

Chapter 8

The value and effectiveness of GROCERYchoice

Relevance to consumers

8.1 The committee heard a range of views about the extent to which the version of the GROCERYchoice website run by the Australian Competition and Consumer Commission (ACCC) was relevant to consumers (see chapter 2).

8.2 Despite being critical of the ACCC's website, Associate Professor Frank Zumbo argued that the CHOICE version would have been worth pursuing:

Based on what I know—as I said, because the site was never operational we could never be 100 per cent sure—and from my understanding of the theory behind it, yes, it would have been useful to consumers because it would have at least given them weekly specials which the ACCC did not. I think having the weekly specials all put on the one website is very helpful to consumers. And that is the very least that CHOICE could have done to provide meaningful data, because that weekly data is available. You can get a flyer for each of the four or five major supermarket chains, you can download that data onto a website and then you can compare chains. That would have been enormously useful just on that basis. If the website did nothing other than just provide a comparison of weekly specials then we would have moved forward significantly.¹

8.3 Associate Professor Peter Earl described his vision of a grocery comparison website ideally designed for consumers, with data coming directly from the stores:

Such a website needs to be designed so that consumers can store their own shopping list 'favourites' rather than hunting for them each time on hierarchical menus. Consumers should be allowed to specify their favourites in terms of particular branded products (e.g. Heinz vegetarian baked beans, 500g) or by category. It needs to enable them to mark which of these favourites they wish to buy on the particular shopping trip, and to add it to non-standard items for that particular trip. It should also allow them to specify a set of preferred shopping centres. Once a consumer has entered their requirements, the website should enable them to download two kinds of output: (a) which supermarket is cheapest if they wish to cut their shopping costs by doing a one-stop shop, and what is the cheapest way of getting the items on their shopping list within their stated geographical area (they should be presented with a list of what to buy at which store).²

1 Associate Professor Frank Zumbo, *Proof Committee Hansard*, 6 October 2009, pp 11–2.

2 Associate Professor Peter Earl, *Submission 15*, p 2.

8.4 However, Informed Sources asserted that even if a website providing real-time data could be developed, it would still be of little relevance to consumers, as price is not the primary driver of consumer shopping behaviour:

Mr Cadd— ... People do not shop for groceries on price alone. They shop because it is convenient. They shop because there is a particular brand that is there. There is a belief that people want to sit and spend hours deciding what products they are going to buy. It does not happen.

Senator XENOPHON—Although to be fair, if you had an effective website, those that do not have access to the net would probably hear about it through media reports—radio news or television news—saying which was the cheapest for a particular week.

Mr Cadd—Let us workshop that for a second. Let us get to the point where senators and also some of the witnesses prior to us said, ‘What about if we had a continuous update of prices onto this website?’ Then you would have a situation where prices would be being changed on an hourly basis by bigger players. How can anybody then determine comparative baskets? How can they then determine what they are comparing against this one et cetera?³

As far as a consumer tool is concerned, Mrs Shopper is not going to do it. She is going to walk away from it because it is not meaningful until she can pick it up, look at it and say, ‘Yes, I’m prepared to serve that.’

The shopping experience for the large majority of people who are in grocery starts when they ask what they are going to have for dinner tonight. If I am cooking shepherd’s pie, I want minced steak that is going to be a certain quality because I am trying to achieve something. I do not want fatty meat et cetera. Somewhere down the track people worry about the price.⁴

8.5 Informed Sources suggested that it is 'macro-level' information, not real-time data on individual prices, that is most useful to consumers:

We know already that Coles and Woolworths are going head-to-head and there is a hair’s breadth in it. This is not me saying this because I am a market researcher; consumers know this. They know that ALDI is cheaper but has a limited, more restricted range of products and that they are typically ALDI branded products. That is great. You can go there and save money. You can also go to the IGA and it is probably a little bit more expensive, but, hell, he is just around the corner, he is a friendly guy and I love to be able to walk there and pick up three things on the way home from work. This everybody knows.⁵

8.6 While consumers may already have a 'general' feeling about grocery prices through retailers' advertising of weekly specials, they do not currently know the extent

3 *Proof Committee Hansard*, 6 October 2009, p 73.

