

Public Submission to the Grocery Inquiry

Mr Graeme Samuel AO  
Chairman  
Australian Competition & Consumer Commission  
Box 3131  
CANBERRA ACT 2601

Dear Mr Samuel

The attached sets out my ideas for a comprehensive review of grocery prices based on my experiences with the Lilley Pricewatch surveys from October 1998 to now.

The Lilley Pricewatch is conducted by volunteers and is necessarily limited in scope. However we were able to measure our results against the quarterly CPI figures and there was substantive agreement between our findings and the published ABS results.

Our survey does not include fresh fruit & vegetables or meats because of a perceived difficulty in making qualitative comparisons. With the exception of special surveys, we did not include generic grocery items. I believe the monitoring task ahead of you should include all of the items mentioned above and should also include imported goods.

Yours faithfully

Bernie Kingston  
BANYO Qld

If the Lilley Pricewatch Team were asked to carry out a survey with the scope of the proposed ACCC surveys, the following legislative changes/suggested areas of investigation would need to be considered.

Often in legal terms, reference is made to the actions and responses of the ordinary man. The reality is many consumers are time poor or have developed poor purchasing habits. I have no doubt retailers are aware of and take advantage of such consumers.

### **LEGISLATIVE AMENDMENTS TO EXISTING ACTS:**

- **Advertised Prices:**

When goods are being sold on “special”, there is currently no need to show the normal full price of the item, the only requirement is the special price should be lower than the price prevailing immediately before the goods were placed on sale.

The Act should be amended to compel both prices to be placed on the ticket/related advertisements.

This change would allow consumers to make informed purchase decisions.

This suggestion is prompted by an occasion some years ago where an item normally priced at \$4.99 was shown as being on “special” for \$4.98 and the normal price or savings was not shown. The goods were 1 kg Birds Eye Fish Fingers and the sales period coincided with the traditional Lenten observances.

- **Unit Pricing:**

The Act should be amended to compel the introduction of “unit pricing” on all grocery items.

Currently most fruit & vegetable items and meat and deli goods are sold on a price per kilogram (unit) basis. Pre packed meats are generally sold with tickets showing “weight, price per kg and cost price”.

The concept of unit pricing is not new as the Hypermarket store at Aspley in Brisbane employed unit pricing for many years until the business was taken over by Coles. This indicates suitable programs are available to prepare the price tickets.

Adoption of this amendment would allow consumers to make informed decisions. It is relatively simple to make comparisons when the competing packages are in easily calculated weights/volumes such as 400 grams compared to 600 grams. It becomes more difficult when a package weighs 185 grams.

***Big is not necessarily beautiful.***

There will be an initial cost in adopting this suggestion but the long term benefits will outweigh the initial cost. The ACCC on-going surveys could include monitoring of the impact of the cost of the introduction to prevent gouging on the pretext of cost recovery.

ALDI stores reportedly are about to introduce unit pricing which may force the hand of the two majors.

Convenience stores with an annual turnover less than one million dollars should be exempted from compulsory unit pricing.

**SUGGESTED AREAS OF INVESTIGATION:**

As I understand the position, the ACCC survey is to monitor price movements from the farm gate to the retail consumer. Important as this is, there are several other factors which should be investigated to establish their impact on the market and, consequently, prices.

- **IMPORTED GOODS:**

Many of our grocery products are imported with the bulk of imported goods being sourced from (relatively) low wage countries. It would be unreasonable, and impossible, for the ACCC to establish farm gate prices for these products and they will have to rely on manufacturers' wholesale prices as determined by documentary evidence such as invoices, quotes and details of financial settlements.

My concerns lie with the selling price of imported goods which are located on the shelf adjacent to our national brands. The price margin in favour of the imported item is sometimes relatively slim. I wonder at the rationale of the task of sourcing goods to meet retailers' specifications, incurring freight and demurrage costs, customs agent costs etc. if the ultimate selling price is only marginally less than that of the local product. This particularly applies to premium generic items. To ensure there is no price gouging, the relative mark up percentages should be verified to establish uniformity across all products in the range.

- **PREMISES, TRANSPORT COSTS & SUPPLY CHAIN:**

Generally commercial property rentals are less in regional and provincial cities and towns, mainly because the basic cost of the land content is lower. For investors in rural & provincial properties to obtain the same gross returns, I would expect the base rent paid by tenants to be less on a per square metre basis than the rents paid in high demand capital city and major suburban sites as well as some provincial cities.

Retail costs are generally higher in regional and provincial areas and these higher prices are attributed to transport costs. There appears to be no allowance for reduced premises costs.

If the chains argue that premises costs are spread out across all stores, so to should transport costs as a matter of equity.

During surveys carried out nationally in the pre GST period, we noted some goods sold in Tasmania were dearer than the same products in the major towns of the Northern Territory.

The full impact of transport costs should be investigated.

For instance Golden Circle products sold in Brisbane should be dearer in say Sydney if actual transport costs impact on prices but it seems the only impact is in the regions.

- **SUPPLY CHAIN SAVINGS:**

Woolworths have reportedly managed to improve supply chain costs compared to Coles. These savings appear to have been taken to the bottom line and not to retail prices. Our surveys of a small but representative basket of groceries showed very little difference in the everyday price of the goods; indeed over the years Bi Lo tended to be the cheapest followed by Coles and Woolworths however the price differentials were very narrow across all the stores.

