

The Senate

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Standing Committee on Economics

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Unit Pricing (Easy comparison of  
grocery prices) Bill 2008

September 2008

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# Senate Standing Committee on Economics

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# Chapter 1

## Introduction

### Background

1.1 The Unit Pricing (Easy comparison of grocery prices) Bill 2008, a private Senator's Bill, was introduced into the Senate on 15 May 2008 by Senator Fielding. On 17 June 2008 the Senate referred the Bill to the Senate Standing Committee on Economics for inquiry and report by 2 September 2008.

1.2 The objective of the Bill is to require retailers selling grocery products to display unit prices for grocery products sold by measure, weight or volume. To this end, the Bill amends the *National Measurements Act 1960* and sets out a detailed national unit pricing scheme.

### Conduct of the inquiry

1.3 The committee advertised the inquiry in the *Australian* and on the committee's website, inviting written submissions by Monday 7 July 2008. In addition, the committee contacted some relevant organisations, including industry and consumer groups, inviting written submissions. The twelve submissions received, which are listed at Appendix 1, are available on the committee's website at: [http://www.apf.gov.au/senate/committee/economics\\_ctte/unit\\_pricing\\_08/](http://www.apf.gov.au/senate/committee/economics_ctte/unit_pricing_08/).

1.4 In addition, the committee held two hearings: one in Melbourne on Wednesday 6 August 2008 and a second in Canberra on Monday 11 August 2008. A list of the witnesses who appeared at the hearings is at Appendix 2.

1.5 The committee thanks all those who contributed to the inquiry.

### Structure of the report

1.6 Chapter 2 provides background information on unit pricing, including its current status in Australia and perceived benefits and draw backs. Chapter 3 examines the specific features of the Unit Pricing (Easy comparison of grocery prices) Bill 2008. The Committee's conclusions are presented in Chapter 4.





# Chapter 2

## Unit Pricing

2.1 The Unit Pricing (Easy comparison of grocery prices) Bill 2008 aims to mandate the provision of unit pricing information by retailers of pre-packaged grocery products in Australia, with some exemptions for smaller, single premise shops, and for itinerant retailers. This chapter explains what unit pricing is, reviews its current status in Australia, and examines the perceived costs and benefits associated with the introduction of a mandatory unit pricing scheme.

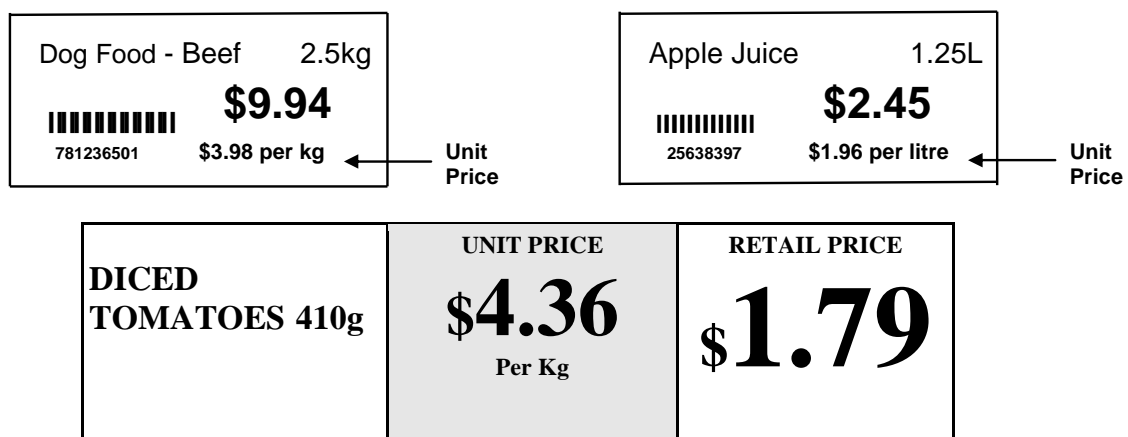
### What is unit pricing?

2.2 Unit pricing involves retailers providing a price per standard unit of measurement in addition to the sale price. The standard unit of measurement will vary depending on the measurement by which the particular item is normally sold. Under the Unit Pricing (Easy comparison of grocery prices) Bill 2008, the unit price is defined as:

The final price, including GST and all other taxes, for one kilogram, one litre, one metre, one square metre or one cubic metre of a grocery product, except in respect of grocery products sold by number, where unit price is the final price, including GST and all other taxes for an individual item of the grocery product.

2.3 Consequently, shelf price tags would display two prices – the price of the item and the unit price (see examples at Figure 1). Unit pricing does not generally involve manufacturers of pre-packaged products changing or adding any markings to the label on individual grocery items.

