

Public Submission

to

ACCC Grocery Inquiry

by

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Introduction

I thank the Federal Government and Australian Competition and Consumer Commission for the opportunity to respond to the “ACCC Inquiry into the competitiveness of retail prices for standard groceries”.

My independent nature (some might say “cynical nature”) means I’m not relying on the outcome of the Inquiry to achieve, or even that I believe it will achieve, anything of real substance that changes my life, especially considering the restriction that it concerns the “competitiveness of pricing”. If changes to my life do result from this Inquiry, I doubt that I, as a private citizen going about my own personal business, would realise that the Commission and this Inquiry was the cause of the change. However, I’ll still provide my input and I’ll still be appreciative of any positive changes, even if I can’t determine or acknowledge the true sources of change.

Comments I make within this submission are, I believe, broader than the Inquiry, but I feel they are relevant. The first section of my submission consists of these broad arguments that are based on my education and experience. The second consists of my responses to particular questions, statements or sections of the Issues Paper. Most responses in the second section can be correlated to my comments in the first section.

This submission is not research-based. Although I will not provide references for many claims I make or beliefs I state, I believe the Commission would understand “where I’m coming from” and would have existing accordant knowledge or easy access to a source of information that would happen to substantiate my claims. I will, however, provide one or two examples to help illuminate my points, as well as provide evidence of specific claims of personal experience.

In composing this submission, I had difficulty choosing between the words “exchange” and “transaction”. Generally, they can be used interchangeably. I hope there will be no misunderstanding or confusion by my use of a particular word.

I have no hesitation in agreeing that the entire submission be publicised and not kept confidential to “foster an informed, robust and consultative process” as maintained by the ACCC.

Section 1. Broad theoretical arguments

Purpose of money.

As the Inquiry concerns pricing, it is appropriate and relevant to consider the purpose of money.

According to what I learnt all those years ago at school in the 1970s and early 1980s, and which I have since seen in other sources such as books from my local library, the historical purpose of money was (and remains) as a medium of exchange. Monetary value was determined by weight value – basically, however much something weighed, the same value of money was used for the exchange, with money having the benefit of representing a greater weight than the money itself weighed. “Shekel” has at least two meanings: a currency unit; and unit of weight. A modern example of this benefit of money could be the purchase of a vehicle – imagine trying to move to the dealer’s premises hundreds, or even thousands, of kilograms of something to use in exchange for the vehicle. Exchanges or transactions were obviously made easier with the development of money.

Regulations of weights and measures are presently the responsibility of State Governments. If money is based on weight, or on any particular measure, I see no reason why those measures cannot also be regulated.

Many modern transactions involving money are, however, apparently not based on weight. Weight is the result of force acting on a mass.

Many transactions are for services in which no mass is exchanged. (It makes me wonder if people who charge for services are hallucinating!) Two examples of services for which payment is often demanded in exchange are labour and education. If mass is exchanged in these examples, it is not the mass that is being paid for. There would be tremendous repercussions if money was based on weight. For one, wages and salary would not be paid. I suspect many people would immediately stamp their feet at learning of this before they understood that there would be much greater effects

throughout the economy. For the education example, higher education would become much more affordable. Another example of the use of money which obviously is not based on weight is taxes: I expect it would then be the Government doing most of the stamping of feet.

Competitiveness

Given the at least historical purpose of money, I surmise competition policies presume that people in business are imaginative and creative, that they will find and develop new ways of producing things with fewer inputs. With weight as the measure, a desirable outcome of competitiveness could be to use less mass to achieve the same purpose as an existing product. An example could be the design of a table. A table top, leg and/or the joint between them could possibly be redesigned and/or manufactured differently, perhaps made with different materials, increasing the strength and reliability with no relative increase in mass. Another example more relevant to the Inquiry would be the wastage that occurs when an apple is eaten. The core is generally not consumed: why pay for it? If apples can be developed that minimises or eliminates the size and mass of the core, then there would be more edible apple mass relative to the inedible mass: there would be less wasteful expense. This second example is pertinent to the “core business” of the Rudd Labour Government in fighting inflation!

