choice

19 March 2008

Mr Graeme Samuel
Chairman
Australian Competition and Consumer Commission
GPO Box 520
MELBOURNE VIC 3001

Dear Mr Samuel

CHOICE SUBMISSION TO THE ACCC GROCERY PRICE INQUIRY

CHOICE welcomes the Government's decision to require the ACCC to conduct an inquiry into grocery prices, and we are pleased to be able to make a submission to this inquiry.

We are happy to provide further information to the ACCC on any aspect of our submission. Given the experience that CHOICE has in conducting grocery surveys, we are also happy to work with the ACCC on a grocery price monitoring website.

Should you have any further queries or require further information please contact me on (02) 9577 3225.

Yours sincerely

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Public Submission to the ACCC Grocery Inquiry by CHOICE

March 2008

CHOICE welcomes the Government's announcement of an inquiry by the ACCC into grocery prices.

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 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.

Australian consumers believe there should be ***greater price competition*** in the grocery sector. While the entry of Aldi has allowed greater choice for some consumers, 64% believe there is insufficient price competition between supermarket chains, while only 16% of consumers believe there is adequate price competition.

Australia has a very concentrated grocery sector, with substantial dominance by Coles and Woolworths. This brings potential benefits through economies of scale, but it also reduces competition in the sector and has an impact on choice and potentially prices. CHOICE would have considerable concerns if there was further concentration in this sector through merger or acquisition. The ACCC should apply stringent tests to ensure that competition is not adversely affected by further rationalisation in this sector, and closely monitor the state of SMEs in the grocery sector.

Summary of CHOICE recommendations

1. A Food Consumer Price Index

CHOICE proposes the introduction of a ***Food and Grocery Consumer Price Index*** (CPI) published by the Australian Bureau of Statistics each quarter. This would be separate from the general CPI. Food is part of the overall CPI (and will remain so), but the headline CPI figure has been masking significant increases and volatility in food and grocery prices. The Food and Grocery CPI should cover an average basket of goods purchased by an individual and by a family. The Food and Grocery CPI should also include commentary on the impact of factors such as climate events and transport costs on food and grocery prices, so that consumers can have confidence that the prices they face are fair.

2. A National Comparison Pricing Scheme

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.

- This system should be consistent across regions and across supermarket chains, to facilitate price comparisons across products and across supermarkets outlets.

3. A Grocery Shopping Website

CHOICE supports the proposal for a grocery website, arranged by the ACCC, to allow consumers to more easily determine the prices charged by supermarkets in their area. Transparent, timely and independent information should be publicly available to help consumers to identify cheaper grocery outlets. CHOICE would be pleased to assist the ACCC in the development of such a site.

4. Reducing concentration and barriers to entry

Given the high level of concentration in the Australian supermarket sector, consideration should be given to providing ***improved powers under Section 50 of the Trade Practices Act for the ACCC to deal with "creeping acquisitions"***. Such conduct erodes competition through a series of mergers and acquisitions over time. Typically this will involve a larger company acquiring a series of smaller firms - each individual transaction may have a relatively limited impact, in combination they may significantly reduce competition. Improved powers may involve, for example, allowing the ACCC to more effectively treat a series of acquisitions or mergers over time as a single event.

Consideration should be given to adopting the relevant remedies outlined in the recent UK Competition Commission's investigation into grocery market competition – in particular the emphasis on ***addressing the barriers to entry created by control of suitable sites and properties***.

5. Shopper Dockets

An analysis of shopper dockets should include ***an examination of the cross-subsidies generated by shopper dockets between different groups of consumers*** that do/do not participate in these "loyalty" schemes.

Grocery Pricing

CHOICE has attached 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 2% 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 the regional variations in pricing in these surveys.

CHOICE would be pleased to assist the ACCC to develop a website for regularly monitoring grocery prices.

Price comparability - Transparency and Comparison Pricing

There is a lack of transparency on pricing for many basic grocery items. CHOICE believes that a national comparison pricing system should be introduced into Australian supermarkets as a matter of urgency. This is also known as unit pricing.

