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Australian Senate Economics References Committee Parliament House Canberra ACT 2600

Via email: economics.sen@aph.gov.au

To Whom It May Concern

Re: Inquiry into the GROCERYChoice Website

Woolworths is pleased to provide the following supplementary comments regarding the Senate Economics References Committee's GROCERYChoice website Inquiry.

If you have any questions regarding the matters raised in the submission, please contact Nathalie Samia, Group Manager Government Relations on 02 8885 3446 or nsamia@woolworths.com.au.

Yours sincerely,

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**Andrew Hall** 

**Director, Corporate & Public Affairs** 

**Woolworths Limited** 

1. The Australian Retailers' Association stated that GROCERYchoice was 'initially well-intentioned'. Do you agree that the underlying policy rationale for the website still exists – i.e. to provide better pricing information to consumers?

Woolworths has always supported the provision of accurate and timely pricing information to consumers and continues to do so.

2. To what extent do you consider that a well-designed GROCERYchoice website, with all supermarkets providing data, would put downward pressure on grocery prices?

Even a well-designed GROCERYchoice website could only report historical data (there is currently no website system in the world that reports price data in 'real time'). It would not be a predictor of the future in an already dynamic and competitive market. Therefore Woolworths does not consider that such a website would be capable of putting downward pressure on grocery prices.

Price information for groceries is transparent to consumers through advertising and instore, and unit pricing has enhanced price information for customers.

3. It would be easier for supermarket chains to provide price information to GROCERYchoice if their prices were uniform across a metropolitan area.

This may be difficult if there are large cost differences between stores in the one metropolitan area. How large are these cost differences and what are the main contributors to cost differences?

The nature of food retailing makes it very difficult to achieve 'uniform' prices across a whole region. Generally speaking, cost differences between Woolworths stores in a single metropolitan area are not "large", with the exception of products on "special", which are priced particularly competitively. However, aggregated across up to 25,000 products, the total cost difference can be significant.

Woolworths has many thousands of products with uniform prices, either at a State or National level, mostly on dry grocery items.

However, in the areas of fresh foods, such as fruit and vegetables, prices frequently and unpredictably fluctuate on the basis of factors such as availability, quality, competition, stock levels, etc. Thus, despite Woolworths' uniform national pricing, the base price fluctuates over the course of each week with the prices of over thirty percent of products moving up or down at various times in different stores to reflect factors such as supplier cost changes, weekly or daily specials, competition matching centrally or at individual store discretion etc.

4. Are all cost differences passed onto customers at the individual store or are some costs 'averaged out' across all stores?

Woolworths assumes that this question relates to the cost of getting goods to stores and the cost of retailing them. On this basis, the answer is that retail prices are marked up from the buying cost from the supplier by a margin in each category of goods that will allow a net profit after the application of averaged operating costs. Individual differences between store operating costs, or in the mix of sales between more and less profitable

categories of goods, are merely reflected in some stores making a better return than others, not in retail price variation.

5. Given you favour a national pricing policy, would you support GROCERYchoice if there was an exemption for fresh fruit and vegetables?

Excluding fresh foods would exclude meat, deli, seafood and produce, some 40% of a typical Woolworths store. If these products were to be excluded the website would be unrepresentative of shopping choices, making such a survey of questionable relevance for customers.

As set out above, the GROCERYchoice website could only report historical data and Woolworths supported that model. It would not be a predictor of the future in an already dynamic and competitive market.

Furthermore, although an exemption for all fresh foods (ie not just fresh fruit and vegetables, which are but a subset) would relieve concerns in relation to the difficulty of both 'real time' price feeds and ensuring that fresh foods of comparable quality and availability are appropriately compared, there are still outstanding concerns regarding the comparability of branded and non-branded products.

6. How much discretion do individual store managers have to vary prices (other than discounting perishables)? Does this only apply to locally-produced fresh fruit and vegetables? What proportion of fruit and vegetables are obtained centrally at a contract price and what proportion are from local farmers' markets?

Woolworths store managers can match a price on any product they think places the store at a competitive disadvantage (compared to other retailers in the area) in particular remaining competitive on key value items.

7. Do supermarket chains use more profitable stores to subsidise ones where it is hard to charge high prices, either because there is a lot of competition or because they are in lower-income suburbs?

Woolworths does not do this. All our stores must be profitable to remain open. Every year we close stores that have fallen below profitable operating levels. There is a nominated price for a product that is set nationally or by region and it is not 'marked up' in any store for any reason. Note however that the nominated price may be frequently marked *down* due to reasons including competition, clearance, promotions etc.

