

Metcash Food and Grocery Pty Ltd (MF&G)

Code Arbiter Report

Background

This report has been prepared pursuant to the obligations of the MF&G Code Arbiter (**Metcash Food Code Arbiter**) under clause 36D of the Competition and Consumer (Industry Codes – Food and Grocery) Regulations 2015 (Cth) (the **Code**) (the **Regulations**).

General Information

In the 2020-2021 financial year (**FY21**) the Metcash Food Code Arbiter received 0 complaints for investigation.

In light of this fact, other than including MF&G's report under clause 27B of the Code (see below), it would appear there is no further information to be provided in this report under clause 36D of the Code.

Price Increases

As will be evident from the letter dated 26 July 2021 attached as Schedule 1 to this report, MF&G has been unable to provide the information in the form specified in Clause 27B of the Code, in respect of its first reporting period under the Code. MF&G's report given to the Metcash Food Code Arbiter under clause 27B, together with its explanation of the content of that report and the actions being taken to ensure compliance under clause 27B going forward, are set out in Schedule 1.

Dated: 30 July 2021



Martin Shakinovsky

Metcash Food Code Arbiter

Schedule 1



26 July 2021

Martin Shakinovsky
MF&G Code Arbiter

Cc: Deborah Ziegler
Code Arbiter Delegate

By email: complaints@metcashcodearbiter.com.au

METCASH FOOD & GROCERY PTY LTD
ABN 67 004 391 422

1 THOMAS HOLT DRIVE
MACQUARIE PARK
NSW 2113 AUSTRALIA

PO BOX 557
MACQUARIE PARK
NSW 1670 AUSTRALIA

PHONE: 02 9741 3000

FAX: 02 9741 3399

WEB: www.metcash.com

Dear Martin

Report under clause 27B of the Food and Grocery Code of Conduct

We refer to clause 27B of the Food and Grocery Code of Conduct (**Code**) which requires Metcash Food & Grocery Pty Ltd (**MF&G**) to give the Code Arbiter the following information in relation to a financial year:

- (a) the total number of notifications given under clause 27A(2) of the Code by MF&G to any supplier during the financial year;
- (b) the number of those notifications that were not given within the 30-day period required by that clause;
- (c) the total number of negotiations entered into during the financial year following requests made under clause 27A(3) of the Code;
- (d) the number of those negotiations in which MF&G did not conclude its position on the negotiations within the period of 30 days starting on the day (the **notification day**) MF&G was notified of the relevant proposed price increase by the supplier;
- (e) for each of the negotiations to which paragraph (d) applies, the number of days MF&G took to conclude its position on the negotiations starting from the notification day for the relevant proposed price increase.

We set out below:

1. Our report under clause 27B of the Code
2. An explanation of the content contained within that report, and how that differs to the information required to be provided under clause 27B of the Code
3. The actions being taken and systems being developed to ensure MF&G's reporting under clause 27B of the Code meets the requirements of clause 27B of the Code moving forward.

You will see that for our first report, we have not been able to provide the information exactly as required by the Code. We welcome the opportunity to discuss this with you once you have had a chance to review our report. We also fully support you providing the information in your report under clause 36D of the Code exactly as we have provided it to you in this report, together with the explanations we have provided in this report, in the interests of transparency and for the benefit of readers' understanding of the information provided and departures from Code requirements.

Report under clause 27B of the Code

| | A. Total - Supplier Price Increases Received | B. Total – Processed By Supplier Effective Date | C. Total – Processed After Supplier Effective Date | D. Total – Price Change Not Processed |
|---------------------|--|---|--|---------------------------------------|
| SKU | 11,571 | 8,796 | 1,836 | 939 |
| Percentage of Total | | 76% | 16% | 8% |

Explanation of content contained within the report and departures from Code requirements

Column A of the table above shows the total number of SKUs supplied to Metcash's Food business pillar for which MF&G received price increase proposals from suppliers in the period 2 January 2021 to 30 June 2021.

