Submission to Senate Economics Committee Inquiry into the Unit Pricing (Easy Comparison of Grocery Prices) Bill 2008

July 2008

CHOICE welcomes the opportunity to make a submission to the Committee on this subject.

Grocery prices are a significant concern to consumers. CHOICE conducted a survey of more than 1000 consumers in February 2008. We found that ***83% of consumers believe they are spending more on groceries*** compared to 3 years ago only. Only 2% believe they are spending less. There is no doubt that food price inflation has been greater in Australia over the last 10-12 years than other developed countries, having increased by 43.6% since 1996.

As the Committee will be aware the Australian Competition and Consumer Commission is currently conducting and inquiry into competition in the grocery sector. The ACCC will address a broad range of issues including unit pricing.

In our submission to the ACCC Inquiry (CHOICE, March 2008) we argued that:

> A ***national comparison pricing scheme*** should be introduced into Australia's grocery sector as a matter of priority. Also known as 'unit pricing', this is an overdue reform that would improve ***price comparability*** for consumers. This scheme would require supermarkets to display prices on supermarket shelves according to a standard unit measure (eg $ per litre for liquids). Such schemes already operate in the UK and parts of the USA, and Aldi in Australia has recently commenced unit pricing displays.
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> - This system should be consistent across regions and across supermarket chians, to facilitate price comparisons across products and across supermarket outlets.

Unit pricing legislation will not by itself increase competition in the grocery sector. But unit pricing legislation will enable consumers to better play their part in activating competition by choosing the product that best meets their needs have regard to the price, size and quality of the grocery products under consideration.

Some large Australia supermarket chains have, in the past, rejected the notion that consumers are interested in comparison pricing. In our February 2008 survey we asked consumers 'How useful would you find it to make product comparisons if there was clearer marking on the shelf about the price per millimetre or gram (eg pasta 20cents/100 grams, cooking oil, 50 cents/100ml)?'

57 Carrington Road Marrickville NSW 2204
Phone 02 9577 3333 Fax 02 9577 3377 Email ausconsumer@choice.com.au www.choice.com.au

- In response ***89% of consumers said they would find comparison product pricing very useful or somewhat useful.***

CHOICE also asked whether consumers found it easy to compare prices across supermarkets outlets in our February 2008 Supermarket Survey. In response, 37% of consumers said they found this difficult while only 13% found it easy. 28% did not attempt to compare prices between supermarkets.

In the light of these findings we are pleased that the two major chains and ALDI have now either introduced unit pricing (ALDI) or committed to doing so in the course of their evidence to the ACCC inquiry.

Unit pricing has the potential to improve price comparability and hence competition in two broad ways, namely:

1. Better price comparability across brands and sizes within a product category at a retail outlet (eg toothpaste)
2. Better price comparability across grocery outlets

To achieve both of these objectives, it is vital that a unit pricing system is consistent across different supermarket chains and consistent across different states and regions. If each supermarket chain was allowed to develop its own unit pricing arrangements this would undermine the objective of better price comparability across retailers. It would undermine the objective of improving competition. It is difficult to overstate the importance of a single, consistent approach on this issue.

In developing a comparison pricing model, there would inevitably be design elements around the types of retailers that would be subject to the requirements, exemptions for certain products etc. These have been dealt with in other jurisdictions and can clearly be solved. CHOICE would welcome the opportunity to assist in the design of such a system.

We have had the opportunity to review the submission of the Queensland Consumers Association. We endorse QCA's comment that "unit pricing increases the transparency of prices and makes it easier for consumers to assess value for money." (QCA submission p 4). Unit pricing makes it easier for consumers with less than perfect mental arithmetic skills to make a valid comparison between different sized products, of the same brand or otherwise, in advertising and while in store.

CHOICE endorses the particular recommendations of QCA in relation to the Bill.

CHOICE has visited the Aldi and Woolworths stores where voluntary unit pricing schemes are in operation. We commend these stores for responding to consumer interest in this issue, however we share the concerns about the detail of these schemes identified by QCA.

CHOICE recommends that the Committee endorse the Bill with the alterations recommended by QCA.

Background information

Grocery Pricing

We attach a survey of more than 1000 consumers who are CHOICE members, conducted in February 2008. We found that 83% of respondents believe they are spending more on groceries compared to 3 years ago. Only 20% believe they are spending less.

We recognise that some price increases have been due to climate related factors and also to transport costs. However, there is little information available that allows consumers and independent organisations to assess whether price rises are fair and reasonable, and whether prices adjust downwards once temporary climate factors cease (eg floods or dry weather). In an environment of rising prices, it is vitally important that consumers can have confidence that the prices they are being charged are fair, and are not the result of market power, particularly in relation to the two major grocery chains in Australia. CHOICE has therefore proposed the introduction of a separate quarterly Food and Grocery CPI.

CHOICE Grocery Price surveys

CHOICE regularly surveys the price of a basket of groceries. Several of these surveys are attached. The last survey found that the price differential between Coles, Woolworths and IGA was relatively minor. However, for a similar basket of goods (but not identical brands), Aldi was almost half as expensive as the other major grocery chains.

- CHOICE notes that it is difficult to explain regional variations in pricing in these surveys.

Consumer decisions on groceries

The attached survey gives a guide to some of the other drivers of consumer decision making in the grocery sector, including the importance of convenience.