

**Parliament of Australia
Senate Economics Committee**

Submission to the Senate Inquiry into the
GROCERY Choice website.

Prepared

by



INFORMED SOURCES

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1 Our approach

The Informed Sources approach to this submission and inquiry is challenging.

On the one hand, we believe we have detailed knowledge of what appeared to us as a poor decision making process by the ACCC and the impact this has had on the viability of the GROCERY Choice website.

On the other, we were a participant in the process and our arguments could be viewed as "sour grapes" and/or coming from biased standpoints.

Clearly, having an ongoing supplier relationship with the ACCC, we could have been tempted to simply let these matters rest for fear of upsetting a valued client. But this matter, in our opinion, is far too important to remain un-discussed.

In this submission we have endeavoured to be objective and I hope we have succeeded.

We leave the judgement issues to others.



Alan Cadd
Managing Director,
Informed Sources (Australia) Pty Ltd

11th September 2009.

2 Overview

The ACCC quickly and in our view correctly determined that there were two Australian companies who had the demonstrable experience, capability and management coverage to collect the data necessary to feed the GROCERY Choice website:

- **Informed Sources** – a company that, at the time, was in a heated debate with the ACCC, its Chairman and the Government over the potential introduction of FuelWatch. In addition to its collection capabilities, this company had extensive experience in the construction and running of a consumer pricing awareness portal (MotorMouth.com.au). Informed Sources bid **\$1.975M** (excl GST) for collection of data for the GROCERY Choice website.
- **Retail Facts** – a respected company with an extensive network of collection staff but (based on documents obtained under FOI) with the potential to fail the ACCC's RFQ needs for confidentiality/anonymity because of the deployment of that network and its likely overlap with its existing collection services for big Supermarket companies. Retail Facts bid **\$4.669M** (excl GST) for collection of data for the GROCERY Choice website.

The ACCC chose Retail Facts as their preferred data collection supplier.

This submission examines the selection process that saw the **ACCC spend 2.3 times the amount** of money necessary to collect data and feed a web portal that proved to be fatally flawed in its design and presentation thereby contributing to the demise of this initiative.

We look forward to answering questions in detail during the Inquiry process.

3 Summary of Submission

The various interwoven arguments supporting our overview position are outlined below.

3.1 Informed Sources Collection Experience

As the ACCC determined, there were effectively only two companies able to undertake the required collection of data. Informed Sources was actively collecting grocery prices across Australia for Franklins and the AUR/FoodWorks group. Previously, Informed Sources had been the national collection agency for Woolworths across all Australian capitals and 60 regional centres. Also, in New Zealand, we were/are the current national collection agency for PEL (the Woolworths' NZ subsidiary).

Also of particular interest was the use of Informed Sources to undertake the lion's share of the retail consumer price monitoring associated with the introduction of the GST. The ACCC commissioned Informed Sources to complete a minimum of seven surveys between December 1999 and March 2001 across all capital cities and 100 Regional cities throughout Australia. Each survey included 600,000 data items spread across 2,800 retail outlets and was delivered to the complete satisfaction of the ACCC. It is worth highlighting that in order for this to be achieved, Informed Sources had to recruit, train, deploy and manage a field force of 600 staff for each collection. The time for mobilisation of staff for the first collection was 7 weeks - a similar time frame to that required for the Grocery Choice project.

3.2 Heated Debate

Despite a 15 year relationship as a provider of fuel pricing data to the ACCC, the appointment of Patrick Walker as the Petrol Commissioner and the proposed adoption of FuelWatch as the Rudd Government's Fuel Price solution meant that Informed Sources would be pitched against the Government and the ACCC throughout the FuelWatch debate. Informed Sources' analysis early in the FuelWatch experiment in WA had clearly demonstrated the scheme was costing motorists 1.5 to 2.5 cpl compared to markets without the scheme.

There was a significant reduction in retail fuel prices in WA (and Perth in particular) when Coles Express opened in competition to Woolworths in early 2004.

The ACCC had presented in Appendix S of its Report on Petrol Prices (released in December 2007) an analysis which could lead casual observers to incorrectly believe that approximately 1.9 cpl saving would be achieved through the introduction of FuelWatch. Despite some caveats, the "headline" argument of 1.9cpl saving picked up by many (including the Prime Minister) completely failed to take account of the Coles/Woolworths effect of 2004.

