

Chapter 2

Unit Pricing

2.1 The Unit Pricing (Easy comparison of grocery prices) Bill 2008 aims to mandate the provision of unit pricing information by retailers of pre-packaged grocery products in Australia, with some exemptions for smaller, single premise shops, and for itinerant retailers. This chapter explains what unit pricing is, reviews its current status in Australia, and examines the perceived costs and benefits associated with the introduction of a mandatory unit pricing scheme.

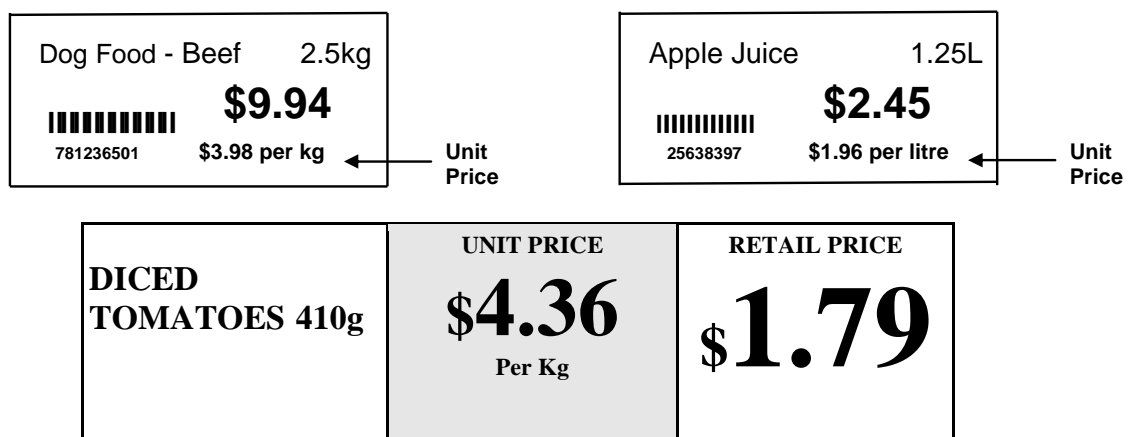
What is unit pricing?

2.2 Unit pricing involves retailers providing a price per standard unit of measurement in addition to the sale price. The standard unit of measurement will vary depending on the measurement by which the particular item is normally sold. Under the Unit Pricing (Easy comparison of grocery prices) Bill 2008, the unit price is defined as:

The final price, including GST and all other taxes, for one kilogram, one litre, one metre, one square metre or one cubic metre of a grocery product, except in respect of grocery products sold by number, where unit price is the final price, including GST and all other taxes for an individual item of the grocery product.

2.3 Consequently, shelf price tags would display two prices – the price of the item and the unit price (see examples at Figure 1). Unit pricing does not generally involve manufacturers of pre-packaged products changing or adding any markings to the label on individual grocery items.

Figure 1- Examples of shelf labels with unit pricing information



2.4 Unit pricing is designed to allow consumers to compare the price of an item by some standard measure, such as weight or volume, so that they can easily ascertain which product and/or size of product is cheaper. *Choice* magazine gives as an example the price of a 1.2kg tin of Pedigree dog food compared to a smaller tin of the same product. Many people would purchase the larger tin, expecting it to be better value for money, however, if unit pricing information had been available they would have discovered that the 1.2kg tin cost \$2.21 per kilogram and the smaller tin just \$1.81 per kilogram.¹ Thus, advocates of unit pricing argue that it provides customers with the information that they require to make an informed choice about the products that they purchase.

Unit pricing in Australia

2.5 A number of states in the US, such as New York and Florida, have legislated to require supermarkets to display unit prices. Similarly, a 1998 Directive of the European Parliament and of the Council requires European Union member states to ensure that unit prices are displayed in supermarkets.²

2.6 In Australia, apart from some fresh foods, such as meat and cheese sold in random weight packages, grocery retailers are not required to provide unit pricing information for most grocery products. However, in November 2007 ALDI introduced unit pricing on a voluntary basis. Shortly after the ALDI announcement, Woolworths indicated that it would be conducting a trial of unit pricing early in 2008,³ with a view to rolling it out nationally.