4 Mr Alan Cadd, Informed Sources, *Proof Committee Hansard*, 6 October 2009, pp 75–6.

5 Mr Cadd, Informed Sources, *Proof Committee Hansard*, 6 October 2009, p 74.

to which they are paying for convenience in terms of location or one-stop shopping. As Associate Professor Earl argues:

The persistence of [price] dispersions may also be facilitated if firms introduce noise into price data by periodically having 'sales', making it harder for consumers to work out whether on average they are more expensive than others or what the probability of getting a particular kind of deal from them will be

Much the same issue arises where supermarkets compete in some cases by offering 'everyday low prices' and in other cases by offering 'specials': it takes a lot of effort to discover where the cheapest supplier of one's intended trolley-load of goods is to be found ... Given these search costs, consumers may opt to stay with suppliers whose prices and layouts they find acceptable, until their preferred store lets them down for some reason (e.g. persistent failure to stock particular items). They get the benefits of one-stop shopping but without really knowing whether the claims of rivals about better deals are true or not. It may take the entry of a new supermarket chain to signal that incumbents have been using the difficulty of comparing prices as a means to generate supernormal profits.⁶

8.7 A well-designed GROCERYchoice website therefore could have addressed to some extent the information asymmetry between retailers and consumers on grocery prices.

8.8 Associate Professor Earl's submission to this inquiry included an article on 'The Competitive Process in the Age of the Internet' in which he argued that if supermarkets posted all of their own prices online, a third-party price comparison website, which would retrieve data from supermarkets' websites, could allow consumers to shop more efficiently for groceries:

Prior to the Internet, this task inherently presented a major problem: it was difficult to judge which supermarket offered the best value for a one-stop shop, or which items to buy in which supermarkets if one were prepared to trade the financial savings from this against higher transaction costs. The problem was essentially caused by a conjunction of bounded rationality (limited memory capacity confronting upwards of 10,000 different product lines in a typical large supermarket), aggravated by continually shifting relative prices due to seasonal fluctuations and supermarkets' changing strategies over which items they would put 'on special' each week. Things would be very different if supermarkets started posting all of their prices (for online customers) on their websites and enabled shoppers to bookmark their favourite products separately from the thousands of lines stocked and thereby to read off the total cost of the week's trolley load from each store. One would imagine that these websites could be readily integrated with the

6 Associate Professor Earl, Submission to Productivity Commission Review of Australia's Consumer Policy Framework, 2008, pp 2–3, http://www.pc.gov.au/data/assets/pdf_file/0008/88946/sub024.pdf (accessed 7 October 2009).

stores' scanner information systems to reduce their costs of updating price information. Once sites like this existed, a third-party site could be set up to mine their information and then provide instant guidance on how to get the cheapest bundle of products for shoppers who were prepared to shop at several stores and were prepared to incur the set-up costs of bookmarking their typical shopping requirements at the third-party site. Supermarket owners would not relish such a development and would probably try to prevent it by making their information impossible to mine electronically ... but if they failed to provide website listings of all their prices to enable consumers to bookmark and check the cost of their favourite items easily, then policymakers might require that they do so. This might be a far cheaper means of helping consumers than having a State-sponsored 'price watch' website that listed prices that had actually been observed in supermarkets by enumerators and which were inherently less likely to be up to date.⁷

Price transparency

8.9 Associate Professor Zumbo told the committee that a consumer tool such as GROCERYchoice would have empowered consumers and gone some way towards improving transparency in grocery pricing:

Prof. Zumbo— ... The real market failure is the information asymmetries which give the supermarkets enormous power and an enormous advantage because they have all the information about their own products and about competitors, but consumers do not have that information about grocery prices ...

I could walk into an ALDI store anywhere on the eastern seaboard and get the same price for the same product. I do not feel that I need to shop around. I do not feel that I have to go to different ALDI stores. But, when I am shopping at a Coles or a Woolworths, for example, I will shop around on items, on the basis that they do have a discrepancy in prices. Consumers will try to do what they can, but the only way that they can be empowered is by full price transparency online and in real time.⁸

8.10 The 2008 ACCC grocery inquiry found that consumers did not exclusively rate 'price' as 'very important' when choosing where to shop. Consumers placed high value on a range of non-price elements of the retail offer, including food quality, availability of favourite brands and store characteristics.⁹

7 Associate Professor Earl, *Submission 15*, Attachment 1, Peter E. Earl and Tom Mandeville, 'The Competitive Process in the Age of the Internet', *Prometheus*, Vol 27, No 3, September 2009, p 200.

8 Associate Professor Zumbo, *Proof Committee Hansard*, 6 October 2009, p 9.

9 ACCC, *Report of the ACCC inquiry into the competitiveness of retail prices for standard groceries*, July 2008, p 72.

8.11 The report also noted that consumers' comparison of grocery prices between retailers could be quite difficult for a number of reasons. A significant amount of time is needed to compare the 'total shopping spend' for a larger shopping trip across retailers; consumers often make unplanned or last-minute purchases; and prices can be difficult to compare across different sizes and weights (although unit pricing may assist in this regard). Price sensitive consumers will therefore often limit their product comparisons to a few (known value items).¹⁰

8.12 The ACCC also found that 17 per cent of consumers reported that they always compared prices, while 55 per cent of consumers do not compare prices before grocery shopping; 28 per cent of consumers did so sometimes. The ACCC commented:

Despite this, a large proportion of the same respondents rated price as 'very important'. It is likely that some consumers instead compare prices over time and build a mental picture of prices. Instead of comparing prices before every shopping trip, these consumers might re-evaluate their choices as their experiences change.

