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**SUPPLEMENTARY PUBLIC SUBMISSION TO ACCC INQUIRY
INTO THE COMPETITIVENESS OF RETAIL PRICES FOR
STANDARD GROCERIES**

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1. Estimates of the likely impact of unit pricing on consumer expenditure and inflation

Insight Partners' welcome estimate¹ of the likely effects on Australian consumers if unit pricing were introduced is based on late 1970s US research that showed a 1% reduction in total expenditure on packaged goods.²

Our research shows that here the possible savings from using unit price information are much greater than in found in the US study. This means that the potential reduction in total expenditure could be substantially greater than estimated by Insight Partners.

Also, and importantly, consumer responses, individually and in aggregate, will be influenced greatly by many factors including the quality of the unit pricing information (including size of presentation, units of measurement used) and consumer awareness of the information and knowledge of how it can be used. If Australia introduces a high-quality unit pricing system and has an effective consumer education campaign, consumer usage of unit price information will be very high which will have obvious beneficial effects on total expenditure and inflation.

¹ Submission to the ACCC Grocery Inquiry, #122, (2008).

² Russo J E (1977), "The Value of Unit Price Information", Journal of Marketing Research, 14, 193-201.

Furthermore, it needs to be recognised that consumer welfare will also be increased if consumers can use unit pricing to maintain their current total spend but get more for their money. There will also be ongoing beneficial anti-inflationary effects from consumers being more price sensitive, i.e. the price elasticity of demand for many products could increase significantly, with obvious beneficial effects on the pricing practices of manufacturers and retailers and thus on inflationary pressures.

2. Importance of high quality unit pricing system and ensuring compliance with set standards

Reference 6 Wall (2002)³ in Insight Partners' submission contains some very relevant information on unit pricing in the USA, especially its importance in helping consumers to recognise and cope with practices such as surcharges for larger quantities, downsizing of package contents, and the proliferation package sizes.

Wall notes, in relation to problems arising for consumers from the proliferation of package sizes, that the most effective approach would have been national mandatory provision of unit prices next to the product on the supermarket shelf. However, for a variety of reasons, this did not occur and it was left to individual states to decide whether to make unit pricing mandatory. Fortunately, a few states did this (usually with detailed standards to be achieved) and, as result, they also influenced greatly the extent and nature of voluntary provision in many other states.

Also, in relation to the quantity surcharge issue, (but the argument also applies to other issues) Wall notes as follows that inaccurate or missing unit pricing information can be major problems.

"There are two reasons why consumers – who generally consider price to be an important factor in their purchasing decision – purchase goods subject to a quantity surcharge. First, as mentioned above, consumers are not aware of the existence of quantity surcharges and assume that the larger size has a cheaper price per unit of content. Secondly, the pricing of a product is often inaccurate or missing, making price comparisons a challenge for the consumer. A study by Nason and Della Bitta in 1983 found that in forty percent of the cases the unit price tags in the audited stores were either missing, miss-located or simply incorrect."

Visits to supermarkets in the USA during 2007 on the Churchill Fellowship indicated that missing, mislocated or incorrect unit price information are still substantial problems in many supermarkets, including in some states where provision is compulsory and the set standards are very specific. There are many reasons for this including lack of resources work to inform retailers of requirements and to monitor and enforce compliance.

³ Wall E.C., "Comprehensive Look at the Fair Packaging and Labeling Act of 1996 and the FDA Regulation of Deceptive Labeling and Packaging Practices: 1906 to Today", Harvard Law School, May 2002.

In the EU, where the provision of unit price information is mandatory for many shops in every country, there are also major provision problems in some countries. These are mentioned as follows in the European Consumer's Organisation's⁴ (BEUC) submission dated 1 September 2006 to the EU consultation on the Unit Pricing Directive 98/6/EC:

“The Directive states that “Member States must make sure that the system is effective” (Recital 13). We regret that the Commission assessment does not mention how Article 8 has been implemented in practice and whether Member States applied “effective, proportionate and dissuasive” penalties in case of infringements.

A study on price indication, co-financed by the European Commission, was published in the magazines of Test-Achats, Altroconsumo, OCU and DECO Proteste. OCU, our Spanish Member, found that in Spain only 22% of the shops investigated indicated the unit price on all the products. Another important aspect is that even if 73.3% of the products indicated the unit price, more than a third of these products had a wrong indication. The level of errors was even greater (71.9%) for products where the price has to be calculated on the drained weight. In Italy, almost half (42%) of the shops investigated did not mention the unit price – with peaks up to 68% for traditional businesses and 60% for chains.

Likewise, Test-Achats, our Belgian Member, revealed that in Belgium the unit price, depending on the category of products, is still not fully mentioned. For instance, only one fifth of household cleaning products were indicating the unit price.

We are convinced that additional steps should be taken to ensure that the Directive is correctly applied and enforced...”

The above information on problems with the quality of the unit price information provided by some retailers overseas highlights the need in Australia for a mandatory, uniform high quality unit pricing system and clear and enforced standards of performance.

3. Overview of a successful mandatory unit pricing system - New Jersey, USA

New Jersey is one of several states in the north east USA with mandatory unit pricing systems.

New Jersey's mandatory unit pricing system started in 1975 and is based largely on the Massachusetts system i.e. it applies to specified products for which there are also specified units of measurement for unit pricing, and the information must be displayed in a specified prominent format on the shelf label.

The system was developed and introduced in consultation with consumers and retailers. Introduction was accompanied by an extensive consumer and retailer education campaign undertaken by government, retailers, and consumers.

⁴“ Consultation on the Unit Pricing Directive BEUC Response”, BEUC/X/51, Sept 2006, available at www.beuc.eu

The numerous reasons for making the system compulsory rather than continuing with voluntary provision included maximising help for consumers to cope with rapidly rising retail prices and lower levels of economic activity caused by the 1973 oil crisis.

New Jersey's system seems to be very successful because there appears to be widespread consumer awareness and use of the information, and high levels of compliance by retailers.

The reasons for this success include:

- Regulations which specify in detail how the unit price information must be displayed on shelf labels, etc. (to ensure uniform and prominent presentation)
- Initial extensive education campaigns for consumers and retailers in which retailers participated extensively
- On going resources provided by the state government to assist retailers to understand the regulations, and to enforce compliance.

In 2000, a retired New Jersey business leader made the following positive comments on the system:

Extract from an article in "The Record", New Jersey, USA on 2 January 2000 on changes in consumer rights and protections in the USA by Kevin DeMarrais.

Watching many of these changes closely has been Leo Powelstock, 73, the longtime executive director of the Better Business Bureau of Bergen, Passaic and Rockland Counties.

From the time he opened the regional office in Paramus in 1965 until his retirement in 1994, Powelstock was an inside observer of government and private initiatives to protect consumers. And he has remained a vocal advocate for consumers since stepping down from his official role.

In Powelstock's view, major changes have come from two equal directions: tougher regulations and stepped up enforcement.

He cites three key laws enacted over the last 30 years:.....

Unit pricing. *For the first time consumers could easily compare prices on different size packages, something that has become increasingly beneficial as manufacturers impose price increases by reducing contents without changing the can or box size, Powelstock said.*

"When it was first proposed, I thought it would be an imposition on the business community, and was not in favour of it, he said. "But I was wrong".