*Figure 1- Examples of shelf labels with unit pricing information*



2.4 Unit pricing is designed to allow consumers to compare the price of an item by some standard measure, such as weight or volume, so that they can easily ascertain which product and/or size of product is cheaper. *Choice* magazine gives as an example the price of a 1.2kg tin of Pedigree dog food compared to a smaller tin of the same product. Many people would purchase the larger tin, expecting it to be better value for money, however, if unit pricing information had been available they would have discovered that the 1.2kg tin cost \$2.21 per kilogram and the smaller tin just \$1.81 per kilogram.<sup>1</sup> Thus, advocates of unit pricing argue that it provides customers with the information that they require to make an informed choice about the products that they purchase.

### **Unit pricing in Australia**

2.5 A number of states in the US, such as New York and Florida, have legislated to require supermarkets to display unit prices. Similarly, a 1998 Directive of the European Parliament and of the Council requires European Union member states to ensure that unit prices are displayed in supermarkets.<sup>2</sup>

2.6 In Australia, apart from some fresh foods, such as meat and cheese sold in random weight packages, grocery retailers are not required to provide unit pricing information for most grocery products. However, in November 2007 ALDI introduced unit pricing on a voluntary basis. Shortly after the ALDI announcement, Woolworths indicated that it would be conducting a trial of unit pricing early in 2008,<sup>3</sup> with a view to rolling it out nationally.

2.7 The other major Australian grocery retailer, Coles, provides unit pricing information on its online shopping site, but not in its supermarkets. However, at a hearing of the Australian Competition and Consumer Commission (ACCC) inquiry into the competitiveness of retail prices for standard groceries, on 26 May 2008, Coles' representative indicated that they were looking to introduce unit pricing nationally.<sup>4</sup> All three companies have indicated that they believe there should be a national, mandatory, scheme for the provision of unit pricing information.

2.8 On 31 July 2008, Franklins, which has around 80 grocery stores in NSW, also announced that it would introduce unit pricing from September 2008.<sup>5</sup>

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1 Choice, 'Truth in pricing', online July 08, p.2.

2 European Community 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.

3 Moore, T., 'Want to know the cost of one egg? Now you can', *Brisbane Times*, 9 November 2007.

4 Mr McMahon, Chief Operating Officer, Coles Group Limited, *Transcript of Proceedings Grocery Price Inquiry Hearing*, Australian Competition and Consumer Commission, Melbourne, 26 May 2008, p.5.

5 *Sydney Morning Herald*, 'Franklins to introduce unit pricing', 31 July 2008, online.

## ***ACCC inquiry***

2.9 As part of their inquiry into the competitiveness of retail prices for standard groceries, the ACCC were asked to investigate the representation of grocery prices to consumers. In their report of July 2008, the ACCC recommended that

a mandatory, nationally-consistent unit pricing regime be introduced for standard grocery items both on in-store price labels and in print advertising [and that] the unit pricing regime apply to significant supermarkets, including Coles, Woolworths, ALDI and large independent stores...<sup>6</sup>

2.10 The report notes, however, that

The incremental benefits of unit pricing are likely to decrease as store size decreases due to the smaller range of substitute products in small stores. Further, smaller stores will face higher implementation costs relative to turnover compared to larger stores.<sup>7</sup>

2.11 In evidence to the committee, representatives from the ACCC also noted that smaller stores may not have sophisticated computerised systems that would easily accommodate unit pricing.<sup>8</sup> The ACCC report therefore recommends that, before unit pricing is introduced, a detailed cost-benefit analysis should be undertaken to determine to which stores unit pricing should apply.<sup>9</sup>

2.12 In a press release of 5 August 2008, the Assistant Treasurer announced that the Government would consider the best way to introduce a mandatory nationally-consistent unit pricing regime.<sup>10</sup>

## ***Queensland proposal***

2.13 On 26 June 2008, the Queensland government announced its intention to introduce mandatory unit pricing in Queensland supermarkets. The Queensland proposal requires retailers who sell a range of grocery items, including staple foods, to display unit price information. The proposal provides exemptions for grocery products which are sold:

- from a shop with a floor area, used for the sale or display of grocery products, which does not exceed 200 square metres; or
- by an itinerant retailer, for example, a retailer selling from a mobile sales unit or store.

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6 Australian Competition and Consumer Commission (ACCC), *Report of the ACCC inquiry into the competitiveness of retail prices for standard groceries*, July 2008, p. 569.

7 ACCC, 2008, p. 567.

8 Mr Dimasi, *Proof Committee Hansard*, 11 August 2008, p. 14.

9 ACCC, 2008, p. 569.

10 Assistant Treasurer, *Rudd Government Releases its Preliminary Action Plan in Response to the ACCC's Grocery Inquiry*, Media Release No. 065, 5 August 2008, p. 1.

2.14 The Queensland government has called for public submissions on the regulatory impact statement for the measure. Submissions closed on 28 July 2008.

