

## **Procter & Gamble Australia Response to Questions on Notice from Senator Louise Pratt**

### **GENERAL/PROFIT**

Procter & Gamble is focused on providing branded consumer packaged goods of superior quality and value to consumers around the world.

We provide daily-use products where performance drives brand choice. We focus on understanding the needs of consumers and delivering superior products, packaging, communication, retail execution, and value to meet those needs.

For nearly 40 years, Australian consumers have trusted that when they buy Procter & Gamble products for their everyday use, these products will meet their needs from the very first use, and they will see the value in products that work to deliver the benefits they seek. Procter & Gamble Australia cherishes the trust that Australian consumers place on us.

Procter & Gamble is not a multinational food company and does not supply food products. However, Procter & Gamble does supply Vicks Vaponaturals Throat Drops and Metamucil Fibre Gummies, two products within our personal health care portfolio that are classified as foods under Australian regulations. Together, these products account for less than 0.5% of sales of Procter & Gamble's Australian business.

Procter & Gamble has a long history of productive working relationships with Australian retailers. Procter & Gamble Australia has direct customer relationships with Woolworths, Coles, Aldi, Costco, Chemist Warehouse, and Shaver Shop, among many others. Over the past five years, Australia's two largest retailers have accounted for 55-60% of Procter & Gamble Australia's total business. Based on publicly available financial reports, sales of Procter & Gamble products account for less than 1% of their total sales.

Procter & Gamble's global after-tax operating margin for the fiscal year 2022/2023 (July 22 - June 23) was 18%. Our average after-tax operating margins for the last 10 years on a global basis are in the range of 15 to 18%. On average, Procter & Gamble's after-tax operating margin on the Australian business is within that global range. Factors affecting our business and profitability are common to that of the

global FMCG industry and within Australia. Information on our global margins is available in the Procter & Gamble Annual Reports.<sup>1</sup>

## **SUPERMARKET PRICES**

Procter & Gamble does not set retail prices to consumers. We provide the wholesale prices at which we supply to Australian retailers, together with negotiated Procter & Gamble funded incremental investments and discounts at the retailer level. In each category where we supply products, we intend to offer solutions for consumers that can be offered across different price points. We have brands in value tier segments and in premium segments to serve consumers' preference. We also offer different pack sizes to allow access to our products at lower absolute cash outlays if desired. Our prices to retailers are determined at a category, brand, and product level as we need to consider the combined holistic performance and value that each product offers to our consumers. Prices are affected by many factors, including production costs, research and development requirements, transportation, shipping, warehousing and distribution costs, cost of marketing, product formulations, etc. We strive to ensure that our prices stay competitive and affordable.

During fiscal years 2022 and 2023, Procter & Gamble faced historically high inflation pressure. Cost of commodities and freight increased, and foreign exchange impacts rose to levels not seen in many years. The negative impact of these costs amounted to the equivalent of half of Procter & Gamble's global earnings over a two-year period. Over time, Procter & Gamble Australia recovered the dollar impact of these headwinds through a combination of innovation, cost reductions, and price increases to customers.

## **PRICE CHANGES**

Over the past three fiscal years, Procter & Gamble Australia's average annual catalogue price increases to retailers for its products in Australia have been 7%. This price increase is reduced to 4-5% after accounting for Procter & Gamble funded incremental discounts and investments to retailers. This is

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<sup>1</sup> [P&G 2023 Annual Report \(q4cdn.com\)](https://www.pgcdn.com)

broadly in-line with the average annual inflation rates in Australia of 4-7%<sup>2</sup> and the 7% average annual cost increases to Procter & Gamble during the same period.

The ability to offset a portion of cost increases without passing 100% of these increases to retailers is the result of Procter & Gamble's continuous focus on cost reduction and productivity improvement.

Where Procter & Gamble Australia has increased prices to its customers to address a portion of input cost increases already incurred, it was not in excess of cost increases observed to date. Whenever possible, we also increased prices together with product and/or packaging improvements to continue to deliver great value to consumers by improving their experience with Procter & Gamble products. Product and packaging improvements require investments, and if the value proposition is right, customers and consumers accept product innovations that provide meaningful benefits and address unmet needs. Price and product performance are both critical parts of how consumers define value in the categories in which we participate.

In Procter & Gamble Australia's fiscal year 2022/2023 (1 July 2022 to 30 June 2023), the average catalogue price increase was 6%, in line with Australia's inflation rate. As of 31 December 2023, the top 5 products that have experienced increase over the previous 12 months are:

1. Fairy Auto Dish Wash
2. Fairy Hand Dish Wash
3. Voost (effervescent supplements)
4. Ambi Pur (air freshener)
5. Metamucil (fibre supplement)

## **PRICE DIFFERENCES – AUSTRALIA AND OVERSEAS**

Procter & Gamble offers products to both Australian and other consumers around the globe at several price tiers, pack sizes and different formulations to offer the best overall performance and value to consumers in their markets. Where we need to make an adjustment to pricing, it is tailored by market depending on brand/product offering, manufacturing costs, supply chain structure, etc., and combined with innovation where possible to create value for consumers.

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<sup>2</sup> Reserve Bank of Australia, *Inflation Overview* (web page, accessed 29 April 2024), <https://www.rba.gov.au/inflation-overview.html>.

## **PRODUCT SIZE**

In general, most pricing in our categories can be executed via a straight change in the price per pack. At times, pricing is executed via package size changes. This can be driven by pricing being executed with innovation which might change the package dimensions, or it might be based on retail shelving requirements or to protect key price points and cash outlays for consumers.

Specifically, in Australia, we have been upsizing in recent years – by launching a larger count pack and offering more affordable discount to consumers (per ml/per pack). When we seek to revise the price of our products to our retailers, we present it in price/ml or price/unit and expect the retailers indicate absolute price of the product and price/ml or price/unit to ensure ease of reference for consumers.

## **NEGOTIATIONS WITH AUSTRALIAN RETAILERS**

Australian retailers have sole discretion to set their retail prices to consumers. When we plan to increase price on a product, we submit the planned pricing to retailers. They evaluate, and often seek justification for, and negotiate with us regarding the new prices, discounts, and other investments from Procter & Gamble that they seek to drive additional sales on-line and in their stores and to reduce their net purchase price. As part of this process, Procter & Gamble provides cost justifications that typically include input cost increases in the cost of goods, manufacturing costs, and shipping costs, and we often agree to provide discounts and funding for promotions to ensure products remain affordable to retail customers and consumers, as well as other investments for point-of-sale materials like displays, catalogues, etc. to drive better shopper experiences. In the end, retailers make the final decision on which products they choose to purchase and sell to their customers, and they have sole discretion to set the retail price for the consumers who shop in their stores or online. We have built productive relationships with Australian retailers for many years following this process.

**1 May 2024**