This became a touch point for the FuelWatch debate with considerable public posturing about availability of data and correctness of analysis. This debate was finally laid to rest by La Trobe University Prof. Don Harding's independent analysis of the ACCC work on the 1.9cpl saving when he found the analysis was seriously flawed.



GROCERY Choice Inquiry

It should be noted that during the FuelWatch debate, Informed Sources continued the uninterrupted supply to the ACCC of all their required retail fuel pricing data for both their internal analysis and for display on the ACCC Consumer Awareness Website under existing contractual arrangements. These contractual arrangements were renewed and further enhanced in June 2009 and Informed Sources continues to work closely with the ACCC as a respected and fiercely independent supplier of retail fuel pricing information.

This heated debate and the overlap with the GROCERY Choice tender are best considered in the following sequence of events:

GROCERY Choice Inquiry

Date	GROCERY Choice	FuelWatch
7-Oct-07		Informed Sources presents to ACCC Petrol Enquiry Melbourne
30-Oct-07	Initial preliminary discussions between IS and ACCC – I.S. provides a broad estimate of \$2.5M to survey likely grocery prices	
24-Nov-07	Labor Elected to Government	
14-Dec-07		ACCC releases "Petrol Prices and Australian Consumers"
18-Dec-07		Messrs Bowen and Samuel - negative comments about Informed Sources
30-Jan-08	ACCC Grocery Inquiry commences	
11-Feb-08	ACCC Grocery Inquiry - Issues Paper	
16-Feb-08	Patrick Walker appointed ACCC Petrol Commissioner	
19-Feb-08	I.S. provides working spreadsheet on "best endeavours" basis to ACCC. Confirms \$2.5M as broad estimate for data collection	
3-Mar-08		I.S. meets with Chris Bowen's Staff to highlight flaws in FuelWatch
20-Mar-08		I.S. meets with Martin Ferguson's Staff to highlight flaws in FuelWatch
31-Mar-08		I.S. presents FuelWatch issues to Graeme Samuel and Patrick Walker
Mid Apr-08	Approval from States sought for Graeme Samuel re-appointment to ACCC Chair	
14-Apr-08		NRMA president Alan Evans attacks FuelWatch opponents from RACV
15-Apr-08		FuelWatch announced at Community Cabinet in NSW
12-May-08	Grocery Choice RFQ issued by ACCC	
13-May-08	Government announces \$12.9M would be made available	
Mid May-08	Assist. Treasurer's office indicates "1st Aug 08 start date earliest "	
23-May-08	I.S. submits response to ACCC Grocery Choice RFQ	
28-May-08		Prime Minister refers to ACCC 1.9 cpl FuelWatch saving as "robust basis"
29-May-08	I.S. Meeting with ACCC tender review group	Mr Samuel directs negative comments against I.S. - ABC 'PM' programme
3-Jun-08	I.S. sends "Further particulars" letter to ACCC tender group	
5-Jun-08		Mr Samuel directs negative comments against I.S. at Senate Estimates
11-Jun-08	I.S. and others notified of unsuccessful tender for data collection	
19-Jun-08		Mr Samuel - further negative comments against I.S. - ABC 'PM' programme
20-Jun-08		I.S.'s lawyers Blake Dawson write to Mr Samuel requesting that he desist
23-Jun-08	AusTender notification of Retail Facts success at Grocery Tender	ACCC lawyers write to Blake Dawson: arguing over letters confidentiality
27-Jun-08		I.S.'s lawyers Blake Dawson again write to ACCC: reiterate request to desist.
4-Jul-08		ACCC lawyers: "Mr Samuel is, and will remain, mindful of the concerns" expressed by I.S.
11-Jul-08	Graeme Samuel re-appointed to ACCC Chair	
14-Jul-08	I.S. phone conversation with ACCC on tender process complaint	
31-Jul-08	Patrick Walker resigns as Petrol Commissioner	
10-Sep-08	I.S. submits an FOI request to Mr Cassidy as CEO of ACCC	

3.3 Decision making process at the ACCC

No staff member of the ACCC could have been unaware of the very public debate between the ACCC and Informed Sources (and others) over FuelWatch. Whilst we are not suggesting there was any inappropriate direction from the Minister responsible, the Chairman, the Chief Executive or the Management of the ACCC, there was clearly a degree of "negative interpretation" or group think operating within the evaluation panel. From the documents obtained under FOI, it appeared that a considerable number of Informed Sources' offers or initiatives were interpreted negatively. This helped to ensure a decision in favour of the non-Informed Sources solution which coincidentally would avoid issues for the ACCC in the FuelWatch debate.

