely with our suppliers. We have a very long-term relationships with them, and it is certainly our focus to make sure, particularly in fresh produce, that we are offering very competitively priced products to Australians. And we will work with all of our suppliers. Where there are favourable seasonal conditions and there are flushes within their business, we will certainly work with our suppliers and pass those savings on so they can actually move volume as well. So it is an ongoing process that we work almost on a weekly basis in fresh produce to make sure that we are getting the best price that we can for our consumers.

**The CHAIR:** Thank you. I have got one more question before passing along to my deputy. There has been a lot of evidence relating to culturally diverse produce. I noticed both supermarkets steadily over the years have increased their produce from different ethnicities. I was wondering: what have the two companies implemented in relation to lowering the price of this produce?

**Paul HARKER:** Thank you for the question. I think we are very proud of the fact that we seek to reflect the communities we serve with food and groceries that are really relevant to them. We draw on a lot of census data to make sure that that, along with local insight, would tell us what we needed to do to make sure that we have a good multicultural offering in the appropriate stores. I think in Victoria you would know that our ranges in Asian and South Asian products in places like Box Hill and the Glen would be completely different to a normal supermarket, and we have well-established kosher options, like in Glen Huntly and Caulfield. Broadly when we

look at the product ranges in there they are extremely competitive, and they are not priced up other than the cost to procure those products. I know when it comes to halal products they are quite similar if you look at the average sell price of those products. Kosher is a little bit more expensive in some instances because of the additional costs associated in procuring those products that are embedded in the cost bases to our products. Often we would invest in margin in these categories as well to make sure that they are priced far more competitively with – I do not like saying the word ‘mainstream’, but I think you understand the sort of core range or offer that we would have in a supermarket. So we see this as a great opportunity to listen and respond to our customers and make sure that we have the broadest range possible that meets their grocery shop. But of course, again, we operate in a competitive market, and if they can buy those products cheaper elsewhere they will not shop with us, so we need to make sure that we are highly competitive on those products as well.

**The CHAIR:** Thanks, Paul. Adam.

**Adam FITZGIBBONS:** Yes, I very much echo that sentiment as well. As I said in my opening statement, we are very much a customer-led organisation, and I think particularly in some of those more tailored products, there are certainly a lot of specialty stores dotted around those communities, so I think that that natural competitive tension ensures that those prices are actually kept competitive. We really do listen to customers and observe their buying habits, and we do want to make sure that our offering is relevant to local communities not just nationally but certainly those very vibrant communities in which we operate. So we want to make sure that the offering actually reflects what customers want in those areas.

I will also just touch on, again, coming back to one of the questions earlier around our customer fulfilment centre, the new Ocado partnership we have in Truganina – one of the benefits of that is it actually enables us to offer a much larger product range across the entire Melbourne metropolitan area. So it actually enables people who perhaps do enjoy those products that do not live in those localities to still have access to those culturally diverse products at a much, much broader base across the community.

**The CHAIR:** Thank you. Ryan.

**Ryan BATCHELOR:** Thanks, Chair. Your submission – Woolies’ submission in particular – says that you face robust competition in the market, which is a surprise to many, I think. A question on that – do you still use any form of restrictive covenants in any of the leasing or land transactions that you undertake?

**Paul HARKER:** Absolutely not.

**Ryan BATCHELOR:** Okay. We had a query earlier about the practice of land banking for the purposes of future developments for supermarkets. Without disclosing anything that you would feel difficult with for commercial reasons, how many sites would you say that you have in Victoria that are provisioned for future stores but not currently in the process of being developed?

**Paul HARKER:** I am not in the property team. My understanding is it would be approximately eight – and these are obviously growth corridors. As I think you would be aware, with the planning processes that you have to go through and the fact that new communities spring up all the time, you will need to buy the land well in advance of when the community is there; there is no point opening a store when there are no customers. Therefore you procure the land and then go through all the development planning processes, and when there is a population base that opens around that area, you would then commission and open the store.

**Ryan BATCHELOR:** That is a useful ballpark. Mr Fitzgibbons.

**Adam FITZGIBBONS:** To be honest, I would be speculating a particular figure, but I am very comfortable and confident in saying that it would be single figures. What I would say is that 99 per cent of all of our stores are actually leased. We do not have the freehold. Coles has very limited capital asset recycling whereby we will purchase a site and develop it for a supermarket, and then we will sell it to another operator and we will then lease that back. It is not part of our core business. We do not have that capital base to acquire. It is not about acquiring, it is about recycling.