... Another reason for fewer consumers comparing prices can be the perceived costs associated with changing from a preferred grocery retailer. The cost of breaking with habit or the changeover effort of shopping at an unfamiliar store with a different layout can limit consumers' willingness to compare prices at their regular grocery retailer with another.¹¹

8.13 Freshlogic, a food and grocery consultancy firm contracted by CHOICE, stated that there was evidence of some consumer demand for price information and that, to a certain extent, consumers who made discerning choices could contribute to greater price competitiveness:

Mr Kneebone—I believe there are segments of the market that will look for this information. In the last 12 months we have seen a higher level of what we would call value discernment with consumers, which has manifested in many things. We are seeing people shopping with lists. We are seeing shopping behaviour changing. They are reducing the number of outlets they go to. These are all reflections of looking to economise in the home. Based on that, I would say that there is probably a slightly higher proportion that would be interested in it. I think it has a lot to do with how easy it is to access and how much time it takes. Time and convenience is still 75 per cent of what drives where people shop.

Senator PRATT—For the proportion of people for whom price does matter, in that they are prepared to shop accordingly, if they are making discerning choices does that play a role in driving down prices for other consumers in general, in your opinion?

10 ACCC, *Report of the ACCC inquiry into the competitiveness of retail prices for standard groceries*, July 2008, pp 74–5.

11 ACCC, *Report of the ACCC inquiry into the competitiveness of retail prices for standard groceries*, July 2008, p 76.

Mr Kneebone—Yes. If there is a competitor in the market that has sharpened up on some products and they are enjoying volume, the rest of the market will respond. We have seen that with a new entrant in the last five or six years.¹²

8.14 Professor Allan Fels and Professor David Cousins, recently wrote that enhanced price transparency can assist consumers to make more informed decisions when purchasing products. They also stated:

It is not necessary for all consumers to act on the information provided to them for there to be a significant impact on a market. Small shifts in custom and market share can induce competitive responses from suppliers.¹³

8.15 One submitter to the inquiry (a pensioner) was disappointed that GROCERYchoice had been scrapped:

... if the website had become available, I'd have be able to tell how much more the Woolworths monopoly in my town is charging for basics than people living in more populated areas where there was a Woolworths competitor (price fixer, ALDI excluded) nearby. But now I'll never know!¹⁴

8.16 However, the National Association of Retail Grocers of Australia (NARGA) disputed the claim that there is a lack of price transparency on the part of grocery retailers, which would justify the existence of a price comparison website:

The Australian grocery industry spends millions of dollars a month advertising its prices - particularly “specials” prices, but others as well - in press, radio and television advertisements, in home-delivered catalogues, in-store and with every product on every shelf. Lack of transparency is not an accusation that stands up to a moment’s scrutiny.

Till dockets nowadays display the normal shelf price as well as any discount when the product is on special, the brand, weight, size or volume of the item, the date and time of purchase, the store address and contact details - at least equivalent to the data which either the ACCC or CHOICE proposed to make available through the GROCERYchoice website.¹⁵

8.17 The Australian National Retailers Association (ANRA) also asserted that the claim that there was a lack of price transparency in the retail grocery market was misleading:

One of the best indicators of an efficient market is consumer access to high levels of accurate price and product information. When looking at the spectrum of different markets in Australia, from those with scarce pricing

12 *Proof Committee Hansard*, 6 October 2009, pp 31–2.

13 David Cousins & Allan Fels, 'The Re-Emergence of Prices Surveillance', *UNSWLaw Journal*, Volume 32(1), 2009, p 308.

14 Mr Robert Chapman, *Submission 12*, p 1.

15 NARGA, *Submission 2*, p 10.

information to those with an abundance of information, grocery retail is clearly one of those markets that is information rich.

... If you want to buy an antique, you have to work hard to find out where and how to buy it and what is a fair price. But in major retail operations this is not the situation. One of our members alone prints a million brochures each week on price and product information. The supermarket sector alone is producing over a billion catalogues a year. This is not to mention advertising or the websites of the retailers themselves.¹⁶

8.18 Coles stated that it had been 'quite comfortable' with the ACCC version of the website, saying 'we have nothing to hide' and noting that 'quite a lot of detail' is already provided to customers through advertising.¹⁷

8.19 Another submitter agreed that shoppers already had 'ample opportunity to compare prices' through supermarkets' weekly advertising.¹⁸

An anti-competitive effect?