- **POSITIONING PAYMENTS:**

Suppliers make special payments to retailers to obtain premium shelf positions. Although I believe the practice should be outlawed, in the interim, the retail price should reflect the resultant notionally lower cost price to the retailer. As the payments are not ongoing for the same product, the benefit to the consumer should be by way of a “special price” to reflect the benefit to the retail outlet.

- **WHOLESALE PRICE INCREASES:**

I was led to understand (on a confidential basis) the two major chains insist on up to 90 days notice before a wholesale price rise comes into effect. They then purchase up to 3 months supply of the goods with settlement on their normal deferred trading terms. Their retail price rise occurs soon after the price rise impacts on other retailers but with obviously higher returns to the majors.

On a similar note, I learned when I was in banking, of the practice of the big two paying for meat on a thirty day basis whilst the average suburban butcher had to operate on a seven day settlement. There appears to be no discernable difference in the retail prices, subject of course to the same quality, therefore if this practice is still current, the interest income earned from the delayed settlements would be very substantial. By the same token, wholesalers have no options but to accede to these trading terms as the majors may represent up to 70% of their business.

Both of these tactics bear investigation to establish if they are still current and to determine what impact they have on prices.

There will be occasions where there is a legitimate need to increase the wholesale price of goods. This can be due a whole range of circumstances beyond the control of the manufacturer or importer.

Increased raw material costs, wage impacts, fuel and utility services increases, transport costs etc may impact on the wholesale cost of grocery items.

In these cases, the manufacturer/importer should be obliged to contact the ACCC to advise them of the rise so the Commission can monitor the flow-on impact of the rise at retail level.

In those cases where the import or manufacture price increase exceeds the reported CPI increase for the product type over the past 12 months, the ACCC should request details to establish if the increase is justified.

**.GENERIC GOODS:**

Consumer purchase of generic goods is determined by subjective rather than objective limitations. There is an expectation the goods may be cheaper but some reduction in quality may occur.

Although the Lilley Pricewatch did not include generic goods in the regular surveys, we did carry out a number of surveys of generic items from time to time and particularly after ALDI entered our local retail market.

There appeared to be two or three separate house brands at Coles group and Woolworths stores. Accordingly there were several different prices for the same goods; all of them cheaper than the every day price of national proprietary brands.

Because they have become an increasing part of the retail grocery landscape, generic brands should be included in ACCC investigations as they are subject to the same cost pressures as other goods produced by the manufacturers/importers who also supply the proprietary brands.

- **APPRECIATING AUD:**

Over past months, the AUD generally appreciated significantly against the USD. I believe most commercial trades from the developing countries, which supply the bulk of our imported groceries, are written in USD.

In this situation, the expectation would be the price of these imported goods would fall (or at worst remain steady). Our surveys did not detect any falls and to the contrary, some increases were noted. An investigation should be carried out to ensure the retail margin was not increased to take advantage of the appreciating Australian dollar to the detriment of consumers.

- **SIZE VARIATION:**

On at least four occasions, the Lilley Pricewatch Team found examples where the package size was decreased but the retail price was not adjusted thus leading to a de facto price rise. On the last occasion Wayne Swan wrote to the manufacturer but when no response was received, he went public on A Current Affair (Channel 9).

In each of these cases, the packaging remained similar so consumers may have been unaware of the reduction in size.

Seeing there are reputedly over 20,000 different items on supermarket shelves, it will be almost impossible to monitor size from manual surveys. It may be necessary to compel manufacturers/ importers/wholesalers to advise any change in packaging or size to the ACCC. This will enable investigation of any possible increase in the margin following the change.

- **NEW PRODUCT????:**

On several occasions, items included in our survey have been withdrawn from sale at some outlets. Some time later, they have reappeared on shelves marked “New Product”.

In each case there was an increase in price. The last one we detected was the removal of 1 kg Birdseye Fish Fingers from the Woolworths stores we survey. At the time, I wondered why what I perceived to be a family favourite for many years would be withdrawn from sale. The product remained on sale at the Coles Group stores. It was noted that I & J Fish Fingers from the same stable (Simplot) remained on sale at Woolworths. Some 4 to 5 months later, the Birdseye product was again available at Woolworths at a dearer price (although to be fair, the price at Coles increased also). This is one of the imported products which increased in price despite the appreciating AUD.

This retailing tactic should be discouraged as it is a blatant attempt to attract consumers without any additional benefit accruing.

- **BONUS PACKAGING:**

Occasionally manufacturers release a well known product with a distinctive band (generally yellow) which promotes the contents as being eg “Bonus 25%”. We did not include these items in our survey but it would be interesting to see if the unit price of the product decreased proportionally. This is but another argument in favour of Unit Pricing.

- **STORE & BRAND LOYALTY:**

Although not an issue for the purposes of the ACCC survey, the impact of both store and brand loyalty by consumers could be detrimental to the overall cost to the consumer. These consumer loyalties are seldom rewarded. Only education programs will affect consumer behaviour which may lead to more discerning purchase decisions.

- **FUEL DISCOUNT COUPONS:**

Initially only Woolworths’ stores were issuing fuel discount coupons in Brisbane. Our surveys did not show any appreciable impact on EDP at Woolworths’ stores. When the Coles group introduced their coupons, again our surveys did not show any increase in the EDP which was attributable to the fuel coupons.

The maximum discount is 4 cents per litre and I suggest most fuel purchases would be for less than 70 litres. The discount would have little impact on the overall bottom line of the companies after allowing for the profit on the sale of the groceries and then the fuel. Possibly lower margins but substantially increased sales volumes. The coupons probably lead to store loyalty which would justify the continued use of the coupons.