Although there were numerous examples of "negative interpretation", most notable was the interpretation of the text from Informed Sources' "Further Particulars" letter (see appendix 1) under the heading **Staff Recruitment** which was addressing the ACCC concerns about the matter of recruiting a separate field force which says:

"Please note that we will be using our existing staff to undertake the pilot in June and should the ACCC feel comfortable that the ongoing use of these staff does little to compromise the confidentiality and conflict of interest issues then we are more than comfortable with mixing, matching and blending these staff and their collections in amongst our other collections to minimise this matter."

Again from the FOI documents, this was interpreted by the ACCC panel under Evaluation Criteria 3 as follows:

"The approach of recruiting all new staff is viewed as a significant risk to meeting the project objectives."

This continued belief by the ACCC expressed by "**recruiting all new staff**" is clearly not consistent with the offer in the "Further Particulars" letter quoted above and stands against later comments in Evaluation Criteria 3:

"Informed Sources' quote included a pilot study that was more comprehensive than others and includes all of Australia."

We must point out here that although our pilot offer was for a significant part of the catchment area of the survey, it was certainly NOT for "**all of Australia**". None the less, these transcripts from the Evaluation Criteria 3 juxtaposed against the words of our "Further Particulars" letter demonstrate a level of misinterpretation of our bid that demonstrates our concerns about the decision making process as it applied to the Informed Sources bid.

3.4 Retail Facts' bid

Retail Facts is part of a publicly listed company servicing most (if not all) of the retailers in the Supermarket segment. When faced with a tender such as the Grocery Choice tender, every bidder has many conflicting thoughts:

- Will my existing clients take flight should we win?
- Will any future business prospects be affected by a tender win?
- Will current business processes need to be modified affecting profit?

Under these circumstances some companies may believe it prudent to lodge an "insurance bid" when the alternatives are:

- Not submitting a bid and offending the client, in this case the Government, or
- Submitting a reasonably priced offer and risking that should it get accepted, the win could cost them profit, customers or both!

Such an "insurance bid" is typically pitched relatively high in dollar terms or comes with many conditions and in almost all cases results in the tender offer being discarded allowing the tender's existing business to continue unimpeded. The "insurance bid", if accepted, provides enough "fat" to compensate for any subsequent loss of business or profit from existing and potential commercial clients.

It would appear from the profit analysis below (see section 3.5) that the Retail Facts' bid may well have been an "insurance bid".

The other significant difference between the offers was the proposed use by Informed Sources of a completely separate field force to ensure confidentiality and anonymity. By contrast and again from FOI documents, the Retail Facts bid for GROCERY Choice proposed to use its extensive network that was in place for the existing services it delivers to almost all the supermarket chains.

Many of the staff involved in these existing services would have been used in a dual capacity to collect data for the GROCERY Choice collection and other services. It is this duality which most compromised the confidentiality and anonymity provisions required under the RFQ.

Informed Sources had existing staff that could have been deployed in this manner. However, it was our belief that no company could adequately segregate the collection from the staff in a dual collection role without the staff deducing the collection was for GROCERY Choice and thereby compromise the confidentiality and anonymity.

3.5 Profit of Successful bidder

Retail Facts has under-bid Informed Sources on the last two Woolworths Competitor Price Check tenders in 2004 and 2007. It is reasonable to believe that their cost of data collection for Grocery Choice (because they were planning to use their existing staff) would have been less than the Informed Sources costs.

The Informed Sources business model in this case called for a mark-up of 40% on costs (assume 100 units of costs) and this would have resulted in a $40/140 = 28.5\%$ gross profit margin, or,

approximately 28.5% of our bid price of \$1.975M = \$565,000 gross profit.