8.20 The Australian Retailers' Association (ARA) asserted that any attempt to resurrect GROCERYchoice would:

... covertly organise market intelligence which could be manipulated [and] have an undesirable Big Brother approach to price monitoring.¹⁹

8.21 At the hearing, the ARA argued that CHOICE model of real-time grocery prices would ultimately prove dangerous for smaller retailers:

We believe it could lend itself to manipulation by majors, who have the ability due to their superiority in technology to alter their prices at any time to meet competition. It will also add to their ability to drive out competition from the smaller independents by routinely undercutting their prices in geographical areas just by monitoring what is being set up on the website.²⁰

8.22 Concerns that the CHOICE-run website could lead to retail price maintenance were also expressed by NARGA and Tasmanian Independent Retailers.²¹ Master Grocers Australia argued:

16 Mrs Margy Osmond, Australian National Retailers Association (ANRA), *Proof Committee Hansard*, 6 October 2009, p 35.

17 Mr Robert Hadler, Coles, *Proof Committee Hansard*, 28 October 2009, p 15.

18 Mr D Johnson, *Submission 4*, p 1.

19 Australian Retailers' Association, *Submission 7*, p 2.

20 Mr Russell Zimmerman, Australian Retailers' Association, *Proof Committee Hansard*, 6 October 2009, p 17.

21 NARGA, *Submission 2*, p 9; Mr Grant Hinchcliffe, Tasmanian Independent Retailers, *Proof Committee Hansard*, 6 October 2009, pp 99–100.

I am very much for the dynamic, competitive process that we have now, which is in some ways unpredictable, whereas what we see in the website is that there is an enormous amount of predictability about it and that there could even be a risk of an upward surge in pricing. If I am selling a product at \$1 and I can see that my competitors are selling at \$1.15, I might say: 'Maybe I am a bit too cheap on that. I could make some extra margin out of it.' I do not see it as a dynamic, competitive driver to drive prices down.²²

8.23 The ACCC was somewhat sceptical of these claims, stating that 'too much transparency' was hard to argue for in the context of grocery retailing:

The very limited anecdotal evidence we saw in the six months it was run was that perhaps that did not occur—but that evidence is really limited and anecdotal. There is no doubt that sometimes you have too much transparency in a market. Everybody knows everybody's price, and it is easy to price fix. That tends to be more so in cases where a product is a bit more homogenous. It is a bit difficult with 25,000 lines. I would take it with a grain of salt. I can understand what their concern is but I am not sure that that would actually be the result and I am not sure that that is what we are seeing.²³

8.24 A counter-argument to the claim that GROCERYchoice could have anti-competitive effects and even put upward pressure on prices is the fact that supermarkets already enjoy access to detailed pricing data obtained through their contracted data collection agencies, such as Retail*Facts and Informed Sources.

8.25 Furthermore, if it is held that GROCERYchoice's increased price transparency would lead to higher prices, then the same argument would imply that the information provided in store advertising materials may also have a 'price maintenance' effect and that therefore such information ought to be suppressed. (Of course, it is not suggested that this should actually occur, but merely demonstrates the limits of the argument against price transparency).

Committee view

8.26 Overall, the committee believes that GROCERYchoice was a shocking waste of taxpayers' money, clearly demonstrating the Government's apparent disregard for obtaining value for money. Public funds should not have been spent on GROCERYchoice without having a clearer idea of the goals of the website and the practical feasibility of attaining them. GROCERYchoice has provided little information of use to consumers, as can be seen by the sharply declining drop in website use. The total cost to date of this failed experiment is \$7.7 million with an estimated contingent liability of \$700 000, although this may vary depending on the deliberation over the Government's unilateral termination of the CHOICE contract. The status of any possible further litigation by CHOICE or other contractors remains

22 Mr Jos de Bruin, Master Grocers Australia, *Proof Committee Hansard*, 6 October 2009, p 107.

23 Mr Mark Pearson, ACCC, *Proof Committee Hansard*, 28 October 2009, p 7.

unclear. The Government appears not to have learnt any lessons from the failed FuelWatch experiment.

Recommendation 8

8.27 The committee recommends that the Government learn from this episode of waste and mismanagement and ensure that such inappropriate and careless spending does not occur again in the future, noting that now, more than ever, value for money for the taxpayer should be a top priority.

Senator Alan Eggleston

Chair