Some large Australian 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 millilitre or gram (eg past 20cents/100 grams, cooking oil, 50 cents/100ml)?'

- 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.

It is important to note that comparison 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.

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 and

Competition

Australia has one of the most concentrated supermarket/grocery sectors in the world. The major retailers, Coles and Woolworths, have very considerable market share – by most measures more than 75%. This brings potential benefits to consumers through cheaper prices from economies of scale, but it also reduces competition in the sector that could have a major impact on choice and price.

A challenge in this sector is the phenomenon of "creeping acquisitions" eroding competition over time through a series of mergers or acquisitions. CHOICE supports a review of the ACCC's competition powers in relation to dealing with creeping acquisitions.

Shopper Dockets

Clearly based on the CHOICE Survey, shopper dockets are influencing the purchasing decisions of a sizeable minority of consumers. However, the overall benefits need to be carefully assessed by the ACCC. In particular, the presence of shopper dockets and other loyalty schemes raises the issues around the market distortions created by bundling, including:

- Credits for goods a consumer may not want
- The transaction costs in realizing credits
- The "locking in" of customers through such loyalty plans, particularly when there are thresholds to obtain benefits
- The possible cross-subsidisation impacts between different categories of grocery purchasers that may arise (eg between consumers who do and don't own cars).

Wholesale and supply issues

CHOICE does not seek to provide extensive comment on supply chain issues and land zoning issues in the groceries sector. However, we note the recent findings and recommendations in the UK Competition Commission's investigation into competition in the grocery market in the UK, particularly around land and site acquisition and planning issues for new supermarkets. There is anecdotal evidence to suggest that similar efforts to restrict the entry of competitors has occurred and is occurring in Australia.

CHOICE Consumer Attitudinal Survey - Supermarkets February 2008

5,000 CHOICE subscribers were invited to participate in an online Supermarket Attitudinal Survey in the last week of February 2008 (2,500 magazine subscribers and 2,500 online subscribers). Of the members invited to participate, 1041 returned completed surveys (a response rate of 21%).

The only screening criterion for the survey was that the respondent must be one of the main grocery buyers in the household.

Note: 'N size' refers to the number of respondents.

Key Results

1. Where do you do mainly do your grocery shopping?

78% of those surveyed shop at either Coles or Woolworths. Aldi only has a 6% market share of 'main' supermarket shopped at.

Supermarket	N size	%
Woolworths	435	42%
Coles	379	36%
IGA	82	8%
Aldi	57	6%
Other, please specify	86	8%

Base: All respondents

2. Where else do you do your grocery shopping?

Supermarket	N size	%
Coles	408	39%
Woolworths	384	37%
IGA	285	27%
Aldi	159	15%
Other, please specify	251	24%

Base: All respondents

3. Which of the following responses best describes why you choose to shop at your <u>main</u> supermarket *(you may choose more than one answer)*. (Q2)

The main reason respondents chose to shop at their main supermarket is primarily driven by convenience (73%). Parking is also important (39%).

Only one quarter of respondents chose price as a reason for choosing their supermarket. Petrol shop-a-dockets were chosen as a reason by 18% of respondents, and 9% of respondents chose 'other rewards points schemes'.

Reason	**N size**	**%**
Convenient location	763	73%
Parking	402	39%
Product variety	331	32%
Opening hours	265	26%
Price	264	25%
Quality	198	19%
Petrol shop-a-dockets	192	18%
Fresh food sections (e.g. fruit & vegetables, deli, bakery)	183	18%
Other rewards points schemes	88	9%
Other	150	14%

Base: All respondents

4. How do you find comparing prices between supermarkets? (Q3a)

Around one in three respondents find it difficult to compare prices between supermarkets, while a quarter do not compare prices between supermarkets.

Only 13% find it easy to make comparisons between supermarkets.

	N sizes	**%**
Very difficult	105	10%
Difficult	278	27%
Neither difficult nor easy	225	22%
Easy	119	11%
Very easy	18	2%
I don't compare prices between supermarkets	288	28%

Base: All respondents

5. Why do you find it difficult to compare prices between supermarkets? *(multiple response).* (Q3b –answered "Very difficult" or "Difficult".)