Given the highly probable lower cost of delivery of the Retail Facts bid then the most likely gross profit for Retail Facts for this project would be at least their bid price less Informed Sources bid price plus the gross margin Informed Sources would have made:

$\$4.669\text{M} - \$1.975\text{M} + \$565,000 \text{ profit} = \3.250M gross profit on a bid of $\$4.669\text{M}$.

This would equate to $\$3.250\text{M}/\4.669M or approximately 70% profit.

This extraordinary point could easily have been identified by asking both potential suppliers and the referees of both bidders:

- What recent commercial business they both had bid on? Answer: Woolworths
- With the Woolworths business, were the bids similar? Answer: Yes
- Etc

Unfortunately because of the apparent "negative interpretation" of any Informed Sources answers, the ACCC would seem to have deduced (from FOI documents) that Informed Sources low bid **"may in part reflect a desire to break back into this field"** – see 3.6 "Buying the business".

3.6 Buying the business

The ACCC documentation obtained by Informed Sources under FOI indicates the ACCC panel's thinking as:

"The panel noted that Informed Sources' lower bid may in part reflect a desire to break back into this field, rather than suggesting that Retail Facts' bid is significantly above market"

No organisation in this competitive arena can have vastly different operating costs and survive as a viable company. Similarly, most business sectors like this operate on gross profit margins of about 30% (see section 3.5 above). Too much higher and there will be entry by new competitors, too much lower and the industry will have difficulty re-inventing itself and rationalisation will result.

If we assume that Informed Sources was trying to buy their way back into the business then the following simple analysis by the ACCC panel would have shown the fallacy of this argument.

- The Retail Facts bid was $\$4.669\text{M}$ and if normal 30% gross profit margins applied then the cost of the Retail Facts bid would have been approximately 70% of $\$4.669\text{M} = \3.268M .
- With Informed Sources bid at $\$1.975\text{M}$ and assuming similar costs to Retail Facts then with costs of $\$3.268\text{M}$ and income of $\$1.975\text{M}$, Informed Sources would make a loss of $\$1.275\text{M}$ on the business.

As the Informed Sources approach was to completely separate the collection process to ensure confidentiality, there would have been no leveraging of service delivery to offset this loss with other clients. Also, under the RFQ, there would have been no ability to "on-sell" the data to defray this loss.

Clearly the concept of “buying the business” (a cost of \$3.268M on a turnover of \$1.975M) with such a huge loss to Informed Sources would have been untenable for any SME and this should have been easily deduced by the ACCC panel during their deliberations.

3.7 Confidentiality and Anonymity

In a similar manner, the confidentiality and anonymity issues posed in the RFQ (sections 4.2(e) and (h)) seem to have been glossed over to the advantage of Retail Facts. The Informed Sources’ approach was to deploy a completely independent field staff team specifically employed and appropriately constrained with confidentiality provisions to ensure no unintended signalling of the survey to watchful retailers or suppliers. The winning tender’s approach was favoured (at least in part) by the ACCC panel because it made use of existing staff. Many of these Retail Facts staff would have had long term relationships in the retail industry and indeed could have had dual or multiple working relationships and responsibilities. A merchandiser who worked in a supermarket for a supplier who now works for Retail Facts simply can not turn off the existing friendships and working relationships built with the supermarket and the supplier over many years of service. “Chinese walls” in this case would be impossible to police and leakage of GROCERY Choice survey details highly probable.

Conversely, the Informed Sources’ approach would have seen a dedicated team whose job it was to avoid detection with no crossover of responsibilities.

3.8 Field staff availability

Much was made in the documents provided by the ACCC (available under FOI request) about the ACCC’s tender panel not being convinced of Informed Sources ability to staff the project team in the time available. This is in spite of the following:

- Informed Sources recruited, trained and deployed 600 staff Australia wide within seven (7) weeks for the GST price monitoring role for the ACCC in 2000/01 – a task more difficult yet having a similar time line to the GROCERY Choice collection.
- In our “Further Particulars” letter of 3rd June 2008 (appendix 1), we clearly indicated that if the Commission was happy to go with a lesser confidentiality/anonymity solution then we could use our existing staff to deliver the service.
- At no time were the locations of the Supermarkets where the checks were to be undertaken disclosed to Informed Sources. How could the ACCC panel determine the suitability of our offer against the potential use of existing staff if the locations for the survey were not disclosed?
- As evidence of our ability to use existing staff, our pilot offer was superior to that offered by the winning tender as noted in the ACCC evaluation papers.

