

## UNEDITED TRANSCRIPT

**THE HOUSE OF ASSEMBLY SELECT COMMITTEE ON GROCERY  
MARKETS AND PRICES MET IN COMMITTEE ROOM 2,  
PARLIAMENT HOUSE, HOBART, ON TUESDAY, 9 SEPTEMBER 1997.**

**Mr TED BEST**, DIRECTOR, TASMANIAN OPERATIONS, CADBURY  
SCHWEPPE'S PTY LTD, WAS CALLED, MADE THE STATUTORY  
DECLARATION AND WAS EXAMINED.

**CHAIRMAN** (Mr Benneworth) - I will just wait for a minute, if I may, on Mrs Hollister. I should also suggest that this is a public hearing, but if you do not want it to be a public hearing that is your prerogative.

**Mr BEST** - Well, I guess, Mr Chairman, I will make a few comments and perhaps explain the limitations of what I can represent on behalf of the company because, as you probably understand, I am basically a manufacturing executive. But perhaps I will wait until the other member comes back.

**CHAIRMAN** - Mr Best, thank you very much for coming; we do appreciate it. You are aware of the committee's terms of reference?

**Mr BEST** - Yes, Mr Chairman.

**CHAIRMAN** - As per normal with these sorts of hearings, you make the points you would like to make and then if members have any questions they will ask them.

**Mr BEST** - I must apologise at the outset for being rather difficult to get along to this committee. As some of you might know, I have had a few problems along the way. The last one I attended was the workers compensation hearing where I was not allowed to participate because my colleagues would not let me. This time they have sent me along on my own, so that is an indication that I have recuperated fairly well.

**Mr GOODLUCK** - Ted has not been well.

**Mr BEST** - Yes, I have had a bit of an operation. I am pretty right now but you can still bear that in mind when the questions come.

Mr Chairman, my position as Director of Cadbury's Tasmanian operation covers what is perhaps the largest grocery manufacturer in the State. I am happy to discuss matters that particularly relate to the manufacturing environment which is, I understand, part of the terms of reference. I am not, however, responsible for sales and distribution, and I am therefore somewhat handicapped in my knowledge of these areas of our business. They are managed centrally from our Melbourne headquarters and therefore I may have to take some of the questions you might ask me on notice, if that is okay -

**CHAIRMAN** - Yes, thank you.

**Mr BEST** - because I would not want to try to give off-the-cuff answers.

**CHAIRMAN** - I actually appreciate that offer because there may be things we would like you to take on notice, thank you.

**Mr BEST** - I did have a chance to talk with our sales director in Melbourne yesterday, just to get a bit of background that best confirmed my understanding of the trade situation. I also point out that I am responsible for Cadbury. That does not include our other division, which is the Schweppes Cottees division, and they, in any case, are not manufacturers in Tasmania.

As I said, I just want to make a few brief remarks about our operations and then I will leave it to you for questions. We market and sell our products nationally. We sell directly to a relatively small number of customers, the major retailers and the wholesalers who supply the independent outlets in what is, as I said earlier, an extremely competitive market - the confectionary market.

We have one central distribution centre, which is in Melbourne at Ringwood, from which deliveries to customers around the nation are despatched in consolidated form, made up of products manufactured in Hobart and also products manufactured in our two factories in Melbourne; products we import from our New Zealand operations, from our United Kingdom operations and for some non-Cadbury overseas companies for whom we have the licence for retail sales in Australia.

This is the most efficient distribution system available to us incorporating advanced technology of our central distribution warehouse in Ringwood and providing for flexible management of stocks, which is very important now that products are date marked and require very flexible management to ensure that we have proper stock rotation and also, of course, to ensure that we manage our inventories to the lowest level possible to limit working capital.

Tasmania accounts for about 3 to 4 per cent of our market, which is, I guess, simply a reflection of population, and the Tasmanian manufacturing operations, of course, on the other hand account for almost 50 per cent of our production with an average of about 800 full-time equivalent employees in the State.

Our Tasmanian selling prices are based on a freight-free structure so that Tasmania is not in any way disadvantaged. We deliver direct to the warehouses of the customers we have in Tasmania - mainly being Coles, Woolworths, Statewide - and the wholesalers, Rattrays and Network Foods. The trade with the major customers may vary according to joint promotional activities, but these are all arranged on a national basis so that they are consistent throughout the country.

We obviously also have a very large expenditure on our own behalf in direct marketing, particularly in the media, as you probably all realise. Again, this is organised on a national basis and Tasmania gets its fair share of our marketing expenditure.

The Tasmanian manufacturing operations are clearly impacted by the Tasmanian economic infrastructure of costs, and many of the advantages we used to enjoy have been eroded in recent years. So that some of the offsets that we could count on to compensate for the fact that we have to freight most of our raw materials into the State and most of our finished goods out of the State, the advantages we used to have to compensate for that have largely disappeared, and I guess we have spoken about that on a number of occasions in other arenas.

