

| | |
|--|--|
|  <p>QUEENSLAND CONSUMERS ASSOCIATION</p> | <p>A non-profit, volunteer organisation, advocating to advance the interests of consumers in Queensland</p> <p><i>Secretary: Max Howard PO Box 261 Corinda Q 4075</i></p> <p><i>Telephone: 0419 678 395</i></p> |
|--|--|

Contact: Ian Jarratt, ph: 07 37195475, email: ijarratt@australiainmail.com

**SECOND SUPPLEMENTARY PUBLIC SUBMISSION TO ACCC
INQUIRY INTO THE COMPETITIVENESS OF RETAIL PRICES
FOR STANDARD GROCERIES**

29 April 2008

Contents

| | |
|--|----------|
| Recommendations..... | 2 |
| Background | 2 |
| Assessment of the present compulsory unit pricing system for unpackaged food products and some food products prepackaged in non-rigid containers..... | 3 |
| Uses of unit pricing to facilitate price comparisons..... | 4 |
| Introduction..... | 4 |
| Different forms of a product | 4 |
| Different packaging of a product | 5 |
| Different products, especially potential substitutes | 6 |
| Different stores..... | 6 |
| Sale/regular prices and other promotional offers..... | 6 |
| Conclusions and recommendations..... | 7 |
| Unit prices of snack foods..... | 7 |
| The case for requiring the unit price of prepackaged grocery products sold by weight or volume to be shown only as \$ per kg or \$ per litre. | 7 |

Recommendations

1. Removal from the current unit pricing regulations of the exemption to provide the unit price if all the packages are the same weight.
2. Application to all prepackaged grocery items of the principles underpinning the current regulations which make the provision of the unit price mandatory for some grocery products sold by measurement.
3. There be a national, compulsory, uniform, high quality, unit pricing system accompanied by effective consumer education programs.
4. Any unit pricing system should show the unit price of prepackaged snack foods in \$/kg.
5. The basic units of measurement for any unit pricing system be \$/kg and \$/litre.

Background

The Association has made 2 prior submissions to the Inquiry – submissions no. 38 and 142. Both dealt only with unit pricing. This also deals only with unit pricing for the same reasons given in the first submission.

We make this third submission mainly to expand on some aspects of unit pricing dealt with in our previous submissions requiring further discussion.

However, before doing so we wish to draw the ACCC's attention to:

- The numerous submissions to the inquiry which support the introduction of a compulsory national uniform system of unit pricing for prepackaged grocery products, and
- Recent decisions by the federal government to introduce legislation¹ designed primarily to improve the provision of information by retailers to allow consumers to make better-informed choices – a principle objective of unit pricing of prepackaged grocery items.

The aspects of unit pricing addressed in this submission are:

1. Assessment of the present compulsory unit pricing system for unpackaged food products and some food products prepackaged in non-rigid containers
2. Uses of unit pricing to facilitate price comparisons
3. Unit prices of snack foods

¹ For petrol etc (FuelWatch legislation), and for products such as airfares and motor vehicles (component pricing legislation)

4. The case for requiring the unit price of prepackaged grocery products sold by weight or volume to be shown only as \$ per kg or \$ per litre.

Assessment of the present compulsory unit pricing system for unpackaged food products and some food products prepackaged in non-rigid containers.

Currently, each state and territory has trade measurement legislation which requires retailers to sell in \$/kg or \$/litre any unpackaged products sold by weight or volume. This information is used by virtually every grocery shopper to compare the value of substitute or alternative products and types of products. For example, pork versus lamb chops, and regular versus premium minced beef.

There are also regulations which require retailers to provide consumers with the unit price, expressed as \$ per kg (as well as the weight and the total selling price) of certain foods (such as meat, fish and cheese) sold prepackaged in packages of random weight i.e. not all the packages are the same weight. If the packages are all the same weight the unit price need not be shown.

