

Insight Partners Pty Ltd
ABN 29 073 102 315

Level 8, 139 Macquarie Street
Sydney NSW 2000 Australia
Tel + 61 2 8231 7040
Fax + 61 2 8231 7044
info@InsightPartners.net

Grocery Prices Inquiry - Submissions
Australian Competition & Consumer Commission
GPO Box 520
Melbourne VIC 3001

11 March 2008

Public Submission to ACCC Grocery Inquiry by Insight Partners on 11 March 2008

Dear Mr Samuel,

Our occasional working paper, attached, details a simple and effective policy initiative – requiring stores to display unit prices in addition to selling prices – which could reduce the cost of groceries to consumers by about \$810 Million per year and lower inflation.

We do not represent a client in this area and our work in this area is self-funded. Our purpose is to contribute to the public debate by presenting a fact-based view of “unit pricing/unit price transparency”, which is underpinned by the best available knowledge. As such, we specifically do not recommend any course of action or policy position.

Kindest regards,

(Signed)
Dr Alan J Kallir
Director

Consumers benefit from Unit Price Transparency

Dr Alan J Kallir

Recently there has been discussion of the increasing cost of living and the general price level consumers are paying for groceries. A simple and effective public policy initiative – requiring stores to display unit prices¹ in addition to selling prices – would reduce the cost of groceries to consumers by about \$810 Million or about \$96 per household annually. On introduction, unit price transparency may also reduce inflation significantly. The display of both unit and selling prices is mandatory in retail environments in the European Union and in parts of the United States of America. Australian consumers would benefit if the display of unit and selling prices were obligatory here.

BACKGROUND

Australian consumers find a wide range of products in their grocery stores. For some products, such as fresh fruit, vegetables and meat, price is displayed in a cost per unit of measure (e.g. \$/kg). But the price displayed for most packaged products is simply the selling price for that specific package size.

Generally, there is a range of different sized packages for a specific brand of product, and different brands of the same product often have different sized packages to those of their competitors. Recently, there has been some discussion² about Australian consumers having difficulty in getting best value for money in a shopping environment without unit price transparency.

Consumers in other developed countries do not face this situation. For example, in Europe, a 1998 European Union directive states that both “the selling and unit price must be unambiguous, easily identifiable and clearly legible”³. In the United States of America, unit pricing is legally required in some states (such as New York⁴ and Florida⁵) and is a voluntary practice⁶ in other states.

UNIT PRICE TRANSPARENCY REDUCES COSTS TO CONSUMERS

Unit price transparency helps consumers make choices that are more informed. The display of the per-unit weight or volume price, as well as the total selling price, makes it easy for consumers to compare the prices of different brands and package sizes, and determine which product represents the best value for money^{7,8}. Research on unit pricing in the United States of America and the United Kingdom in the 1970s, when unit pricing was an issue in these

© Insight Partners 2008. Not to be reproduced or quoted without prior written approval from Insight Partners

countries, generally confirmed that there was a cost-saving benefit to consumers, especially when deciding between different sized packages^{8,9,10,11,12}. An early study⁸ showed that consumers who were provided with unit prices on shelf tags paid 1% less than consumers without the unit-price information. The same study showed that consumers paid 3% less when the unit prices were also in an organised list¹³, while another study showed that consumers paid an average of 8.7% less¹⁴ under the same conditions. A more recent study¹⁵ reported that when unit prices were prominently presented in pricing displays, consumers spent less for the same quantity of goods relative to when unit prices were less prominently displayed. Unit pricing appears to benefit the value-conscious consumer¹⁶.

BENEFITS TO CONSUMERS

Of the estimated \$128 Billion spent by households on food, non-alcoholic beverages, alcohol and tobacco, about \$81 Billion is spent on packaged goods where only the selling price of the package is displayed¹⁷. This is the typical situation in grocery stores. The studies cited above suggest that the provision of unit price information on the shelf tags for these goods could result in a 1% decrease in consumer spending.

Assuming consumers spend 1% less of the \$81 Billion they currently spend per year on food, non-alcoholic beverages, alcohol and tobacco, they would save \$810 Million per year. This is about \$96 per household per year, or \$39 per person per year.

The impact of 1% less expenditure on food, non-alcoholic beverages, alcohol and tobacco may have a significant impact on the consumer price index. With an estimated annual household expenditure of about \$69,000 on goods and services, households are required to spend an additional \$2,070 to compensate for 3% inflation. However, if unit prices were introduced and all other factors were to remain unchanged, the household would only be required to spend an additional \$1,974 (= \$2,070 - \$96). That is, the real inflation rate would fall to 2.86% from 3%, or by about 0.14%. This decrease in inflation would be a one-off event. However, the savings to households could be ongoing.

IMPACT ON OTHER STAKEHOLDERS

The savings households make is due to a combination of switching brands – either to ‘home/private label’ brands or to a more economical national brand – and/or selecting a more economical package size. Because ‘home/private label’ goods typically have larger margins for the retailer, retailers that have a wide range of ‘home/private label’ goods may find that their retained margin actually increases with the introduction of unit prices, rather than falling as might initially be expected.

The competitive rivalry between grocery retailers could also increase with the introduction of unit price transparency, as consumers could switch retailers based on newly available unit price information.