You would probably be aware of concerns about costs of different activities on businesses in Tasmania - in the areas of payroll tax, which the Budget is making some attempt to counter; workers compensation, which is currently the subject of another inquiry, and as competition has increased considerably on the mainland areas and the price of electricity has become less competitive in Tasmania than it was.

So from a manufacturer's point of view, the longer term in Tasmania is becoming more difficult. I speak, as I said before, as a manufacturing executive rather than a sales executive, and it is an area that I have concern for. We want to see maintained as competitive an environment in Tasmania for manufacturing, because whether it is a long-established company like Cadburys - we have been here now 75 years - or developing companies, their ability to operate as grocery manufacturers in this State and, in many cases, export to the mainland is going to depend, in the long run, on the basic cost structures that are existent in the State.

Anyway, those are some comments, Mr Chairman?

**CHAIRMAN** - Thank you. I will start off with a couple of questions. I think you have probably answered our number one question - and that is freight. You are really saying to us that the fact that a Tasmanian wholesaler buys at the same price as a Victorian or a New South Welshman, the fact that it all goes into a central theme and then comes back does not add to the retail cost?

**Mr BEST** - It does to some extent seem a little strange that a lot of our product has to go across to Victoria and then come back, but that does not disadvantage Tasmania in any way. It has important advantages to our business because we can maintain a central supply of product and manage that in all directions, rather than to have pockets of product in different States. So in effect we have closed all our interstate warehouses and concentrated on one focal point. Of course that has been assisted by the style of delivery; the freight haul arrangements that we can now make; rapid interstate movements of product in refrigerated containers if necessary.

**CHAIRMAN** - I presume that applies to Perth, Western Australia or Darwin; it is still the same?

**Mr BEST** - It is still the same.

**Mrs HOLLISTER** - If the Freight Equalisation Scheme was removed, would that make a difference, because you are getting it as the product goes across?

**Mr BEST** - Yes, it would. Our freight cost disadvantage of manufacturing in Tasmania - we work the sums out from time to time - compared to a hypothetical operation in Melbourne, is about \$4 million nett of freight equalisation, and freight equalisation is worth, at the moment I think, something like \$1.5 million per year in reduced freight costs to Cadbury. Obviously it is a very important thing to us because anything of that size - \$1.5 million - is an important cost factor. If we did not have that, we would be that much more in jeopardy.

**CHAIRMAN** - So you are still at a \$2.5 million cost disadvantage of being here?

**Mr BEST** - No, the \$4 million is the disadvantage. It would be \$5.5 million or thereabouts if it were not for freight equalisation.

**CHAIRMAN** - Your main products from Tasmania are milk of course?

**Mr BEST** - Milk chocolate.

**CHAIRMAN** - The main input into the factory -

**Mr BEST** - Yes, milk, We buy some other ingredients locally but principally it is milk. We spend I think it is something like \$15 million on milk purchases.

**CHAIRMAN** - How many farmers supply you?

**Mr BEST** - About 90, and we have a factory at Cooe that processes milk for us.

**CHAIRMAN** - The price of milk?

**Mr BEST** - Well, the price of milk in Tasmania I guess has to be competitive. We have had times when the price of milk in fact has gone above prices of milk in Victoria. But I think in the past few years it has been the other way a little.

**CHAIRMAN** - A slight advantage.

**Mr BEST** - Because we need the milk absolutely, we have to in fact pay a very competitive price for the other milk manufacturers. Generally on average we pay more than the other two major ones, just to make sure we get the milk we need.

**CHAIRMAN** - And when you need it.

**Mr BEST** - Yes, that is true as well.

**Mr GOODLUCK** - It is not under your control, I understand Ted, but say, for example, if Woolworths or Coles sell your chocolates cheaper on the mainland than what they do here, is there pressure put on the company?

**Mr BEST** - No, I would not think so.

**Mr GOODLUCK** - It is just their own decision to do that?

**Mr BEST** - If that is what happens, it would be their own decision. We get a lot of comments about the fact that sometimes people can buy things cheaper on the mainland. It is very difficult to judge because everyone is running promotions and discounts from time to time, so it is very much a moving target, and it is very hard to say with any certainty that prices are different here than on the mainland, from our observations at least. We have recommended retail prices of course, which are basic prices, and then -

**Mr GOODLUCK** - It is up to - if Woolworths or Coles want to do it, well you have no control over it.

**Mr BEST** - That is right. And of course there are joint promotional activities between the two. They might be different in different stores in different companies throughout the year.

**Mr GOODLUCK** - What about products that may be - how do you determine it - not on line? Do you sell to some cheaper firm, or what do you do with them? Just say for example you had a run of chocolates and say there was an imperfection on the pack or something or rather, what would you do with those?