There is also an intriguing note in the ACCC Spending Proposal documents (obtained under FOI) which says:

“Grocery price data collection requires more skilled staff than, say, petrol price data collection.”

This is quite an extraordinary statement in many respects:

- Based on what possible experience are the panel able to make this statement?
- The current training programme for a petrol price collector takes approximately 3 weeks compared with a few days for untrained staff in supermarket collection
- Why is petrol price collection specifically chosen as the comparison skill?

The same document identifies that the panel had expressed additional concerns:

"that Informed Sources would recruit and train some of its data collectors exclusively by telephone and internet".

It would appear that the panel had little concept of the possibilities of staff recruitment and training in a modern, distributed environment particularly in non capital city areas.

In short, Informed Sources had staff available, many already trained and able to be deployed; some currently in employment and others able to be deployed to a special team specifically for the GROCERY Choice programme; recruitment and training was available for those locations requiring new staff.

3.9 Start date

The Informed Sources' offer as detailed in our "Further Particulars" advice of 3rd June 2008 (appendix 1) clearly showed that there was time to deliver the service by the proposed start date of the 1st August 2008 including contingency.

Our understanding (again from the documents available under FOI request from the ACCC) is that:

"Whilst no launch date has been specified, the Assistant Treasurer's Office has indicated it could be as early as 1 August 2008. The ACCC project plan therefore requires the website to be ready for launch by 1 August 2008."

The ACCC did not believe Informed Sources' ability to deliver the collected data in the available time frame even though we had clearly set out that we were able to meet the time frame and our experience in the past showed that we could meet the short time frames of this project. If they had doubts about the ability to meet the time frames, why did they not ask Informed Sources to add extra contingency of say 2 weeks to the time line to save the Government/Tax payers \$2.7M?

As the Assistant Treasurer's office had only indicated an ***"as early as 1 August 2008"*** start date, what evidence is there to demonstrate the ACCC canvassed the possibility of a slightly later start date and the potential savings this could bring?

3.10 Web service design

The Retail Facts group is probably able to call on the expertise of the full range of the Photon Group/Bailey Group consultants for web site design but this fails the important test that the ACCC themselves missed in the construct of the RFQ document.

The only indications in the RFQ regarding the presentation of data were:

- 4.2: "and publish results via the internet", and
- 4.2(f) "and an appropriate format to transfer to the grocery monitoring website."

There was no consideration of the capabilities of tender companies and how their experience could influence the presentation of the data in a consumer usable format.

Retail Facts have no ongoing experience to match that developed by Informed Sources with its existing consumer website www.motormouth.com.au

Implicit in this is the very nature of consumer data presentation and the need for usability.

As simple examples of how this was executed and reflected on the Grocery Choice website, consider:

- Townsville and Mt Isa were lumped together in the same "catchment" – clearly different demographics
- The grouping of independent supermarket chains under one heading – this is particularly significant as it is the independent groups who need championing to show alternatives to the big chains.

The above flawed approach could have been compared with the MotorMouth web site where Informed Sources has successfully balanced the needs of motorists, auto clubs and petrol resellers to provide a "free to the consumer" information service for many years. In fact, in excess of 800,000 Australian consumers now have access to MotorMouth's Petrol Price Tracker through Google on their desktop ensuring the ongoing transparency of fuel prices for cost conscious motorists.

All of this experience and capability was available with the Informed Sources offer but it appears little value was given to this aspect of the bid.

4 Conclusion

There will be many who will characterise what we have detailed in this submission as a case of "sour grapes". Informed Sources rejects this view. The term is correctly used in relation to someone who had unattainable goals. This is clearly not the case here for Informed Sources.

More importantly, we believe the issue here is the failure of process.

Informed Sources was one of only two companies able to undertake the data collection necessary and the ACCC chose a competitor against overwhelming evidence:

- Informed Sources was able to deliver the data collection in the time available
- If there was any concern about meeting the start date, the ACCC could and should have moved the start date
- **The saving to the Government would have been \$2.7M**

The RFQ completely failed to address the fundamentals of the website's delivery function and the evaluation appears to have turned its back on the vast consumer website experience available from Informed Sources.