If imagination and creativity are major issues in competitiveness, then I would have to disagree with people who argue that price increases show a lack of competition in the Australian retail grocery industry. The examples given in some submissions already released highlight the “creativity of excuses” used to attempt to justify price increases. Those people with the power to dictate prices of an exchange could be displaying creativity in justifying price changes: it’s just not the type of creativity that I, and obviously other people who have made submissions to the Inquiry, desire to be implemented.

Pricing of inputs

If the value of an exchange results from both parties being objective, then the input costs of the supplier are largely irrelevant, because at least one of the parties does not have the necessary observations. “To measure is to know” is a quote widely attributed to Lord Kelvin, the 19th Century mathematical physicist. In practice, I expect, the vast majority of consumers would not “see” their supplier’s expenses (thus, cannot measure it themselves), they would only ever be “told” about them. Objectivity would demand they question the accuracy and validity of the claims of input prices and rely on their observations.

Another reason inputs may be irrelevant is if exchanges are based on a particular measure. What kind of measure for an exchange would include things that are only indirectly involved in the exchange and which only one party would observe? What the supplier does in producing goods, or in delivering the goods, is often not what is exchanged, especially if weight is the measure of exchange. Should the buyer simply be aware of the measure used and be able to derive their own accurate and appropriate value? Or should they otherwise take the risk that what they are getting, and what they are told they are getting, is different?

Prices throughout the supply chain should have no real bearing on the measurement or valuation at the retail level. If a seller cannot achieve desired outcomes (eg income exceeding expenses using accurate measurements) then they must question the viability of their business. Making an allowance for the inputs probably shows the purchaser to be kind and considerate toward the seller! Another possible reason is that the seller has power over the buyer. Unfortunately, a seller would have power over a buyer simply by virtue that the buyer wants what the seller has. Conversely, it could also be that the buyer has what the seller wants. A third possibility is ignorance of the terms of contract for the transaction – just what are they giving or receiving?

Questions raised

The previous discussion of money raises some motivating questions that I believe should be considered and preferably answered by the Commission:

1. Is money no longer a measure of, or based on, weight? Has it ever been officially or legally based on weight?

If it is still a measure of, or based on, weight:

2. What is the relationship between our dollar currency and other weight measures? Is the relationship directly proportional or inversely proportional? Is the ratio constant for varying amounts?
3. Are the exchange valuations used for retail purchases simply inaccurate? Is there any regulation of monetary transactions to ensure accuracy of valuations?
4. Is it simply a case of *caveat emptor* ("let the buyer beware") and that the buyer should be careful that they are getting what they believe they are getting?

If money is not based on a measure of weight:

5. Is it based on any other measure of a physical or obvious attribute? If money is not based on a measure of a particular attribute, then just what is the significance of money? Why use it in exchange for something? What's the difference between using money and bartering?
6. Is aggregating economic or financial data the same as trying to add apples and oranges? How reliable is economic data, such as figures provided to the Commission in the course of this Inquiry, if money means different things to different people?

If money is based on any particular measurement, weight or otherwise:

7. Are people using wrong valuations or measurements because other people, namely customers, are unaware of that fact?

And, lastly:

8. If I have shown that I do not understand money, should I, as a customer, not be using it? It is extremely difficult to entirely eliminate money from a person's life, when that person is part of our society. Should I be bartering instead? Should I be growing my own food and be totally self-sufficient?

Questionable occurrences at the register

There's a matter that has happened many times to me, which I will now bring to the Commission's attention, though I am not unduly concerned by it. It often happens that

the check-out operator decides to check-out a higher-priced fruit than the type of fruit that I am actually purchasing.

The following edited picture (information I believe or suspect to be my private data has been erased) of a receipt highlights a recent occurrence. This type of occurrence is not at all limited to this particular store or business – as I have mentioned, it has

happened to me many times.