**Ryan BATCHELOR:** So how do you provision for future stores in growth areas if you are not in the business of purchasing land?

**Adam FITZGIBBONS:** We certainly do purchase land, but the point that we make is we purchase it for the purposes of developing a supermarket. And then once that supermarket is developed –

**Ryan BATCHELOR:** And then sell it again?

**Adam FITZGIBBONS:** Correct, yes – and then use that capital to purchase another site. It is not just a constant expansion, it is an asset recycling program.

**Ryan BATCHELOR:** How would you describe the approach of trying to provision for sites in infill development areas? There is obviously a push to have more of our population growth in infill sites across suburban Melbourne. How do you go about provisioning for future demand in those sorts of circumstances? Because it is a very different environment – it is very different to buying up a greenfield site.

**Paul HARKER:** As I said, I am not in the property team. But clearly when populations are growing in already densely populated or developed areas, it becomes very hard to find suitable sites to build a full-service supermarket, so that is more challenging in terms of being able to procure real estate where that can happen. Often you will see, often with government support, a supermarket on the bottom level. So you might see high-rise living with a supermarket underneath it, but it is much harder to procure because these are heavily developed areas already.

**Ryan BATCHELOR:** Are those sites then generally smaller, more boutique – the Express/Metro types of your stores? People's experience is that prices can be higher than in your larger-footprint stores. Goods can be more expensive in those Metro and Express stores than they are in the larger-footprint stores. Would you think that was a reasonable reflection that people have?

**Paul HARKER:** I would say it depends. Our Metro business is made up of what we would call a smaller store that is typically a food store versus those that are convenience sites. Obviously, when you start getting into the spectrum of convenience sites, yes, there is some differential in pricing, which is an acknowledgement of the significantly higher operating costs and leases for those buildings, but that is an extremely small part of our overall business. A food-service Metro store would typically run on the same pricing as a full-service supermarket.

**Ryan BATCHELOR:** Thanks very much.

**The CHAIR:** Lee or Rachel. Lee, would you like to ask any questions?

**Lee TARLAMIS:** I am fine. I have got no questions.

**The CHAIR:** Thank you. We are just running up to time. Rachel, would you like to ask some questions?

**Rachel PAYNE:** Thank you, Chair. All good. Mr Galea asked the questions that I was going to ask, so that is all covered. Thank you.

**The CHAIR:** Did you have something, Aiv?

**Aiv PUGLIELLI:** Yes, I have one more, if that is okay, just for our Woolies representative. Paul, you mentioned the ACCC earlier. The former chair of the ACCC Allan Fels noted in the federal inquiry into price gouging that the prices of goods and services are not being raised to match increased costs but to inflate profit rates. What is your response to this?

**Paul HARKER:** That is certainly not how we conduct our business. You can see it in our publicly stated accounts and the fact that price increases have been driven by the fact that we have needed to pay our suppliers a bit more for their products.

**Aiv PUGLIELLI:** So he is wrong?

**Paul HARKER:** I am saying in the circumstances of Woolworths, that is not how we operate.

**Aiv PUGLIELLI:** How about for Coles?

**Adam FITZGIBBONS:** The point that I would make there is the inflationary peak that occurred coincided with a reduction in our profit margin, so that statement does not accord with our financial statements. Our profit margin of 2.57 per cent was actually a decline on the previous year, which speaks to the fact that we absorbed some of those inflationary pressures rather than passing them on. And we certainly did not increase our profits through that period at all.

**Aiv PUGLIELLI:** Thank you, Chair.

**The CHAIR:** Thank you. Thank you, gentlemen. Thank you so much for your time and your submissions. Before we conclude this session, would you like to make any further statements, Adam or Paul?

**Paul HARKER:** Thank you for the opportunity.

**Adam FITZGIBBONS:** None from me. Thank you for your time.

**The CHAIR:** Thank you very much for your submission and your time answering our questions today. Sorry, Michael, did you have one more question before we finish?

**Michael GALEA:** No, all good. Thank you, Chair.

**The CHAIR:** Thank you, Paul and Adam. I appreciate your time this afternoon, gentlemen.

**Witnesses withdrew.**