8. If prices are not uniform, is it misleading to say "now \$4, save \$1" in an advertisement if the price was not formerly \$5 in all stores?

In accordance with the Trade Practices Act, if Woolworths were to make such a statement in an advertisement, the price would have been at least \$5 for an appropriate length of time in any store included in the advertisement. To allow for the odd store that may have lowered the price temporarily to match a competitor, Woolworths' advertisements state that the saving is "based on the [relevant city's] metropolitan price".

## 9. Is it in the interests of supermarkets to provide comparative price information to consumers?

Currently, Woolworths demonstrably supports informing consumers. Examples include displaying prices clearly in store, and in relation to specials, displaying promotional pricing in brochures (Woolworths publishes 8 million brochures per week) and on its website. On the whole, Woolworths considers that consumers are very good at making price comparisons between supermarkets that are convenient to them. The advent of unit pricing, which Woolworths has supported from its inception, has considerably improved enhanced that the ability of consumers to make price comparisons between stores and between products within stores.

10. ANRA stated in its submission that 'in-store price checking is likely to be the most reliable price reporting method'. Do you therefore support the concept of a website that relies on third-party data collection of in-store prices? In such a case, there would be no costs to retailers in data collection.

So long as such price checking was accurate and it was made clear to consumers that the information is historical, Woolworths would support this method of data collection. To ensure that customers are not misled, issues relating to comparability would still need to be carefully considered, for example by including appropriate descriptions as to the method of data collection and any necessary warnings about the limitations of the data.

11. Why couldn't supermarkets provide the same pricing data that is already provided to Aztec and Nielsen at the point-of-sale? According to Aztec's website, they have access to every single transaction that takes place at Woolworths supermarkets through their BasketView service.

The only data that Aztec receives is dollars received and units of goods sold. From that data, an average price can be calculated, but this average price will not be the actual shelf price paid by a customer. The average price would be an amalgamation of all the prices that may have applied in a day or a week, including outliers such as clearance prices, scanning errors, etc.

We also note that third party information providers such as Aztec and Nielsen charge for access to their data and reports on the basis that they have invested in the collection and aggregation of the data.

12. Retailers have raised alleged problems in measuring prices of fresh food in the context of GROCERYchoice. Do you also regard the Consumer Price Index as invalid due to these concerns? Does this mean that information you provide in household letterboxes about fruit and vegetable prices is also meaningless? How do you compare fresh food prices in rival stores in making your own pricing decisions?

Woolworths notes that the CPI is prepared on the basis of fixed assumptions and baskets to provide a trendline for macro-economic purposes via historical data recording (not 'real time' price data feeds). This quite different from a tool intended to inform customers in relation to everyday purchases of groceries.

Woolworths considers that it has long-established standards in produce that customers recognise and therefore equate with the special prices offered. It uses its own expert staff to assess quality and price in competitive price checking.

13. Retailers have stated that the information provided on CHOICE's website would have been misleading and therefore of little use to consumers, as shelf prices might diverge from the reported price on the website. However, given the 'dynamic and flexible' pricing that occurs from day to day, could it not be argued that the information provided in your print advertising is also 'misleading' and useless to consumers if it does not reflect real-time prices?

The information provided to customers in Woolworths' print advertising is informative and useful for consumers in their shopping decisions. Woolworths takes great care to isolate and identify products on special (ie those that are advertised in Woolworths' print advertising) such that any claim made in relation to prices or savings is absolutely accurate, legally correct and identifiable to customers.

14. What is the relationship between prices charged for delivered goods ordered over the internet and those in the closest store? Should the internet 'shop' be regarded as a separate outlet?

Woolworths considers that the internet "shop" should be regarded as a separate outlet. It operates as a separate entity and has a complete and separate cost structure and retail price structure. The internet "shop" requires a Woolworths staff member to pick desired products from a Woolworths store and then deliver them to the customer. There is no relationship between prices charged for delivered goods ordered over the internet and those in the closest store to the customer.

15. The July 2008 ACCC report into the competitiveness of the retail grocery market found that Coles and Woolworths' local pricing has been influenced by varying costs of sourcing and distributing products from local distribution centres. Can you comment on the extent to which these differences apply and influence the price differences for a given product?

Local pricing is affected by the varying costs of sourcing goods across the country. Only a handful of Woolworths stores in the remotest parts of Australia (eg Weipa and Gove) have marginally higher prices due to the extra transportation required.