'The Fresh Food People' SAFEWAY	
TAX INVOICE- AEN 88 000 014 675 CRAIGIEBURN PH: 9305 7204 YOUR STORE MANAGER IS: MARK	
SALAD SPRING 120G	3.48
TOMATO ROMA 250G	2.48
SALAD SPRING 120G	3.48
ITEM CANCELLED	
SALAD SPRING 120G	-3.48
NECTARINE WHITE	
0.338kg NET @ \$3.94/kg	1.33
GRAPES THOMPSON	
1.095kg NET @ \$4.92/kg	5.39
CUCUMBER LEBANSE	
0.128kg NET @ \$5.96/kg	0.76
SKT DIVINE 2PK	2.48
DELT STYLE 185ML	2.99
JAWEST SLIM 105G	3.99
MALIND VINT 250G	4.98
KRINKS DENTIN	2.67
KRINKS CHEESE KG	2.08
11 SUBTOTAL	\$32.63
SAFEWAY 3159 CRAIGIEBURN VIC	
MERC ID: TERM ID: CARD: VISA CREDIT A/C PURCHASE \$32.63	
TOTAL	\$32.63
APPROVED	08
23/02/08 17:43	3470
TOTAL \$32.63 EFT \$32.63 CHANGE \$0.00	
3159 002 3470 17:44 23/02/08	

I was charged for 0.338kg of White Nectarines at \$3.94/kg, total \$1.33. I was actually purchasing Yellow Nectarines, which, if my memory serves me correctly, were \$3.48/kg. If the sale weight of 0.338kg were accurate, this equates to an extra charge of \$0.16, which is 0.49% of my \$32.63 total purchases at the time. Even if my recollection of the price of Yellow Nectarines is wrong, the Safeway Homeshop web site on the same day listed White Nectarines at \$0.39/each while Yellow Nectarines were \$0.37/each: still, the more expensive fruit was checked-out.

I am not personally fussed about this individual occurrence. I understand it does happen, and I understand I should be cautious at the point of purchase. But I wonder if any formal complaints are lodged about these incidences, and whether individual check-out operators cop the blame for what I suspect is an institutionalised matter? I also wonder why there are different pricing structures for the two purchase methods: in-store uses per kilogram, while the web store charges by units.

Another matter that concerns me is ineffective communication of the total amount due for a purchase and the resultant risk of deception. I have a hearing impairment and often do not understand what is being spoken by sales assistants. The retailer either does not have a cash register with a display visible to customers, or the register does not, for some reason, display the total amount until payment is made. It is often easier for me to hand over a large note and accept whatever change I am given than it is to repeatedly ask the sales assistant what they are saying. Owners of businesses that have

a register with a non-visible display should beware it also increases the risk of sales assistants pocketing change by overcharging.

Overcharging is something I suspect happened to me at a well-known take-away pizza store earlier this year, when the sales assistant used a calculator to sum prices instead of relying on the main point of sale terminal, which was not visible to customers.

Section 2. Responses to Issue Paper

Question 1.

Rising food prices in Australia could be the result of misrepresentation of valuations or measurements. It could also be a matter of retailers trying to get what they can from customers – continually taking an inch and ending up with a mile.

Section A. Structure of the grocery industry

The statement is made that the “efficiency of pricing along the supply chain play[s] a vital role in the prices consumers pay at the checkout counter.” As I state in the earlier section under “Pricing of inputs” I do not accept that prices throughout the supply chain should have any real bearing on the measurement or valuation at the retail level – consideration of supply chain prices could result from either the kindness of the consumer, the power the retailer has over the consumer, or ignorance as to the terms of the contract for the transaction.

Question 5.

I have trouble thinking of any direct measure that permits “economies of scale”. Certainly, if price is directly proportional to weight, then it doesn’t matter how much is sold, the price proportionately stays the same. By what measure could there be an inverse relationship with quantity?

Question 9.