2.7 The other major Australian grocery retailer, Coles, provides unit pricing information on its online shopping site, but not in its supermarkets. However, at a hearing of the Australian Competition and Consumer Commission (ACCC) inquiry into the competitiveness of retail prices for standard groceries, on 26 May 2008, Coles' representative indicated that they were looking to introduce unit pricing nationally.⁴ All three companies have indicated that they believe there should be a national, mandatory, scheme for the provision of unit pricing information.

2.8 On 31 July 2008, Franklins, which has around 80 grocery stores in NSW, also announced that it would introduce unit pricing from September 2008.⁵

1 Choice, 'Truth in pricing', online July 08, p.2.

2 European Community Directive 98/6/EC of the European Parliament and of the Council of 16 February 1998 on consumer protection in the indication of the prices of products offered to consumers.

3 Moore, T., 'Want to know the cost of one egg? Now you can', *Brisbane Times*, 9 November 2007.

4 Mr McMahon, Chief Operating Officer, Coles Group Limited, *Transcript of Proceedings Grocery Price Inquiry Hearing*, Australian Competition and Consumer Commission, Melbourne, 26 May 2008, p.5.

5 *Sydney Morning Herald*, 'Franklins to introduce unit pricing', 31 July 2008, online.

ACCC inquiry

2.9 As part of their inquiry into the competitiveness of retail prices for standard groceries, the ACCC were asked to investigate the representation of grocery prices to consumers. In their report of July 2008, the ACCC recommended that

a mandatory, nationally-consistent unit pricing regime be introduced for standard grocery items both on in-store price labels and in print advertising [and that] the unit pricing regime apply to significant supermarkets, including Coles, Woolworths, ALDI and large independent stores...⁶

2.10 The report notes, however, that

The incremental benefits of unit pricing are likely to decrease as store size decreases due to the smaller range of substitute products in small stores. Further, smaller stores will face higher implementation costs relative to turnover compared to larger stores.⁷

2.11 In evidence to the committee, representatives from the ACCC also noted that smaller stores may not have sophisticated computerised systems that would easily accommodate unit pricing.⁸ The ACCC report therefore recommends that, before unit pricing is introduced, a detailed cost-benefit analysis should be undertaken to determine to which stores unit pricing should apply.⁹

2.12 In a press release of 5 August 2008, the Assistant Treasurer announced that the Government would consider the best way to introduce a mandatory nationally-consistent unit pricing regime.¹⁰

Queensland proposal

2.13 On 26 June 2008, the Queensland government announced its intention to introduce mandatory unit pricing in Queensland supermarkets. The Queensland proposal requires retailers who sell a range of grocery items, including staple foods, to display unit price information. The proposal provides exemptions for grocery products which are sold:

- from a shop with a floor area, used for the sale or display of grocery products, which does not exceed 200 square metres; or
- by an itinerant retailer, for example, a retailer selling from a mobile sales unit or store.

6 Australian Competition and Consumer Commission (ACCC), *Report of the ACCC inquiry into the competitiveness of retail prices for standard groceries*, July 2008, p. 569.

7 ACCC, 2008, p. 567.

8 Mr Dimasi, *Proof Committee Hansard*, 11 August 2008, p. 14.

9 ACCC, 2008, p. 569.

10 Assistant Treasurer, *Rudd Government Releases its Preliminary Action Plan in Response to the ACCC's Grocery Inquiry*, Media Release No. 065, 5 August 2008, p. 1.

2.14 The Queensland government has called for public submissions on the regulatory impact statement for the measure. Submissions closed on 28 July 2008.

Consumer demand for unit pricing

2.15 Eighty-nine per cent of respondents to a *Choice* survey conducted in February 2008, indicated that they would find comparative product pricing 'very useful' or 'somewhat useful'.¹¹ However Ken Henrick, Chief Executive of the National Association of Retail Grocers of Australia (NARGA) claims that, based on the information available to NARGA, 'there is little public demand for unit pricing of groceries'.¹² Coles has also indicated that 'we've not had feedback from our customers that unit pricing is a significant issue for them'.¹³

2.16 NARGA argues that the high number of respondents to the *Choice* survey saying that they would find unit pricing useful was on the basis that:

