

Coles Myer Ltd.

A.C.N. 004 089 936

FAXED

4th January 2002

Mr John Cosgrove
Commissioner
Productivity Commission
Level 3 Nature Conservation House
Cnr Emu Bank & Benjamin Way
Belconnen ACT 2617

Dear Mr Cosgrove

CITRUS MARKET & PRICES

As discussed at our meeting Coles purchase citrus fruit by direct purchases from growers (via a packing house or grower cooperatives) as well as via wholesale markets and imports. The trend is towards more direct purchasing.

While farm gate prices are sighted as the return growers receive for their fruit it is but the first in a series of prices that determine the retail selling price. Grade, packing and packaging costs and transportation all impact on cost of product. Grower returns from a packhouse are usually before any washing, processing, grading and packaging costs have been added to the sale price to the packhouse who then process each tonne of growers fruit to standards required for export and domestic sale. This includes marketing the end product through the wholesale or direct purchase by the retailer. Additional costs the packer incurs include levies, certification, overhead and transport.

The attached diagram on this supply chain illustrates the steps involved and the cost categories paid for at each level. At the retail level there are additional operating and overhead costs plus the need to recover a minimum margin and be competitive with prices offered by other fresh produce retailers.

Although some growers claim that they receive less than 20 cents per kilogram for their produce our cost per kilo is nowhere near this figure. The average wholesale price paid by Coles for *Navel* oranges for example (the biggest selling fruit by volume) was \$1.29 per kilo over 2000-2001. The average price for *Valencias* was \$0.69 cents over the same period and for *Mandarins* it was \$2.10 per kilo. The average retail sell price of these three lines was, respectively: \$2.19; \$1.23 and \$3.19 per kilo over the same period.

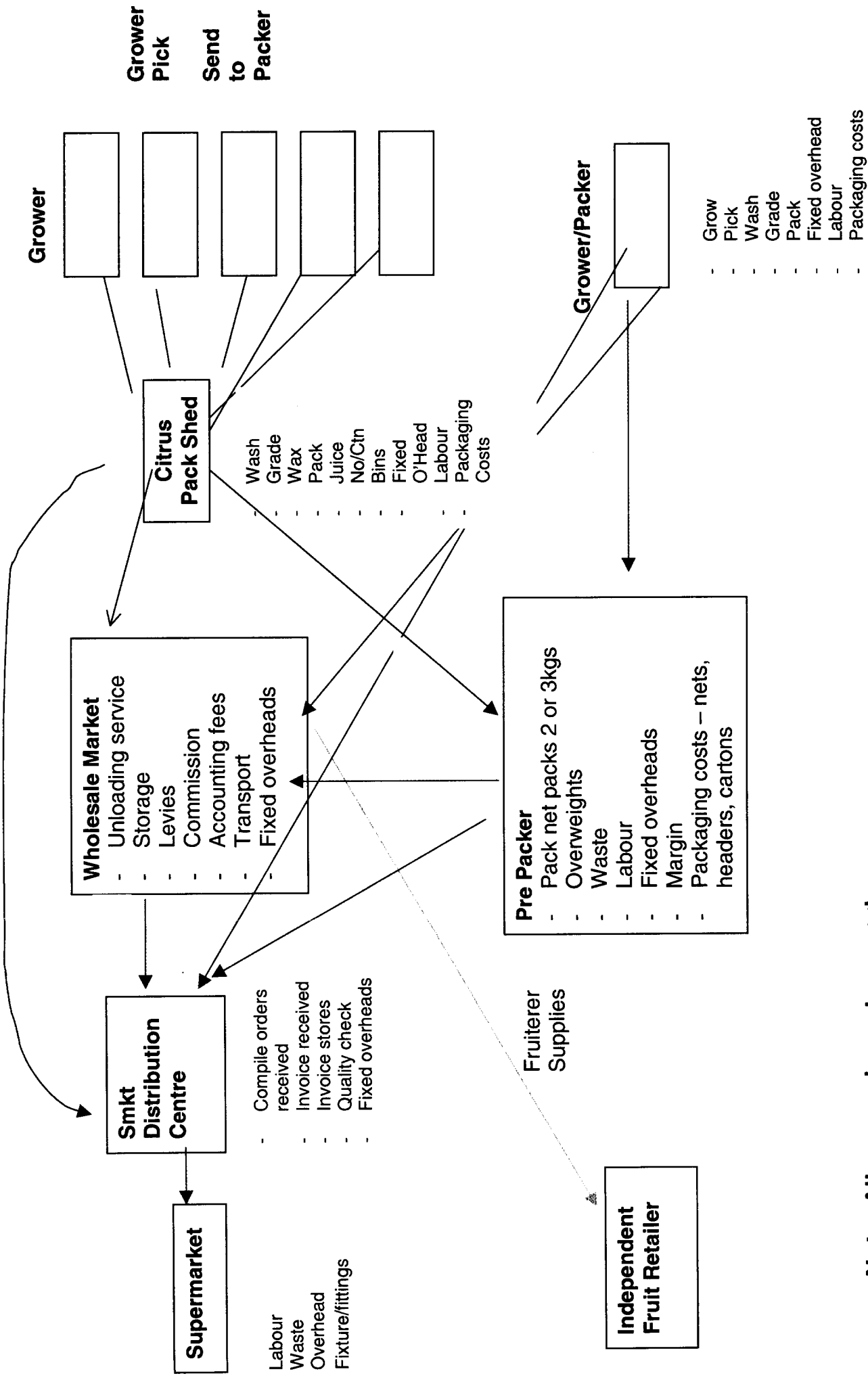
The retail sell price requires a gross profit margin of 35-40% to recover direct and indirect costs incurred by Coles. These include distribution & transport costs, plus shrinkage as well as store wages and overheads. For the total range of 12 citrus fruits we purchased over 2000/2001 our gross margin was 39.8% from which Coles earned an EBIT margin of some 3.5 cents in the dollar.

Coles is comfortable for the *Productivity Commission* to use these figures in its deliberations and findings but without naming Coles as the source. We are prepared to have *Price Waterhouse Coopers* verify these prices and margins should it be required.

Sincerely

A handwritten signature in black ink, appearing to read 'Ted', written in a cursive style.

Ted Moore
General Manager
Regulatory Affairs



Various Supply Chains – Citrus → Consumer