© Insight Partners 2008. Not to be reproduced or quoted without prior written approval from Insight Partners

National brands could be losers with the introduction of unit prices, as some consumers would switch to more economical packaging sizes of the same brand, to lower cost national brands, or to 'home/private label' goods. The increased utilization of national brands' production facilities that may produce the 'home/private label' goods may partially compensate for this. At the same time, multinational companies, which own many national brands in Australia, are conversant with operating in a retailing environment with unit prices from their international operations.

IMPLEMENTATION ISSUES

In requiring the display of unit prices, Governments would need to pay particular attention to two issues. First, the unit price information would need to be displayed prominently for the consumer to select items with lower unit price, and thus spend less money for the same quantity of goods¹⁵. Some shelf tags display the unit price in the same font and size as the selling price. Second, consumers' lack of understanding¹⁸ about unit prices would need to be addressed by running an initial education program and repeating this program periodically, to ensure that consumers understand how unit pricing helps them compare products and use the unit price information¹⁹.

Finally, the on-going direct costs incurred by retailers in providing unit price information is very low as almost all major retailers use computers to generate shelf tags. A one-off set-up cost to modify the necessary systems and populate the databases may also be required. In the 1970s in the United States of America, estimates of these costs were small¹¹. Notwithstanding this, Governments may wish to exempt very small stores without electronic point of sales systems from the requirement to display unit prices as well as selling prices.

SUMMARY

Unit price transparency is simple and effective public policy initiative that reduces the cost of groceries to consumers by about 1% or about \$810 Million annually. On introduction, unit price transparency may also reduce inflation significantly. These consumer benefits of unit price transparency far outweigh the costs to retailers and manufacturers. Moreover, unit price transparency reduces inflation.

REFERENCES AND NOTES

- ¹ A unit price is the cost per unit of measure of the product. Unit pricing is expressing the price in terms of the cost per unit of measure of the product in addition to the total selling price of the product.
- ² Glover R, "In praise of cantankerous skinflints", Sydney Morning Herald, 4 August 2007, <http://www.smh.com.au/articles/2007/08/02/1185648050926.html#>.
- ³ Article 4 of the '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', *Official Journal L 080*, 18/03/1998 P. 0027 – 0031; <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:31998L0006:EN:HTML>.
- ⁴ New York Codes Rules and Regulations 345.1, see <http://www.agmkt.state.ny.us/FS/industry/04circs/unitpriceandmpriceCIR942.htm>.
- ⁵ Florida Statutes 501.135, see http://www.leg.state.fl.us/statutes/index.cfm?App_mode=Display_Statute&Search_String=&URL=Ch0501/SEC135.HTM&Title=-%3E2007-%3ECh0501-%3ESection%20135#0501.135.
- ⁶ Wall E C, "Comprehensive Look at the Fair Packaging and Labeling Act of 1966 and the FDA Regulation of Deceptive Labeling and Packaging Practices: 1906 to Today", Harvard Law School, May 2002, <http://leda.law.harvard.edu/leda/data/444/Wall.html>.
- ⁷ Manning K C, Sprott D E and Miyazaki A D (1998), "Consumer Response to Quantity Surcharges: Implications for Retail Price Setters" *Journal of Retailing*, 74, 373-399.
- ⁸ Russo J E (1977), "The Value of Unit Price Information", *Journal of Marketing Research*, 14, 193-201.
- ⁹ Granger C W J and Billson A (1972), "Consumers' Attitudes Toward Package Size and Price", *Journal of Market Research*, 9, 239-48.
- ¹⁰ Isakson H R and Maurizi A R (1973), "The Consumer Economics of Unit Pricing", *Journal of Marketing Research*, 10, 277-85.
- ¹¹ Russo J E, Krieser G and Miyashita S (1975), "An Effective Display of Unit Price Information", *Journal of Marketing*, 39, 11-19.
- ¹² Report to the Congress by the Comptroller General of the United States (1975), "Food labeling: Goals, Shortcomings and Proposed Changes", Report No MWD-75-19.
- ¹³ That is, in a list that compares the unit prices of similar products (such as tinned tuna), organised from least to highest cost per unit.
- ¹⁴ Zeitaml V A, (1982) "Consumer Response to In-Store Price Environments", *Journal of Consumer Research*, 8, 357-369.
- ¹⁵ Miazaki A D, Sprott D E and Manning K C, (2000), "Unit Prices on Retail Shelf Labels: An Assessment of Information Prominence", *Journal of Retailing*, 76, 93-112.
- ¹⁶ Kwortnik R J, Creyer E H and Ross W T (2006), "Usage-Based versus Measure-Based Unit Pricing: Is there a better Index of Value?", *Journal of Consumer Policy*, 29, 37-66.
- ¹⁷ Source: Australian Bureau of Statistics, Insight Partners analysis. Adjusted survey data 2003/04; full year 2007.
- ¹⁸ Carman J M (1972), "A Summary of Empirical Research on Unit Pricing in Supermarkets", 48, 63-71.
- ¹⁹ Mitchell V, Lennard D and McGoldrick P (2003), "Consumer Awareness, Understanding and Usage of Unit Pricing", *British Journal of Management*, 14, 173-187.