...having unit pricing available does not 'hurt' as it appears to be a costless addition to the information currently available about the goods they purchased. If the questionnaire had asked respondents whether they would support 'unit pricing' in the context of increased costs to the sector, which would in turn lead to higher prices, the response may have been different.¹⁴

Arguments supporting unit pricing

2.17 According to the Consumer Action Law Centre unit pricing:

- reduces consumer confusion and increases consumer confidence;
- enhances consumer sovereignty and welfare; and
- promotes price competition, reduces prices, and is anti-inflationary.¹⁵

2.18 In their submissions to the inquiry, consumer advocacy groups¹⁶ argue that unit pricing makes it easier for consumers to perform price comparisons between products and can enable consumers to switch container size within brands, and to switch brands (to that with the lowest unit price container size). Grocery products are sold in a vast array of variable sizes (for example, 175 grams, 680 grams, 1.25 litres etc). Most consumers don't have the time and/or the mathematical ability to determine

11 Choice, Attachment to *Submission 9*, p. 2.

12 National Association of Retail Grocers of Australia, *Submission 5*, p. 1.

13 Cited in Moore, T., 2007.

14 National Association of Retail Grocers of Australia, *Submission 5*, p. 1.

15 Consumer Action Law Centre, *Submission 7*, p. 2.

16 See for example, Queensland Consumers Association, *Submission 2*; Public Interest Advocacy Centre Ltd, *Submission 3*; Consumer Action Law Centre, *Submission 7*; and Choice, *Submission 9*.

the best value buy when faced with such an array of non-standard measurements.¹⁷ As the Queensland Consumers Association notes:

Without unit price information, consumers have to do the calculations themselves and understandably few do this and rely on rules of thumb about "value for money" such as larger sizes are always the lowest unit price. Yet, as indicated by our research and highlighted in Senator Fielding's second reading speech, often, these are (sic) assumptions are incorrect.¹⁸

2.19 The provision of standardised, easy to understand, unit pricing information increases the transparency of grocery prices, making it easier for consumers to assess the value for money of the products that they purchase. According to the Queensland Consumers Association, consumers may use unit pricing information in a variety of ways:

Some will use it to reduce their expenditure on grocery items thus releasing money for other uses. Others may spend about the same amount but get more for their money. Others may even increase their total expenditure if they choose to buy more products with higher unit prices. But, overall consumers and the economy benefit.¹⁹

2.20 As well as providing potential benefits to individual consumers, it is argued that unit pricing will have a general anti-inflationary effect. Because unit pricing leads to changes in consumer behaviour, including switching to lower-priced package sizes and brands, it makes demand more price-elastic.

As a result, competition between manufacturers and between retailers increases thus helping to reduce price inflation.²⁰

2.21 An analysis undertaken by Citi Investment Research and Insight Partners, which was tabled at the committee's Melbourne hearing by the Consumer Action Law Centre, also suggests that unit pricing could be an inflation reducing initiative.

We believe a unit pricing regime could lead to a one-off 0.14% reduction in inflation. This will occur, if all other factors remain unchanged, because consumers spend less on groceries.²¹

2.22 Estimates of the potential savings to consumers from unit pricing range considerably. The report by Insight Partners and Citi Investment Research estimates that the introduction of unit pricing would result in a 1% reduction in expenditure overall, saving the average household around \$96 per year.²² However, the report

17 Consumer Action Law Centre, *Submission 7*, p. 2.

18 Queensland Consumers Association, *Submission 2*, p. 4.

19 Queensland Consumers Association, *Submission 2*, p. 4.

20 Queensland Consumers Association, *Submission 2*, p. 4.

21 Citi Investment Research and Insight Partners, *Unit Pricing in Supermarkets*, 14 July 2008, p. 7.

22 Citi Investment Research and Insight Partners, 2008, p. 8.

estimates that the potential savings to individual price-sensitive consumers could be much higher. For example, based on a pricing survey conducted in Woolworths and Coles stores by the researchers, consumers purchasing the lowest unit price pack size of branded products could save as much as 21% on packaged groceries, while a further 34% could be saved if consumers switched to private labels (i.e., own brands).²³