Those who found it difficult to compare prices between supermarkets, (37%), were asked the reason why they found it difficult.

Reason	**N size**	**% of total sample**	**% of those who found it difficult**
There are too many special/sales	186	18%	49%
The product sizes are different in the various supermarkets	167	16%	44%
The brand names are not the same	169	16%	44%
The quality of the products are not the same	139	13%	36%
Other	97	9%	25%

Base: Respondents who found it very difficult or difficult to compare prices between supermarkets (n=383)

6. How useful would you find it to make product price comparisons if there was clearer marking on the shelf about the price per mL or gram, (eg: Pasta, 20cents/100 grams ; Cooking oil, 50 cents/100 mL). (Q4)

89% of respondents would find 'comparison pricing' useful.

	N size	**%**
Very useful	647	62%
Somewhat useful	285	27%
Not at all useful	72	7%
Don't know	24	2%

Base: All respondents

7. Compared to 3 years ago, do you feel that you are spending less, more or about the same proportion of your household income on groceries (*groceries includes packaged food, fresh fruit and vegetables, and fresh meat*). *(Q5)*

83% of respondents feel that they are spending more of their household income on groceries compared to 3 years ago.

	N size	**%**
Spending less	24	2%
Spending more	866	83%
About the same	126	12%
Don't know	18	2%

Base: All respondents

8. Compared to 3 years ago, do you think you have more, less or about the same choice of which supermarket chains that you can visit? (Q6)

	N size	**%**
More	311	30%
Less	207	20%
About the same	513	49%
Don't know	8	1%

Base: All respondents

9. How do you usually find out about supermarket specials and sales? (Q7).

Respondents are mostly finding out about Supermarket specials and sales through letter box drops (which they appear to be reading) and in-store promotions. These are both relatively cheap advertising mediums.

Supermarket advertising of sales and specials reaches 85% of respondents.

	N size	**%**
Letter box drops	502	48%
In store	424	41%
Newspaper/magazine advertising (including 'liftouts')	206	20%
TV advertising	81	8%
Word of mouth	25	2%
Radio advertising	6	1%
I don't find out about specials or sales	157	15%
Don't know/ can't remember	6	1%

Base: All respondents

10. Do you feel that there is sufficient price competition between supermarket chains? (Q8).

Only 16% of respondents feel that there is enough competition between supermarket chains.

	N size	%
Yes	163	16%
No	663	64%
Don't know	209	20%

Base: All respondents

11.Where do you usually buy your grocery products (packaged goods, etc)? (Q9a)

	N size	%
Woolworths	432	42%
Coles	388	37%
IGA	81	8%
Aldi	57	6%
Other	77	7%

Base: All respondents

12.Where do you usually buy your fresh fruit & vegetables? (Q9b)

Over a third of respondents are buying their fresh fruit and vegetables from Supermarkets.

	N size	%
Fruit & vegetable shop	407	39%
Woolworths	200	19%
Coles	138	13%
IGA	37	4%
Aldi	23	2%
Markets	118	11%
Other	115	11%

Base: All respondents

13. Where do you usually buy your fresh meat? (Q9c)

43% of respondents are still purchasing their fresh meat from a butcher, however, 45% are making their purchase from a Supermarket.

	N size	%
Butcher	451	43%
Woolworths	240	23%
Coles	165	16%
IGA	39	4%
Aldi	22	2%
Other	97	9%
N/A	25	2%

Base: All respondents

Demographics

Gender:
There is a skew towards females in the sample - this is likely to be due to the fact that we asked for one of the household's main grocery buyer to complete the survey.

	N size	%
Male	368	35%
Female	664	64%

Age:

	N size	%
35 years or less	104	10%
36-40 years	124	12%
41- 55	391	38%
56-65 years	264	25%
66 years or more	155	15%
Prefer not to answer	1	0%

State of residence:

	N size	%
NSW	351	34%
Victoria	257	25%
Queensland	195	19%
South Australia	85	8%
Western Australia	83	8%
NT	4	0%
ACT	51	5%
Tasmania	15	1%