Despite detailing the need for confidentiality and anonymity in the RFQ, there appears to have been little time devoted to properly assess the two viable tenders in this regard.

Informed Sources believes that the ACCC failed to properly analyse the offers available.

We trust the above submission is useful. It has been made in the interests of helping to understand the process undertaken. As we said at the start;

" . . . this matter, in our opinion, is far too important to remain un-discussed."

Alan Cadd
Managing Director,
Informed Sources (Australia) Pty Ltd

11th September 2009.

5 Appendix 1: "Further Particulars" letter 3rd June 2008



INFORMED SOURCES

3rd June, 2008

Mr Rod Middleton
ACCC
GPO Box 520
Melbourne Vic 3000

Dear Rod,

Further Particulars of Tender

Further to our discussion today where you raised three key points, let me detail more particulars regarding our tender:

1. Staff recruitment.

As outlined in our proposal and in our follow up discussions, we have decided to operate a completely separate field force for this ACCC grocery programme of collections. This ensures that there are minimal confidentiality issues and absolutely no conflict of interest issues. However, as you quite rightly point out, this approach results in an increased emphasis on Informed Sources recruitment capabilities. We have chosen this approach over using existing staff because of our confidence in our ability to recruit, train and deploy the necessary staff within the required 6 week deadline.

Week Commencing	Week #	Recruitment Stream	Training Stream
2nd June	0	Job Adverts and Telephone Interviews ready. List of Papers and on-line employment portals identified. Run adverts as soon as chosen for role.	Data entry portal and PDA usage manual ready to go
9th June	1	Early responses to adverts followed by early telephone interviews	Determine ACCC grocery "special issues" for training DVD
16th June	2	Full responses to adverts followed by completion of telephone interviews	Construct DVD
23rd June	3	Staff appointment and initial training	Distribution of training material and phone-in teleconference details for following week
30th June	4	Metro area field visits and appointment of local supervisor. Series of rural phone-in training sessions	Undertake "dummy" data entry
7th July	5	Paid "trial" survey by all staff	Real data entry of "trial" data
14th July	6	Survey	Survey data entry
21st July	7	Publish results in restricted format	Review performance
28th July	8	Publish results un-restricted format	

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Just as we did with the recruitment for the GST survey process some years ago, we will be consciously over-hiring to ensure we have "reserves" so that we can aggressively cull staff that are not performing and also to provide more hands in the crucial first few surveys where collection times may not be as high.

Please note that we will be using our existing staff to undertake the pilot in June and should the ACCC feel comfortable that the ongoing use of these staff does little to compromise the confidentiality and conflict of interest issues then we are more than comfortable with mixing, matching and blending these staff and their collections in amongst our other collections to minimise this matter.

2. Basket Construction.

Our approach to the construction of "baskets" or "price Ratios" is not completely set and will be determined by working with:

- Commission staff – to establish what is felt to be easily understood by the community and achieve ACCC's objectives
- Economists – we already have several respected economists targeted to verify our thoughts on construction and representation of baskets or ratios but are happy to hear from ACCC in this area.
- Commission/Government media advisors – we must ensure that the outcome is seen as a step forward by both the press and community.

To achieve this we will use our Informed Sources "Retail Portal" to look at sensitivity analysis in the construction of the baskets and ratios. We need to examine the key categories and products that when added or removed have the greatest effect.

Our approach will be to work hard on the concept generation prior to the first release of data (by using the pilot data and other data we already have available) and then to embed the result into our standard operational programmes.

3. Use of PDA's for collection.

The issue of PDA population across our staff network will be governed by the issue of anonymity and confidentiality. Let me explain:

To sign into a Coles or Woolworths store in Sydney or Melbourne and to get busy with a PDA scanning bar codes and eying prices will be seen as "normal" and very unlikely that any store staff member would pay attention. This is not the case in the independent stores and particularly in the rural areas where arrival with one of these devices in a store by an un-known visitor would send off warning bells.

The use of our Retail Portal Data Entry system adds little to the time in doing collections, has the same vetting processes and in rural areas a trip back to the store from home will cause little inconvenience.

We trust the forgoing has answered your questions satisfactorily. Should this not be the case then we would be pleased to handle further questioning by phone.

Yours sincerely,

Alan Cadd
Managing Director