

10th November 2009

The Secretary
John Hawkins
ECONOMICS REFERENCES COMMITTEE
PO Box 6100
Parliament House, CANBERRA
ACT 2600

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

Inquiry into the GROCERYchoice Website

Dear John, we respond to Meg Banfield's questions on behalf of the Committee which we highlight in italics below.

Q.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?

A.1 Coles believes the market already provides extensive price information that enables interested consumers with the ability to compare prices. Advertising, catalogues and in-store shelf labels on more than 25,000 products provide effective information and choice for millions of customers.

Price web sites provide another platform for price data but for a relatively small proportion of the customer base. Coles fully cooperated with both the ACCC and Choice in their price matching and management of the Grocery Choice website. However, neither site proved to have widespread appeal with consumers because of the inherent limitations in comparing products of different quality, particularly in fresh produce.

Q.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?

The Committee should recognise that food manufacturers set base prices for the majority of products in supermarket shelves, not retailers, and that their prices are influenced by a range of production costs including availability during drought, labour costs, fuel costs, etc. Retailers charge a small margin above the base price to cover distribution costs.

Retailer efforts to provide the best value outcome for our customers, including through their own private label products, is a key driving force in keeping grocery prices low, not partial and potentially misleading grocery price web sites.

Q.3 Is it in the interests of supermarkets to provide comparative price information to consumers?

It has been Coles practice for decades to provide prices for all the products we offer to consumers. Each of these products has a unique price label. Typically, Coles' put similar products from different manufacturers side by side on shelves for consumers to make their own choices based on their needs.

Q.4 What is your view of the government's proposal to hold discussions about the possibility of an industry website that could be audited by a Government-appointed auditor? Would you be willing to cooperate? Have there been any discussions yet?

A.4 Coles is always willing to discuss such matters with the Government and the industry's representative body ANRA, as we did with Grocery Choice.

Q.5 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.

A.5 Third party data collectors can do this now but it is a very expensive method of price collection.

Q.6 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. Are you able to purchase Woolworths' point of sale data through Aztec?

A.6 The data provided to third party contractors under legally binding commercial agreements is partial data that is not suitable for on-shelf price comparisons because of local pricing differences.

Q.7 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?

A.7 Varieties and seasonal quality of fresh produce have a bigger impact on fresh produce decisions of customers than pricing.

The CPI is a partial price survey and its food component includes takeaway meals and restaurant meals. As such, it is not a true reflection of food prices in supermarkets.

In some instances, Coles is able to offer customers weekly specials on fresh produce where we have secured stock at appropriate quality.

Coles price checks against competitors on key fresh produce lines daily. Store managers are able to match competitor prices (not increase or undercut them).

Q.8 It would be easier for supermarket chains to provide price information to GROCERYchoice if their prices were uniform across a metropolitan area.

A.8 Some retailers who have limited distribution networks may be able to offer standardised prices. However, pricing by national retailers reflect a range of local cost factors including distance from supply and supermarket size.

Q.9 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?

A.9 The cost differences vary from supermarket to supermarket. Store costs include rent, wages and overheads.

Q.10 Are all cost differences passed onto customers at the individual store or are some costs 'averaged out' across all stores?

A.10 Some costs are incurred on a shared services basis to provide the most efficient cost model.

Q.11 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?

Store managers have discretion at store level for several hundred products. It applies to what we call key value lines that include some fresh produce.

The majority of Coles' fresh produce is purchased directly from growers or pack houses owned by groups of growers. The remainder is purchased at central markets in capital and some regional cities.

Q.12 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?

A. 12 Coles' operates all of its stores as efficiently as possible. The cost of doing business varies between stores.

Q.13 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?

A.13 There are many items provided by manufacturers that have the same shelf price nationally but a range of specials and catalogue items that vary

between locations depending on availability and quality. These are advertised on a State and local basis.

Sincerely

Chris Mara

Adviser, Government Affairs

Q.14 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?

A.14 Retailers are legally liable for any advertising. ACCC enforcement provisions apply under the Trade Practices Act. Choice was unable to provide retailers with sufficient legal clarity and certainty about how its proposed web site would have managed these issues.

Q.15 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?

A.15 On-line retailing provides an added value service of selection and delivery to the consumers home. The cost of doing business will be different because of this added service but it is proving increasingly popular and valued by consumers who choose this service.

Q.16 The July 2008 ACCC report into the competitiveness of prices for standard groceries found that Coles head office sets lower prices for certain products in stores that have an ALDI store in close proximity. These are mainly products that Coles considers to be comparable to products offered by ALDI. Can you comment on this? Does Coles still price some of its products according to whether there is a nearby ALDI? Would it benefit consumers to know about this through a GROCERYchoice website?

A.16 Coles store managers have the discretion to lower prices on items to match competitors' prices in close proximity to their stores to ensure they don't lose sales to these competitors. This benefits consumers.