A SUBMISSION TO THE SENATE SELECT COMMITTEE

ON SUPERMARKET PRICES

There are 9 supermarkets associated with the 3 major chains, all accessible within about a 10-20 minute drive from our home- 3 Coles; 3 Woolworths and 3 Aldi.

We consider ourselves to be very well served in our daily needs and are regular visitors to both Coles and Woolworths stores at any one of their locations, depending on where we might be at the time.

I submit for your consideration a number of thoughts and observations, but most importantly, a condensed version of the financial statements of 5 Public Listed Companies, taken from their Annual Reports for the year ended 30th June 2023, and prepared by me in support of a proposal to demonstrate why I have a sympathetic ear for the defence of the supermarkets.

Competition.

With 9 major supermarkets and a few other smaller players in our local area, it's fair to say competition is pretty keen. Coles is constantly pushing their Flybuys programme with a never-ending flow of e-mails, with Woolworths doing the same with Everyday Rewards. It's interesting to note that many of the e-mails are marketing products that you may have purchased before, so their data bank on customer buying habits is good.

Opening Hours.

I thought the use of cheques had just about gone out with the dinosaurs! But no, I recently received a cheque in satisfaction of a capital transaction and went seeking a Bank branch into which to deposit aforesaid cheque. The smart ATM would not accept it and the branch was closed over part of the Christmas period. I rarely enter a Bank these days and had to re-acquaint myself with their opening hours: 9.30am to 4.00pm.
Access to any one of a number of professional businesses, or even the majority of retailers in our shopping centres, is significantly less than the supermarkets that are open to customers between 70 and 80 hours over a 7 day week- EVERY week!

Trolleys.

The customer abuse of the trolley service offered by the supermarkets is nothing short of staggering! They are to be found, used and then abandoned, anywhere from the supermarket carpark to a gutter up the street or even in a waterway. It would be interesting to know the management costs of the trolley programme over the course of a year. I would suggest it is significant.

Coles and Wesfarmers.

In November 2007 Wesfarmers acquired all of Coles issued Shares and merged it into the Wesfarmers conglomerate. Eleven years later, in November 2018, Coles was demerged from Wesfarmers into a stand-alone company. Amongst the reasons for this demerger was significant pressure from some of the larger Institutional Shareholders, disgruntled at the low return on capital employed in the Coles business. Shareholders were accustomed to higher returns from other enterprises within the Wesfarmers stable.

Profitability of Supermarkets.

There any number of people who will tell you Accountants can give you whatever financial result you may need to suit a particular set of circumstances. Whilst there may be some element of truth in that, not acknowledged by the writer, it may generally be agreed that by the time a listed Public Company commits it's Financial Statements for inclusion in the Annual Report it has passed the scrutiny of the Chief Financial Officer; the Chief Executive Officer; the external Auditor and all members of the Board, and later, ASIC and the ATO. Regulations place a heavy burden of responsibility on those involved in the preparation and presentation of the Financial Statements of a Public Listed Company.

I turn now to the financial result for the year ended 30th June 2023, firstly in respect of the 2 major supermarkets as set out on the following page.

The turnover figures, the costs of operation, taxes paid and net profits achieved are all rather mind boggling in their sheer size, so I condensed them down to a basic $100.00 of turnover and applied the percentage of costs and overheads to that $100.00 turnover figure.

In the case of Coles, total outlays, including income tax, to achieve $100.00 of sales was $97.81 leaving a net profit of $2.19.

Woolworths total outlays, including income tax, to achieve $100.00 of sales was $97.90 thus realising a net profit of $2.10.

I then asked myself: how does this stack up against other large Public Listed Companies.

To gain some perspective here, I took a look at the Financial Reports of 3 other Companies in which we have a Shareholder interest: BHP; Commonwealth Bank and Wesfarmers. Again, I have condensed the huge figures contained in the Reports down to a simple $100.00 of turnover and applied the percentage of costs and overheads to that turnover.

The figures for BHP were reported in $US but matters little as the principal applied is the same irrespective of currency.

The attached Statement shows BHP returned a net profit of $24.79 per $100.00 of sales whilst Commonwealth Bank achieved a net profit of $12.85 and Wesfarmers $5.28.

Looking back at the net results of Coles and Woolworths, I begin to understand why the large Institutional Shareholders in Wesfarmers applied pressure on the Board to unload Coles, claiming it's return on capital was unacceptably low and did not fit with the conglomerates other activities.

To sum up: Coles is showing a net profit of 2.19% and Woolworths 2.10%.

The Terms of Reference are fairly broad, but to my mind imply a vague suggestion that the supermarkets are profiting at the expense of the consumer.

I respectfully suggest the figures do not support that view.

Thank you,

17th January 2024.