

# Chapter 1

## Introduction and background

### Referral

1.1 The Senate referred the matter of the establishment, management, operation and closure of the GROCERYchoice website to the Economics References Committee on 12 August 2009 for inquiry and report by 26 October 2009. On 20 October 2009, the Senate granted an extension of time for reporting until 16 November 2009. A further extension of time for reporting was granted until 18 November 2009.

### Terms of reference

1.2 The terms of reference required the committee to report on:

(a) the rationale and purpose for the website as stated by the Government before the 2007 election;

(b) the business plan, modelling or plans formulated by the Government or the Australian Competition and Consumer Commission (ACCC) to establish, manage, operate and close the website;

(c) the problems and issues faced by the ACCC in establishing, managing and operating the website, as well as in handing the website over to CHOICE;

(d) the rationale for the ACCC ceasing to manage and operate the website;

(e) the level of usage of the website while it was managed and operated by the ACCC;

(f) the proposal CHOICE put to the Government to take over the website and the reasons why the Government was persuaded that taxpayers would receive value for money;

(g) the problems and issues faced by CHOICE in establishing, operating and relaunching the website;

(h) the contract arrangements with CHOICE and the various contractors involved with CHOICE's and the ACCC's management and operation of the website;

(i) the legal issues and trade practices concerns arising from the establishment, management, operation and closure of the website;

(j) the specific concerns of the major chains and independent retailers;

(k) the total cost to the taxpayer in establishing, managing, operating and closing the website; and

(l) any other matters incidental thereto.

## **Conduct of the inquiry**

1.3 The committee advertised the inquiry in the national press and invited written submissions by 11 September 2009. Details of the inquiry were placed on the committee's website and the committee also wrote to a number of organisations and stakeholder groups inviting written submissions. The 15 submissions received by the committee are listed in Appendix 1.

1.4 Three public hearings were held by the committee, in Canberra on 18 September 2009, in Melbourne on 6 October 2009 and again in Canberra on 28 October 2009. A list of witnesses appearing before the committee at hearings is provided at Appendix 2.

1.5 The committee thanks all those who participated in this inquiry.

## **Structure of the report**

1.6 The report is divided into eight chapters. The report begins by examining the purpose of the GROCERYchoice website. Chapter 2 outlines the website's management under the ACCC. Chapters 3 and 4 discuss the website's transfer to CHOICE and the issues and problems CHOICE encountered. Chapter 5 examines the concerns of the major and independent grocery retailers and Chapter 6 looks at the legal issues and trade practices concerns arising from the website. Chapter 7 discusses current and emerging methods for grocery price comparisons. Chapter 8 concludes with a consideration of the value and effectiveness of GROCERYchoice.

## **Background**

1.7 The Australian Labor Party took to the last election a commitment to direct the ACCC to publish a periodic survey of grocery prices for typical shopping baskets. The Hon. Kevin Rudd MP, the then Opposition Leader, stated:

... this very act will serve to increase transparency in the market place and in doing so exert greater competitive pressure on the retail market [and] will provide the ACCC with the pricing information it needs to identify whether there are indications of breaches of the Trade Practices Act that require further investigation.<sup>1</sup>

1.8 This was implemented when the 2008–09 Federal Budget provided \$12.86 million over four years to the ACCC to:

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1 Kevin Rudd, Speech to Cranbourne Secondary College, 'Fresh Ideas for the Future Economy: Cost of Living Pressures Faced By Australian Families', 11 July 2007.

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undertake a monthly survey of grocery prices for typical shopping baskets across Australia [to] help consumers locate the cheapest supermarket chain in their area.<sup>2</sup>

1.9 The initiative took the form of the GROCERYchoice website, which was launched on 6 August 2008 by the ACCC. Later that year, the Government announced that the consumer organisation, CHOICE, would take over responsibility for the website. CHOICE was to launch a new version of the website in mid-2009. However, a few days before it was due to launch, the Government announced that the website project would be abandoned.

### *Purpose of the website*

1.10 The ACCC stated that the website:

... was designed to improve transparency in the grocery market and to help consumers locate the cheapest *overall* grocery prices and supermarket chain in their area without having to compare a large number of prices themselves.<sup>3</sup>

1.11 Asked whether the website was intended to address the lack of price transparency and real-time information on grocery prices, Treasury responded:

Certainly the website was intended to assist consumers to make informed choices about grocery purchases ... That as an aid to assist consumers is something that the government has indicated is worth pursuing. That is really the underlying policy rationale of setting up a website like GROCERYchoice.<sup>4</sup>

1.12 CHOICE's view was that its version of the website would have contributed to greater price transparency:

Information is a basic consumer right. The ability to compare prices at supermarkets at the touch of a button was an important innovation. It would have begun to address the information asymmetry between supermarkets and consumers. Specifically, it would have had two positive effects: (1) each consumer using the site could have actively chosen to shop somewhere cheaper; (2) all shoppers would benefit through a proportion of consumers changing their shopping behaviour and, in the process, driving greater price competitiveness. It is one important change that would have helped to create a more competitive market for groceries.<sup>5</sup>

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2 2008-09 Budget Overview, 'Easing cost of living pressures', [http://www.budget.gov.au/2008-09/content/overview/download/Budget\\_Overview.pdf](http://www.budget.gov.au/2008-09/content/overview/download/Budget_Overview.pdf) (accessed 10 September 2009).

3 Australian Competition and Consumer Commission (ACCC), Answers to Questions on Notice prior to public hearing (received 17 September 2009), p 2.

4 Mr James Chisholm, Treasury, *Proof Committee Hansard*, 18 September 2009, pp 8–9.

5 Mr Nick Stace, CHOICE, *Proof Committee Hansard*, 18 September 2009, p 39.

***Methods for comparison of grocery prices***

1.13 A number of grocery price comparison websites already operate in Australia and overseas. The emerging phenomenon known as 'participatory price sensing', whereby consumers themselves contribute to databases of real-time pricing information, is also likely to play a significant part in grocery price monitoring strategies into the future. These methods are discussed further in chapter 7.