**Mr BEST** - In most cases we would have to cut our losses and bear the costs of that. We have to be very careful. We avoid liquidating stocks as far as we can. The only time we might have to do that is where we need to clear the stock because of a use-by date. You will see Cadbury products, and every other confectionary manufacture from time to time, in those outlets. But it has to be done because you might have -



**Mr GOODLUCK** - I have not seen them at Chickenfeed.

**Mr BEST** - Well, I have occasionally, and all our competitors as well. The confectionary market is one where there is a lot of new product innovation and only a certain percentage of those new products are successful. So there are always those that have - for which the companies ourselves and the others have - high hopes which do not quite do as well. Those are the ones that you tend to find that go through into places like Chickenfeed, the reject shop and those.

**CHAIRMAN** - How is production standing up? Is Cadburys holding its own or improving market share?

**Mr BEST** - Production or market share?

**CHAIRMAN** - Both. I presume the bigger market share would be sucking more production in.

**Mr BEST** - Well, if you take production - and I am talking about Tasmania now - our production has increased over the years. If you went back to 1980, I think our production was around about 18 000 tonnes and now it is around - this is proprietary products - 28 000 tonnes. So we have increased our production base in Tasmania quite substantially over that time.

Cadbury has the dominant share of the confectionary market in Australia. Overall we have about 40 per cent of the confectionary market, and that market share has been maintained.

**CHAIRMAN** - What about the cost of production?

**Mr BEST** - I guess the cost of production, margins, movements against CPI are the - I guess that is the final sort of indicator. We try to maintain a price regime that is below the CPI year on year; that is our bound and declared objective. That means that we have to also maintain very tight control over costs at the manufacturing level, as well as in distribution and other parts of the business, so that is what we work on very hard.

**CHAIRMAN** - Can you see any brick walls being built up there that are really starting to get in the way of the future, or does the future look quite -

**Mr BEST** - Are you talking Tasmanian?

**CHAIRMAN** - I am talking the Tasmanian production really - in processing.

**Mr BEST** - No, I just worry about the deteriorating, if you like, set of costing factors that exist in the State, as I explained earlier, because our factory within the Cadbury group is, in a sense, in competition with other factories in Australasia. We have two factories in Melbourne and two in New Zealand and we have to maintain, if you like, a competitive situation against their performance, their costs, so that we can maintain the argument that we should have our facility in Hobart, and we work hard on that too. As you can imagine, some of the problems we have been facing in recent times, you have probably heard them from other manufacturers as well.

**CHAIRMAN** - Well, I think you have certainly answered a few questions I needed answering.

**Mr GOODLUCK** - Me too.

**Mr BEST** - Nothing from you, Fran?

**Mrs BLADEL** - Well, I was interested in the point that Bruce took up about ease of purchase of your product by smaller groups. It seems there are no inhibiting factors on special arrangements with large bulk purchasers by big bulk players?

**Mr BEST** - Well, I think there is. Naturally enough there is a hierarchy in the retail area. It is a very complicated business area. Some shops that are convenient stores, they price their products higher; they probably, because of the intermediaries - a margin - would probably buy more expensively as well. But then the customer is prepared to pay a premium to be able to buy them around the corner, or at any hour of the day sort of thing.

**Mrs BLADEL** - Yes, that is right.

**Mr BEST** - That is the nature of the retail; there is that hierarchy.

**Mrs BLADEL** - But there is no problem if, say, whatever the most popular line of the month is, for those people to be able to buy a small quantity rather than a big quantity?

**Mr BEST** - No. We have a standard pricing list which ordered quantities do have an impact on that, but there is no limit. We only have five customers in the State. Once upon a time we used to distribute even to every shop. But the nature of distribution has changed so much in the retail sector now that major manufacturers deal direct with large firms who act on behalf of independent supermarkets or small retailers. There is some - I think Statewide actually handle some of the Woolworths operation or distribution in this State as well. But they certainly provide for the independent supermarkets and then there is the wholesaler servicing the small shops.

**Mr GOODLUCK** - You see, Ted, we are hearing overwhelming evidence about the two majors - Woolworths and Coles. We are talking about reducing unemployment but slowly but surely those two big companies are eroding the small business sector. We are hearing all about unemployment from the business sector and so forth, but slowly but surely butchers' shops, even into petrol, even into small shops, it is all reducing our unemployment, and the consumers are saying to us, 'Why the variation?' So that was the reason we asked those questions. You understand?

**Mr BEST** - Yes, I understand.

**CHAIRMAN** - It is awkward because I guess you are fortunate enough, because of your size, to be able to, one would think, stand up to them anyway, whereas a lot of other manufacturers in a place like Tasmania simply cannot stand up to the big two. But I would imagine at Cadburys you could almost say, 'This is what you're buying - end of story'.