The use of a single currency implies the use of a single measure, and thus no negotiation should be necessary other than to determine if it is indeed money that will be exchanged. If the same currency is used throughout the supply chain, then profit can only come from a legitimate change in summed measures. When money is based on a particular measure, actual profits would tend to occur only in industries in which

at least some inputs are not exchanged with other economy participants (ie inputs not paid for), like agriculture, forestry and perhaps mining. Given that the Australian economy is said to have “ridden on the sheep’s back”, perhaps money really is based on a particular measure like weight. However, given that weight decreases with altitude, and possibly with certain other factors (eg phases of the moon?), then there may be a few other instances of valid weight changes, though I am doubtful that these influences would have much of an effect on real life measurements.

Questions 13.

See my response to Question 5.

Question 16.

See my response to Question 9.

Question 18.

The “value added” depends on the measure used and consistency or uniformity between valuations. I think it would be rare for weight measurements and ratios to naturally change from one activity to another.

Question 22.

I personally use several methods of getting to retailers. When I had a vehicle that was always at my disposal, I would often but not always travel by that vehicle to the shops. This was particularly handy for carrying weekly shopping. It also allowed me to shop at retailers distant to my locale.

For smaller top-up purchases from my local shopping strip and supermarkets, or from the servo down the road, I often walk. This limits the amount of my purchases.

Sometimes, when at the shops, I realise I need more than I thought, but am unable to

purchase those products at that time because of that restriction. Only rarely when walking do I use a grocery trolley that was purchased specifically for shopping at a popular market a greater distance away.

Now that I have a cargo trailer for my mountain bicycle, I am able to do more shopping though I am yet to use it for this purpose. This cargo trailer has a 45kg limit and can carry several “green” bags of shopping. There is the matter of physical security of bike and trailer while I am shopping.

Question 23.

Although I am questioning whether money is based on weight, “unit pricing” is not my preferred solution. “Unit pricing” would mean that currency still varies considerably in the measurements used. If unit pricing is implemented, I would prefer there be several currencies used in the Australian economy, each based on a different type of measure.

If there is actually an existing basis for money being based on weight or other measure, then “unit pricing” is irrelevant and unnecessary.

Question 30.

I no longer personally use fuel discount vouchers, though previously I did use them considerably. The change is due predominantly to me no longer driving much. These days I don’t give a thought to the discount vouchers.

Question 36.

Any variation between metropolitan, regional and country prices either should not occur or would be minimal if money is based on a particular measure. Again, I do not accept that prices throughout the supply chain should have any real bearing on the measurement or valuation at the retail level.

Question 42.

A possible advantage of vertical integration when money is based on a measure would be consistency or uniformity of valuation of that measure. However, this may not be a major issue if it is possible to measure products each and every time a purchase is made.

Section E. Buying power in grocery supply markets

The comment is made that “a grocery wholesaler or retailer with buying power can usually negotiate a better deal from suppliers than its competitors.” “Negotiate a better deal” means that any particular measure used could be corrupted: the buyer in this case would be enticing the seller to do something “wrong”, for want of a better description.

Section G. Factors influencing the pricing of inputs along the supply chain for standard grocery items

It is stated that the ACCC is interested in “the activity or value added in each step”. I refer to my response for Question 18. True “value adding” would be rare. I am aware that “value adding” might be determined by changes in time or place: however these are kinds of measurements.

Summary

The purpose of money is relevant to the Inquiry and should be considered by the Commission.

If price is known by people to be based on weight or any other particular measure, there would be significant effects in the grocery market place. There would also be major repercussions in the wider economy, such as for wages. People might be using wrong measurements because they are unaware of the purpose of money.

Given that weights and measures are regulated by State Governments, I see no reason why monetary transactions cannot be similarly regulated. Objectivity would demand customers question the accuracy and validity of a supplier's claims of input prices and rely on their own observations.

If nothing happens as a result of the ACCC Inquiry, then that would convince me that *caveat emptor* applies to retail pricing in grocery markets and that it is just up to the individual to look after him or her self.

I urge the Government and the Commission to publicise the nature of money so people are aware of its attributes and purpose and can use that knowledge to apply correct measurement valuations in transactions. I urge the Government and the Commission to encourage amongst consumers and businesses the emphasis of money as a measurement and to not treat it as an end in itself.