The above regulations are greatly used by supermarket shoppers to easily make informed choices. Take for example fresh chicken breasts (skin off) on sale recently at a Brisbane suburban supermarket – at the deli counter the price of the loose product was shown clearly as \$10.98/kg, and elsewhere in the store the random weight prepackaged products were shown clearly as costing \$16.99/kg for a small pack \$12.98 /kg for a large pack. Therefore, consumers could compare prices easily, and even in different parts of the store.

BUT if the prepacked chicken breasts had been sold in packages of uniform weight, e.g. all were 750g, the retailer would not have been required and would probably not have provided the \$/kg unit price. As a result, to compare unit prices shoppers would have to do what they must do now for most prepackaged grocery products and try to work out the unit prices themselves. The result would be less well-informed consumers.

At the same supermarket this problem occurs with several other products. For example, unbranded Dutch Edam cheese was on sale at the deli counter in random weight wedges for \$14.52/kg yet elsewhere in the store branded Dutch Edam cheese sold in 200g packages for \$6.09 with no unit price shown. The unit price was \$30.45/kg – more than double the price at the deli counter!

Therefore, in this case, consumers wishing to compare prices in different parts of the store were unable to do so without calculating the unit price themselves.

To further add to the confusion for the shopper, adjacent to the 200g packages of Dutch Edam cheese (no unit price provided) were packages of Australian Edam cheese in random weight packages on each of which was shown the unit price - \$15.99/kg for the blocks and \$19.99/kg for the wedges. Furthermore, these unit prices were also shown on the shelf labels but the shelf label for the 200g packages of Dutch Edam cheese showed no unit price just the selling price of \$6.09. If the provision of a unit price had been compulsory for the 200g packages, the shelf label would have also shown the unit price

of \$30.45/kg and consumers would have been able to make an easier comparison between all the prepackaged Edam cheeses on sale at that location, as well as between locations in the store. Many consumers would be very confused by these shelf labels, some of which showed a price per kg and others only the total price of the item.

The above examples illustrate both the great value of the current unit pricing regulations and how they could be even more effective if the current exemption of provision of the unit price for same weight packages were removed.

In addition, we submit that the principles on which they are based can and should be applied to all other prepackaged grocery items also. In addition, that the provision of unit price should be mandatory for these too.

Accordingly, we **recommend**:

- Removal from the current unit pricing regulations of the exemption to provide the unit price if all the packages are the same weight, and
- Application to all prepackaged grocery items of the principles underpinning the current regulations which make the provision of the unit price mandatory for some grocery products sold by measurement.

Uses of unit pricing to facilitate price comparisons

Introduction

For simplicity, in our first submission we highlighted the use of unit pricing to compare prices between **brands and sizes** for the same product within a store. We gave a recent example of 25 items in the CHOICE shopping basket of prepackaged grocery items of well-known national brands and specific package sizes. We showed it was possible to reduce the cost of the same amount of products from \$93.51 to \$49.28 – a saving of \$44.23 or 47 per cent - by choosing the lowest priced brand or size in a store.

We also noted that savings of almost 20 per cent were possible for 19 items by choosing the lowest unit priced **size within a brand** rather than the specified size.

There are however many other ways in which consumers can use unit price information to compare prices and only some of these were mentioned in our previous submissions. These other uses to for price comparisons include:

- Different forms of a product
- Different packaging of a product
- Different products, especially potential substitutes
- Different stores
- Sale/regular prices

Each is discussed briefly below.

Different forms of a product

Many products are available in different forms, for example fresh, canned and frozen. Yet, as noted earlier, currently a unit price (\$/kg) is normally only provided for the fresh product sold either from loose bulk or in a random weight package. As a result, the

consumer is usually provided only with the following information when wishing to compare fresh and frozen Tasmanian salmon fillets – the price per kg at the deli counter (\$31.98/kg) and frozen packs 280g costing \$9.49 and 560g costing \$17.99. Thus to validly compare the price of the fresh and the frozen product the consumer must work out the unit price per kg of the frozen. In this case, the unit prices were \$33.89 and \$32.13/kg respectively, 1 and 6 per cent higher than the fresh product.