**Mr BEST** - No, no, I would not say that, Mr Chairman. It is very much a tough game out there, and whether there are two majors or three majors, as there are in most States, it does not make much difference. The retailer is obviously aiming to buy at the lowest possible price, and I guess you reach what is the medium compromise situation - mid-ground - on these things in each case. There is no sort of comfort, if you like, between manufacturers and retailers no matter how big the size of the manufacturer.

**Mrs BLADEL** - Going back to the five major customers, does that mean that, say, Bruce Goodluck as Chickenfeed or Duck Wing or whatever company he runs - Duck Foot - cannot just come along to you and say, 'I just want to buy independently when I can straight from your' -

**Mr BEST** - No.

**Mrs BLADEL** - He cannot do that.

**Mr BEST** - Our distribution system would not allow for that sort of operation. We have to operate in pallet lots by and large because we have - the volume is one thing but it is just the whole technology of distribution as it exists now, and that sort of flows on down, if you like, to the warehouses of the major customers who then redistribute on a smaller scale. So Bruce would go to Rattrays or Network Foods or someone.

**CHAIRMAN** - As far as Tasmanian-based processors are concerned in this grocery industry, are you the biggest or right up there?

**Mr BEST** - I would think so. I would think the turnover based on Tasmanian production would be about half the corporate turnover, so it would be about \$300 million - that is turnover to Cadbury. So that does make us, I guess, one of the largest. I am not sure about the others - UMT and that. I think we would probably be the largest.

**Mrs BLADEL** - You are doing some good things now with the soft-drink industry - that pink lemonade. I have a sister who is addicted to it.

**Mr BEST** - As I said before, I cannot answer for the Schweppes Cottees business - which is our sister business and it is a business almost as large as our confectionery business.

**Mrs BLADEL** - It seems to be growing though; there seem to be more and more new varieties, like ginger beer now, which is a bit different.

**Mr BEST** - If you looked at the confectionery industry, you would probably see the same thing as well. We launched a product called 'Yowie' this year which has gone -

**Mrs BLADEL** - We have a worker in our office who is stuck right into the 'Yowies'.

**Mr BEST** - We thought we were sort of bringing together the best of all things - confectionery and, if you like, Australian native fauna and conservationist sort of approach to it, and certainly it has worked.

**Mrs BLADEL** - The 'Yowie' is a clever line because children can earnestly persuade their parents or grandmothers that they have to have a 'Yowie' to add to their collection because of the environmental implications of collecting them.

**Mr BEST** - Actually if they read the information that comes with it, nothing the business does is absolutely altruistic obviously. But we thought when we were approached by Bryce Courtney with this concept that there was something worthwhile in it beyond -

**Mrs BLADEL** - It is a good product, Ted; it is a better product than the Kinder egg.

**Mr BEST** - Yes. Well, I guess - and when it comes to some products like Kinder; we are dealing with imported products, so we are battling against the major confectionery companies of the world who have pretty large resources behind them. But this concept here is now being launched in New Zealand, and we are looking at possibly launching it in Japan. And of course in the United Kingdom, our parent company have looked on with considerable interest. Whether the Australian sort of image is translatable to all those other countries is a matter we will have to wait and see about, but it certainly has worked well.

**Mr GOODLUCK** - You have to toss your head to think of Cadburys supplying a bad product though really, do you not, when you look back over the history? Can you remember any? I cannot think of any.

**Mrs BLADEL** - It is something you have grown up with; it is a part of you.

**Mr GOODLUCK** - Yes, I suppose; it is a brand name.

**Mr BEST** - As I said before, we go into a lot of new products, some of them are just variations on a theme - a new chocolate block recipe - and others are right out in left field. We have not always been successful, but that is the nature of the game. For every winner, you are going to have probably nine that are not long-term products. Some of them would do well for a year or two and then fade; others never take off the ground, but you have to keep trying.

**Mrs BLADEL** - What is your most expensive line, Ted?

**Mr BEST** - Well, I guess our boxed chocolates - and within that we have a range, of course. We have Red Tulip up the top and then we have the sort of mainstream consumer products like Milk Tray and Roses. They would be the top of the range for Cadbury. The bulk of our production is chocolate bars and chocolate blocks, and the chocolate blocks are made primarily in Tasmania.

**Mr GOODLUCK** - You did not bring that box of samples along today, did you?

*Laughter.*

**Ms GIDDINGS** - They all might be doing a tour.

**Mr BEST** - That will come, do not worry.

**CHAIRMAN** - A minute ago he was looking for a dozen sausages. I do not know; he is a bit of a worry, Ted.

*Laughter.*

**CHAIRMAN** - Are there any further questions? Everyone is happy, so thank you very much indeed; we do appreciate it, Ted.

**THE WITNESS WITHDREW.**