Column B of the table above shows that, of those SKUs, the total number in respect of which a price increase was processed by MF&G by the effective date of the increase proposed by the supplier, in the period 2 January 2021 to 30 June 2021. This shows the extent to which we have met our suppliers' requested timing for a price increase to come into effect. However, the "effective date" proposed by a supplier does not necessarily correlate with the 30-day time limit under the Code for notifying suppliers of whether MF&G accepts in whole or in part or does not accept the proposed price increase. In fact, it will typically be longer than that period as MF&G generally requires that suppliers give at least 12 weeks' notice of a proposed price increase. "Processed" in this context means that MF&G has effected a price increase for the relevant SKU in our IT systems.

Column C of the table above shows, of those SKUs, the total number in respect of which a price increase was processed by MF&G, but after the effective date of the increase proposed by the supplier, in the period 2 January 2021 to 30 June 2021.

Column D of the table above shows, as at 30 June 2021, the final day of the reporting period, the number of SKUs in respect of which the price increase proposal was not processed by MF&G. There are three possible alternatives applicable to such SKUs:

1. The proposed price increase was not accepted
2. The supplier is still waiting for the price increase to be processed (accepted in whole or in part and the change effected in MF&G's IT systems)
3. The proposed price increase was negotiated and the supplier has submitted a new proposed price increase which is under consideration / being workflowed through MF&G's IT systems.

As you will see from the above, the data we have extracted from our systems does not show:

1. the number of notifications MF&G gave suppliers under clause 27A(2) of the Code during the reporting period and whether they were given within or outside the 30-day time limit under that clause; or
2. the number of negotiations MF&G entered into with suppliers under clause 27A(3) of the Code during the reporting period and, of those, the number not concluded within 30 days and how many days it in fact took to conclude the negotiations.

Actions being taken / systems being developed to enable compliant reporting under clause 27B of the Code

In October 2020, both to improve its ways of doing business with suppliers and in readiness for its Code compliance obligations, MF&G adopted a new IT platform called MetProducts, a product management tool where suppliers can provide details of new products for MF&G's consideration, notify changes to existing products and propose and negotiate price increases in relation to products.

Unfortunately, in preparing its first report under clause 27B of the Code, MF&G has identified that the data captured by MetProducts does not exactly correlate with the information we are required to

provide under clause 27B of the Code. To address this, work has already commenced on creating an “Activity Log” which will capture all pricing negotiation discussions between MF&G Heads of Trade, Trading Managers and State Buyers and suppliers. The features of the Activity Log include:

- The dates and key elements of pricing conversations/negotiations with suppliers will be recorded within the Activity Log (including whether pricing proposals are accepted in whole or in part or are not accepted)
- Once a pricing conversation/negotiation has been recorded within the Activity Log, an email to the listed supplier contact will be triggered, outlining the conversation/negotiation
- Within the email, the supplier will be asked to confirm if the conversation/negotiation is correct
- The supplier can respond Yes or No with any supporting comments
- The supplier response is recorded automatically for future reference and reporting purposes.

MF&G will, therefore, be able to track through the Activity Log when MF&G notifies suppliers of its response to a price increase proposal, the content of that notification (i.e. whether accepted in whole or in part or not accepted) and whether it is given within or outside 30 days from the date of receipt of the proposal, and details of any subsequent negotiations entered into.

We are anticipating that the Activity Log will be deployed by 4 October 2021 for immediate use by our Food Merchandise team and suppliers, providing 9 months of more complete data for the next Code reporting period.

* * * * *

Naturally we are disappointed that in respect of our first reporting period under the Code, we are unable to provide the information exactly as required under clause 27B of the Code and that these data issues were not identified until we extracted and worked through the available data for the first report. However, the Activity Log will provide a platform to address these issues moving forward on and from October and facilitate more fulsome reporting under clause 27B of the Code.

Once again, we’d be very happy to discuss this report with you.

Kind regards



Grant Ramage | Merchandise Director

Metcash Food

1 Thomas Holt Drive, Macquarie Park | NSW 2113 | Australia

Phone: +61 2 9741 3512 | **Mob:** +61 409 025026 | **Web:** www.metcash.com