2.23 This is consistent with research conducted by the Queensland Consumers Association which found that

for 25 pre-packaged grocery items, by buying only brands and sizes with the lowest unit price consumers could reduce a \$94 grocery bill by almost 50 per cent.²⁴

2.24 Advocates of unit pricing also argue that, even if unit pricing is not used by a consumer to save them money, it may be used as an indicator of the relative quality of the products that they are purchasing.²⁵

2.25 Unit pricing also allows consumers to more easily recognise when package content sizes are adjusted by manufacturers, resulting in the consumer paying the same amount for less product.²⁶ For example, a can of tomatoes might be reduced in size from 400 grams to 390 grams by the manufacturer, but the shelf price would remain the same. If unit-pricing was in place it would show an increase in the price per kg of the tomatoes, alerting price conscious consumers to the change.

2.26 Additional benefits identified by Jarratt in his review of unit pricing systems in the European Union and the USA include:

- a greater focus by retailers on price and value for money rather than brand;
- easier and cheaper entry into the market of new products and of new manufacturers;
- reduced need for prescribed package sizes; and
- increased demand for, and easier promotion of, retailers' own brands.²⁷

23 Citi Investment Research and Insight Partners, p. 9.

24 Queensland Consumers Association, *Submission 2*, p. 4.

25 Jarratt, I., *To investigate unit pricing of pre-packaged grocery items in the European Union and the USA*, Report to the Winston Churchill Memorial Trust of Australia, 2006.

26 Queensland Consumers Association, *Submission 2*, p. 4.

27 Jarratt, I., 2006, p. 8.

Arguments against mandatory unit pricing

2.27 Those opposed to the mandatory implementation of unit pricing, such as the National Association of Retail Grocers of Australia and Metcash, argue that the advocates of unit pricing overstate the likely impact on savings to customers.²⁸ In particular, assertions that unit pricing could result in savings of 40+ per cent on groceries are considered to be grossly overstated, as they are based on assumptions that consumers will switch brands to purchase the lowest unit priced product.

2.28 NARGA assert that many shoppers are loyal to particular brands of products and are unlikely to switch brands on the basis of cost alone.

For the majority of shoppers price is not their main interest when purchasing a product...many years of research have marked it as a lower level concern.²⁹

2.29 In addition, purchase choices are influenced by the quality of the product, preparedness to try innovative products, experience, and peer recommendations.³⁰

2.30 The Metcash submission to the ACCC agrees, noting that:

the very same research cited by unit pricing proponents indicates that the benefits of unit pricing are limited – where unit prices are displayed on shelf tags alone, almost all changes resulted from a shift to larger sizes but not to different brands. Brand switching only occurred when stores published ‘lists’ that showed SKUs [stock keeping units – number of particular variations of an item] in increasing unit prices, which is impractical to implement widely.³¹

2.31 Metcash go on to argue that

Enticing customers to switch to larger sizes would not necessarily benefit consumers in the long run. The perishable nature of food items, and the cost of transport, storage and wastage mean that shoppers would not necessarily benefit from purchasing larger sized packages.³²

2.32 NARGA also assert that the introduction of unit pricing will benefit those stores which have access to a wide range of generic products, namely the large supermarket chains such as Coles, Woolworths and ALDI, and disadvantage smaller retailers. This would appear to be supported by an analysis of the likely impact of unit

28 See National Association of Retail Grocers of Australia, *Submission 5*, p. 2, and Metcash Ltd, *Public Submission to ACCC Grocery Inquiry*, 11 April 2008, pp 58-59.

29 National Association of Retail Grocers of Australia, *Public Submission to the ACCC inquiry into the competitiveness of retail prices for standard groceries, Part B*, March 2008.