Yet the result was much different for another similar product and comparison - fresh and frozen barramundi fillets from Taiwan. The fresh product cost \$17.98/kg whereas the 500g package of the frozen fillets cost \$10.49, which equates to \$20.98/kg – 17 per cent more than the fresh product.

Clearly, the failure to provide the consumer with the unit price in \$/kg of the frozen form of the products greatly hinders simple price comparison of the fresh and the frozen forms of the products. In this case, the failure to provide the unit price of the frozen products also hindered price comparison of the frozen forms of the different potentially substitute products.

Different packaging of a product

This use has been mentioned and illustrated in some of the examples given previously. For example, the current unit pricing requirements mean that a consumer can easily see that the price of the fresh chicken breasts packaged in polystyrene trays is much higher than the unpackaged product on sale at the deli counter.

However, the absence of unit price information for most prepackaged products means that such comparisons are difficult. As a result, many consumers probably use rules of thumb, such as that bulk unpackaged will always be cheaper than prepackaged and that products in complicated packaging will be more expensive per unit than unpackaged or simply packed. However, frequently these rules of thumb are not valid and unit price differences can vary greatly between products.

For example, when the unit prices of canned and frozen garden peas were calculated and compared the costs were: frozen \$1.89/kg and the lowest priced canned was \$2.90/kg – the frozen product was much cheaper. Yet for corn kernels the reverse was true – frozen cost \$2.69/kg and the lowest priced canned was only \$1.90/kg.

This use of unit prices could be particularly useful to help consumers cope with fluctuations in fresh vegetable and fruit prices by facilitating comparison of fresh canned and frozen forms of various vegetables and fruits.

We also note that during a recent exercise to compare the unit price of unpackaged and packaged nuts and dried fruits, we found that often the unit price of a packaged product was lowest. For example, dry roasted peanuts cost \$7.99/kg unpackaged yet a 200g packet cost only \$4.80/kg and unpackaged dried Turkish apricots cost \$10.99/kg yet a 500g pack cost only \$5.58/kg. However, dry roasted macadamia nuts cost \$19.99/kg unpackaged yet the cheapest packet, 400g, cost \$24.95/kg.

Different products, especially potential substitutes

The huge variety of products available to consumers means that often there is at least one or often several other products which can be regarded as a very close substitute. And, often there is sufficient flexibility in desired final utility that consumers can regard completely different types of products as substitutes.

Consequently, if unit prices were provided for all prepackaged products it would be easier for consumers to assess the price of substitute and other products

Examples of how such comparisons could be made have been provided in several of the examples of unit prices provided earlier, for example, salmon versus barramundi fillets and garden peas versus corn kernels.

Different stores

Consumers frequently compare the prices of products between stores and change shopping behaviors as a result. Inter-store comparison of product prices is probably easiest for products currently sold per kg since the consumer does not have to be concerned about the size of the package and so has to use and retain less information to make comparisons.

Many consumers decide where to shop based on information provided by stores on advertisements showing specials and other promotions. Therefore, the provision of the unit price in \$ per kg or per litre for all prepackaged grocery items and making its provision mandatory in advertisements showing prices, (as well as on in-store price signage), would make it much easier for consumers to compare the prices of prepackaged grocery items between stores.

Over time, if provided with a uniform high quality unit pricing system, many Australian consumers would attach great importance to the unit price of prepackaged grocery products. In the same way that they make many decisions based on the price per kg for most fresh unpackaged items and per litre for petrol. Accordingly, inter-store comparisons would increase, as too would competition between stores.

Sale/regular prices and other promotional offers

Many supermarkets offer temporary price reductions on products or make other special offers such as 3 for the price of 2 or 15% extra for the same price.

Consequently, consumers face a constantly changing set of prices when they shop for groceries. The provision of unit price information for these non-regular offers is essential to ensure consumers can make easy and well-informed assessments of the relevance of such offers to their needs.

