

# Business snapshot

## component price advertising



Australian  
Competition &  
Consumer  
Commission



### Component price advertising

Most businesses rely on advertising to promote the sale of their products or services to consumers. Price is usually a major factor for consumers when they are considering whether to buy a product or service. Many consumers will shop around to find the best deal, which means they will pay close attention to your advertising and any price representations you make, whether those representations appear on television, in a catalogue, in a newspaper or on a website.

Accurate price representations are not just good advertising practice—they are required by law. Under the Australian Consumer Law (ACL), which is contained in a schedule to the *Competition and Consumer Act 2010*, you are required to ensure that your advertising correctly represents the good or service you are offering for sale—including its price and any other key features or characteristics. This enables consumers to compare similar products and make informed purchasing decisions.

The rules on component pricing require you to make clear price representations to consumers. This snapshot tells you about these rules and how they affect you.

### Component pricing

Component pricing is where a business represents the cost of a good or service in, or as the sum of, multiple component parts. Where no total price is given, consumers may be unaware of the full amount they will have to pay to obtain that good or service. They may be left with the impression that the good or service is being offered at a lower price than it actually is.

The ACL says that if you use component pricing in your advertising, you must also show the single (total) price for the goods or services—as far as it can be quantified at the time you make the price representation. The total price must be stated in a prominent way and be at least as prominent as the most prominent component.

### Prominent way

A prominent single price is one that:

- stands out so that it is easily seen by a consumer
- is clear, eye-catching and noticeable.

You should consider:

- the size, colour and typeface of the text used to display the price
- the placement of the price relative to the background and advertising medium
- how people will see and interpret the advertising message
- the advertising medium—e.g. television, internet, print.

In some media you may have to take extra care to ensure that your advertising complies with the ACL.

### For example

An advertisement states up front '6 easy repayments of \$19.95' but obscures the total price of \$119.70 at the bottom in fine print and a colour similar to the background design.

The single price is not as prominent as the most prominent component, \$19.95, and is therefore unlikely to meet the requirements of the ACL.

### The single price and how to calculate it

The single price means the minimum total cost that a consumer must pay to obtain the good or service—as far as it can be quantified (calculated) at the time the price representation is made.

An amount is quantifiable if it can be readily converted into a dollar amount. If it is subject to variation (such as fluctuations in currency), you must calculate it based on information available at that time and clearly advise consumers that it may be subject to change. Where the final price includes both quantifiable and non-quantifiable charges, you should state the quantifiable charges as a single figure and clearly advise consumers that not all components are included. You should also be aware that the component pricing rules do not prevent consumers from negotiating a lower price with you.

### For example

A rental car business offers a particular luxury car for hire at \$74 per day. The business also charges a \$1 surcharge for each kilometre the customer drives, which is then added to the daily rate. The complete surcharge cannot be quantified at the time of advertising because it cannot be known how many kilometres the customer will drive.

This offer could be advertised as '\$74/day + \$1/kilometre surcharge'.

All components should then be totalled. You are required to include the following components:

- charges of any description payable by a consumer to purchase the good or service (e.g. administration fees, compulsory service charges, booking fees)
- taxes, duties, fees, levies or charges payable by the consumer for the supply of the good or service (e.g. the goods and services tax or sales tax).

You do not need to include the following components:

- optional extras—i.e. additional charges a consumer chooses to pay
- sending charges—you may either specify these or include them in the total price
- any non-quantifiable components
- third-party payments paid by your business that are not passed on to the consumer.

## For example

A ticket seller prices its tickets at \$40. The seller also imposes a booking fee of \$3 on all customers whether they purchase over the phone, on the internet or in person. A purchase from the ticket seller will attract a goods and services tax of \$4.30.

This could be advertised as:

- \$47.30 (including 10% GST) or
- \$43 + \$4.30 GST = \$47.30 or
- \$40 + \$3 booking fee + 4.30 GST = \$47.30.

## Additional obligations

It is important to remember that you must not only comply with the ACL but also satisfy all ACL requirements. This is particularly relevant to your obligation to avoid actually or potentially misleading or deceiving consumers.

## For example

A restaurant imposes a 15 per cent surcharge on all food and beverages on public holidays. Under the component pricing rules, on days when the surcharge applies the restaurant is required to provide patrons with a menu that states the price of food and beverages inclusive of the 15% surcharge.

## Exceptions

There are two exceptions to the rule requiring that a single price be shown at least as prominently as any component. These are:

1. Where you make a representation exclusively to a business—in this instance you do not need to include a single price.
2. Where services are supplied under a contract (for a term) that also provides for periodic payments—while you still need to provide a prominent single price, that price does not need to be as prominent as any other component.

## For example

A wholesale furniture business provides a retailer with a wholesale price list for various furniture and homeware items. These products are intended for resale to consumers, which is clearly stated. The price list is sent via post directly to the owner and manager of the retail business. The price list is unlikely to be viewed by a consumer audience and clearly identifies the products and prices as for wholesale only. The component pricing rules do not apply to these price representations, although the broader requirements of the ACL must still be met.

## Component pricing checklist

- Does your single price include all the components you are able to quantify when you make the price representation?
- Are you able to substantiate why you are unable to quantify a particular component?
- **Where some components of a price vary or cannot be** quantified, have you stated the total price to the extent that it can be calculated? Remember, the fact that a price may be subject to change does not mean that it cannot be quantified.
- Have you clearly advised consumers of any components that are excluded or may vary?
- Is your single price typically for the base level of a good or service (without any optional extras where they are offered)?
- If your advertisements do not contain any component price representations, do they still comply, as required, with the other provisions of the ACL?

## Where can I get more information?

For more information on the Competition and Consumer Act, visit the ACCC website [www.accc.gov.au](http://www.accc.gov.au) or call the ACCC's Small Business Helpline on 1300 302 021.

You can also visit [www.consumerlaw.gov.au](http://www.consumerlaw.gov.au) for an overview of the new consumer law regime operating across Australia. Detailed guidance on sales practices, consumer guarantees, product safety and unfair contract terms is available from this site.

**For other business information go to [www.business.gov.au](http://www.business.gov.au)**

### Other ACCC contacts

Infocentre 1300 302 502

Website [www.accc.gov.au](http://www.accc.gov.au)

For information in languages other than English, call 131 450 and ask for 1300 302 502

TTY service for people with hearing or speech difficulties: 1300 303 609 [www.accc.gov.au](http://www.accc.gov.au)

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### Important notice

This publication has been updated to refer to the *Competition and Consumer Act 2010* which replaces the *Trade Practices Act 1974* on 1 January 2011. For more information on the Australian Consumer Law changes see [www.consumerlaw.gov.au](http://www.consumerlaw.gov.au)

Information in this publication is for general guidance only. It reflects the ACCC's views on what is required to comply with the *Competition and Consumer Act 2010*. It does not constitute legal advice and should not be relied on as a statement of the law relating to the Act. You should obtain legal advice if there is doubt about whether any conduct may breach the Act.

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