30 National Association of Retail Grocers of Australia, March 2008.

31 Metcash Ltd, *Public Submission to ACCC Grocery Inquiry*, 11 April 2008, p. 58.

32 Metcash Ltd, *Public Submission to ACCC Grocery Inquiry*, 11 April 2008, p. 58.

pricing undertaken by Citi Investment Research and Insight Partners³³ and by evidence given to the ACCC by Coles' Chief Operations Officer, Mr Mick McMahon, who indicated that

I actually think it will help our house brand sales, because it will demonstrate even more the value that's in those brands.³⁴

2.33 In addition to providing an advantage to stores stocking generic products, NARGA suggests that unit pricing will affect Australian farmers and manufacturers as

a high proportion of these generic products are imported, [so] local farmers and manufacturers will be disadvantaged by a move to compulsory unit pricing.³⁵

2.34 The Queensland Retail Traders and Shopkeepers Association concur with this assertion arguing that:

unit pricing would favour cheaper imported products at the expense of Australian produce.... When price is the focus, they (supermarkets) can get away with more and more cheaper foreign products which are mass-produced, with less hygiene standards and are of poor quality. If the government is led down this track of unit pricing it could potentially lead to dark days for Australian farmers and once you get rid of choice and competition then the cheap imported products will go up in price.³⁶

2.35 In contrast, in its submission to the inquiry, Growcom, the peak representative body for the Queensland horticulture industry, states that, based on preliminary investigations, it 'does not believe that the introduction of mandatory unit pricing would have a large impact on the Queensland horticulture industry'. However it goes on to state that

if processors feel any negative economic impacts, these would most likely be passed down the supply chain to growers.³⁷

2.36 Finally, it has been argued that unit pricing may provide a disincentive for shops to discount perishable goods at the end of a trading day, as retailers will not have time to re-calculate unit prices. As such, customers would not benefit from being able to purchase these items at reduced prices and fresh products, such as bakery items, would end up being sent to landfill if not sold.³⁸ The Committee notes,

33 Citi Investment Research and Insight Partners, p. 14.

34 Mr McMahon, 2008, p.64.

35 National Association of Retail Grocers of Australia, *Submission 5*, p. 2.

36 Driscoll, S., Executive Director, Queensland Retail Traders and Shopkeepers Association, cited in Berry, P., 'New pricing will favour foreign goods', *The Daily Telegraph*, 26 June 2008.

37 Growcom, *Submission 11*, p. 1.

38 Woolworths, *Submission 8*, p. 6.

however, that the Bill would not appear to preclude such items being sold at, for example, half the marked price.

Costs of implementation and impact on industry

Implementation costs

2.37 Consumer groups argue that, for grocery retailers with automated labelling systems, the cost of implementing unit pricing will be one-off, relatively small, and far outweighed by the benefits to consumers. For example, Mr Ashton from the Consumer Action Law Centre told the committee that

...the costs, in my view, are very small. They are real and they cost those individual supermarkets money, but compared to the hundreds and hundreds of millions, if not more, in savings that every year grocery shoppers will benefit from, the implementation costs are very small.³⁹

2.38 But some industry representatives argue that the cost of implementation may be quite significant, especially for small retailers, and will, in all likelihood, be passed on to consumers through higher grocery prices.

2.39 In its submission to the inquiry, Metcash indicates that it would cost their independent supermarket sector approximately \$10 million to comply with the unit pricing requirements set out in the Unit Pricing (Easy comparison of grocery prices) Bill 2008, in a 12 month timeframe. This estimate would increase if small stores⁴⁰ were required to comply, and would increase significantly if shelf stripping needed to be replaced to comply with shelf ticket size requirements.⁴¹

2.40 In addition to the costs associated with initial implementation, Metcash estimates that it would incur additional ongoing costs of \$0.4 million per annum, associated with additional data entry for unit pricing requirements, while the ongoing costs for individual independent grocery retailers was unknown.⁴²

2.41 In respect of the large supermarket chains, Coles has estimated the cost of implementing a unit pricing scheme to be around \$10 million if unit pricing was rolled out over a 12 month period, allowing them time to 'get the IT right' and then to replace pricing tickets 'in the normal course of business.'⁴³ If it had to be done more quickly, then the costs would rise accordingly.

39 Mr Ashton, *Proof Committee Hansard*, 6 August 2008, Melbourne, p. 12.

40 Note: Metcash advocated for stores with a relevant floor area of less than 1200 square meters to be exempt from any mandatory unit pricing scheme.