Sometimes these offers can represent excellent value for money in terms of unit price \$/kg/litre. However, this is not always the case and the consumer needs the unit price information for all offers and regular prices to make informed choices. In addition, the unit price information for special offers should be clearly and prominently displayed wherever the offer price is shown i.e. on end and mid aisle signage as well as on shelf labels.

Conclusions and recommendations

The above discussion and examples of various uses of unit pricing, illustrate the potential power of unit pricing to deliver very substantial benefits for consumers and the economy.

However, we wish to emphasise that the extent to which these benefits are realised will depend greatly on the quality of unit pricing systems provided to consumers and of consumer education programs.

Overseas research, and experience, shows clearly that Australia will only achieve the best outcomes from unit pricing if there is a national, compulsory, uniform, high quality, unit pricing system accompanied by effective consumer education programs.

The consumer education programs are particularly important to ensure that consumers are aware that they can, and how to, use, unit prices to compare product forms, product packaging, substitute products, stores, and regular versus special prices and promotions.

Accordingly, we **recommend** again that there be national, compulsory, uniform, high quality, unit pricing system accompanied by effective consumer education programs.

Unit prices of snack foods

In our first submission, we mentioned that unit pricing could assist consumers to choose healthier foods. We note that this use has been mentioned also in some other submissions.

Accordingly, recently we investigated the cost per kg of several snack foods and fresh fruit at a supermarket. We found that Tim Tams biscuits cost \$12.03 to \$15.25/kg, Smiths Potato Chips (50g) cost \$25.80/kg, a Kit Kat chocolate bar (45g) cost \$28.87/kg, and Uncle Toby Chewy Muesli Bars cost \$16.48 to \$21.45/kg.

Bananas cost \$1.98/kg and apples and pears \$3.48/kg.

Clearly, if a unit price in \$/kg were provided for snack foods and other prepackaged products, consumers would be better able to compare the value relative to fresh fruit and other potential substitutes.

Therefore, we **recommend** that any unit pricing system should show the unit price of prepackaged snack foods in \$/kg.

The case for requiring the unit price of prepackaged grocery products sold by weight or volume to be shown only as \$ per kg or \$ per litre.

In the above examples and comments we believe we have made an overwhelmingly strong case for the unit prices of products sold by weight or volume to be shown as per kg or per litre. Our main arguments have been

- \$/kg must be used now to indicate the unit price of certain prepackaged food items e.g. fresh meat, cheese, etc sold in non-rigid containers and the price of non-prepacked foods and other products sold by measurement. – see Trade Measurement (Prepacked Articles) Regulation 1991 and Trade Measurement (Miscellaneous)

Regulation 1991.

- They facilitate and simplify unit price comparison.

In addition, we submit that:

- Australian consumers are already very familiar with per kg and per litre as indicators of price per unit of measure. (Consumers think about many products only in terms of the price per kg or per litre irrespective of the amount being purchased.)
- They reduce the number of measurement units used. (This makes for an easier system for consumers to use and for retailers to implement)
- They magnify between-package differences in unit prices. (This increases the motivation for consumers to consider comparing unit prices and changing purchasing behaviours. Retailer opposition because the prices of many products will appear to be very high relative to the total selling price is invalid. For example, the price per kg of many meats, fish, and cheeses is usually much higher now than the total price of each purchase yet consumers still buy these products. Applying similar logic to the current unit pricing arrangements, unit price measurements should be reduced as prices rise, for example if fresh salmon cost \$10/kg the unit price measurement would be per kg, at \$20/kg it might be per 750g and at \$30/kg it might be \$/500g!. Clearly, this would be unacceptable to consumers and to governments interested in facilitating simple and informed consumer choice.)
- They are easier for retailers to provide. (Retailers do not have to use different units of measurement for different products.) .
- They facilitate retailer compliance with the important consumer requirement that all packages of a product, irrespective of size, must use the same unit of measurement to indicate the unit price.

Therefore, we **recommend** that the basic units of measurement for any unit pricing system be \$/kg and \$/litre.