41 Metcash, *Submission 12*, p. 1.

42 Metcash, *Submission 12*, p. 10 of PowerPoint presentation.

43 Mr McMahon, 2008, pp. 65-67.

If I sent a team out today to change over 27,000 shelf edge tickets in 749 supermarkets, that would be a big cost, \$20 odd million. If we were able to just do it in the normal course of business it's still an incremental cost, but by no means as large.⁴⁴

2.42 In evidence to the ACCC grocery inquiry, Woolworths estimated the cost of implementing unit pricing nationally, along the lines of the trial that they are currently conducting, to be approximately \$4 million.⁴⁵ If they were given 12 months in which to implement changes to shelf labels etc, allowing it to be done in the normal course of such things, they state that it could be achieved at no additional cost.

2.43 However, in their submission to this inquiry, Woolworths estimated the cost of implementing unit pricing in accordance with the Unit Pricing (Easy comparison of grocery prices) Bill 2008 to be \$30 million, due to the need for in-store redesign and technology upgrades.⁴⁶

2.44 In an exchange with the Chair, Mr McDonald, from Metcash explained to the committee why the need for larger labels, in order to comply with unit price font size requirements, could result in the need for store re-designs.

I have brought two examples of the larger labels. In our environments very few stores actually use these larger labels because we have to put new shelf stripping on and whatnot, and as you do that, if you can just compare the size of these two, if you times that by six shelves, all of a sudden you have lost 10 to 15 centimetres of shelf space, and then we have to start re-laying stores to fit products back in again. The changes from one shelf label size to another are not just the cost of the label, which is insignificant between the two sizes here, but also the cost of the stripping in stores, because it has to be replaced, and as well there is the loss of shelf space. In turn, we have to re-lay a store to fit the same amount of products back on the shelves.

CHAIR—The size of the strip on the supermarket labels affects how many products you can put in the store?

Mr McDonald—Absolutely, yes.

2.45 The figures provided by grocery retailers underscore the fact that the costs of implementing a mandatory unit pricing scheme will vary significantly, depending on the particular requirements of the scheme and the capacity of the grocery retailer. Given that implementation costs are likely to be passed on to consumers, thus potentially undermining any savings that access to unit pricing information may generate, the committee believes that it is essential that any mandatory unit pricing scheme finds the right balance between maximising the usefulness and effectiveness

44 Mr McMahan, 2008, p. 67.

45 Mr Luscombe, Chief Executive Officer, Woolworths Limited, *Transcript of Proceedings Grocery Price Inquiry Hearing*, Australian Competition and Consumer Commission, Melbourne 19 May 2008, pp 101-2.

46 Woolworths, *Submission 8*, p. 3.

of the scheme for consumers and minimising the costs of implementation to grocery retailers.

Potential impact of unit pricing on the grocery industry

2.46 According to a market analysis undertaken by Citi Investment Research and Insight Partners⁴⁷ the Australian grocery industry would feel the impact of unit pricing in two ways. Firstly, unit pricing would see consumers shift their purchasing to higher value, more economical pack sizes, resulting in a 'loss of some margin premium for convenience'.⁴⁸ This means that

From a retailer's perspective, the quantity of product purchased will be unchanged. However, the shift to more economical pack sizes will reduce the overall dollar value of sales, as shoppers become smarter.⁴⁹

2.47 Secondly, unit pricing may see consumers switch to private label products, such as Woolworths' *Homebrand* or Coles' *Smart Buy*. Increased uptake of private label products would impact significantly on branded suppliers, with an estimated 1.5% reduction in sales.⁵⁰

2.48 Overall, the Citi analysis estimates that the introduction of a mandatory unit pricing scheme in Australia would result in an estimated \$810 million reduction in revenue for the grocery industry, with the burden shared across grocery retailers and grocery suppliers.⁵¹ The analysis estimates that Earnings Before net Interest and Tax (EBIT) would fall by an average of 5.1% for retailers, 5.3% for suppliers and 1.7% for commodity input providers.⁵²

47 Citi Investment Research and Insight Partners, 2008.

48 Citi Investment Research and Insight Partners, 2008, p. 12.

49 Citi Investment Research and Insight Partners, 2008, p. 12

50 Citi Investment Research and Insight Partners, 2008, p. 14.

51 Citi Investment Research and Insight Partners, 2008, p. 3.

52 Citi Investment Research and Insight Partners, 2008, p. 11.