### **Consumer demand for unit pricing**

2.15 Eighty-nine per cent of respondents to a *Choice* survey conducted in February 2008, indicated that they would find comparative product pricing 'very useful' or 'somewhat useful'.<sup>11</sup> However Ken Henrick, Chief Executive of the National Association of Retail Grocers of Australia (NARGA) claims that, based on the information available to NARGA, 'there is little public demand for unit pricing of groceries'.<sup>12</sup> Coles has also indicated that 'we've not had feedback from our customers that unit pricing is a significant issue for them'.<sup>13</sup>

2.16 NARGA argues that the high number of respondents to the *Choice* survey saying that they would find unit pricing useful was on the basis that:

...having unit pricing available does not 'hurt' as it appears to be a costless addition to the information currently available about the goods they purchased. If the questionnaire had asked respondents whether they would support 'unit pricing' in the context of increased costs to the sector, which would in turn lead to higher prices, the response may have been different.<sup>14</sup>

### **Arguments supporting unit pricing**

2.17 According to the Consumer Action Law Centre unit pricing:

- reduces consumer confusion and increases consumer confidence;
- enhances consumer sovereignty and welfare; and
- promotes price competition, reduces prices, and is anti-inflationary.<sup>15</sup>

2.18 In their submissions to the inquiry, consumer advocacy groups<sup>16</sup> argue that unit pricing makes it easier for consumers to perform price comparisons between products and can enable consumers to switch container size within brands, and to switch brands (to that with the lowest unit price container size). Grocery products are sold in a vast array of variable sizes (for example, 175 grams, 680 grams, 1.25 litres etc). Most consumers don't have the time and/or the mathematical ability to determine

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11 Choice, Attachment to *Submission 9*, p. 2.

12 National Association of Retail Grocers of Australia, *Submission 5*, p. 1.

13 Cited in Moore, T., 2007.

14 National Association of Retail Grocers of Australia, *Submission 5*, p. 1.

15 Consumer Action Law Centre, *Submission 7*, p. 2.

16 See for example, Queensland Consumers Association, *Submission 2*; Public Interest Advocacy Centre Ltd, *Submission 3*; Consumer Action Law Centre, *Submission 7*; and Choice, *Submission 9*.

the best value buy when faced with such an array of non-standard measurements.<sup>17</sup> As the Queensland Consumers Association notes:

Without unit price information, consumers have to do the calculations themselves and understandably few do this and rely on rules of thumb about "value for money" such as larger sizes are always the lowest unit price. Yet, as indicated by our research and highlighted in Senator Fielding's second reading speech, often, these are (sic) assumptions are incorrect.<sup>18</sup>

2.19 The provision of standardised, easy to understand, unit pricing information increases the transparency of grocery prices, making it easier for consumers to assess the value for money of the products that they purchase. According to the Queensland Consumers Association, consumers may use unit pricing information in a variety of ways:

Some will use it to reduce their expenditure on grocery items thus releasing money for other uses. Others may spend about the same amount but get more for their money. Others may even increase their total expenditure if they choose to buy more products with higher unit prices. But, overall consumers and the economy benefit.<sup>19</sup>

2.20 As well as providing potential benefits to individual consumers, it is argued that unit pricing will have a general anti-inflationary effect. Because unit pricing leads to changes in consumer behaviour, including switching to lower-priced package sizes and brands, it makes demand more price-elastic.

As a result, competition between manufacturers and between retailers increases thus helping to reduce price inflation.<sup>20</sup>

2.21 An analysis undertaken by Citi Investment Research and Insight Partners, which was tabled at the committee's Melbourne hearing by the Consumer Action Law Centre, also suggests that unit pricing could be an inflation reducing initiative.

We believe a unit pricing regime could lead to a one-off 0.14% reduction in inflation. This will occur, if all other factors remain unchanged, because consumers spend less on groceries.<sup>21</sup>

2.22 Estimates of the potential savings to consumers from unit pricing range considerably. The report by Insight Partners and Citi Investment Research estimates that the introduction of unit pricing would result in a 1% reduction in expenditure overall, saving the average household around \$96 per year.<sup>22</sup> However, the report

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17 Consumer Action Law Centre, *Submission 7*, p. 2.

18 Queensland Consumers Association, *Submission 2*, p. 4.

19 Queensland Consumers Association, *Submission 2*, p. 4.

20 Queensland Consumers Association, *Submission 2*, p. 4.

21 Citi Investment Research and Insight Partners, *Unit Pricing in Supermarkets*, 14 July 2008, p. 7.

22 Citi Investment Research and Insight Partners, 2008, p. 8.

estimates that the potential savings to individual price-sensitive consumers could be much higher. For example, based on a pricing survey conducted in Woolworths and Coles stores by the researchers, consumers purchasing the lowest unit price pack size of branded products could save as much as 21% on packaged groceries, while a further 34% could be saved if consumers switched to private labels (i.e., own brands).<sup>23</sup>

2.23 This is consistent with research conducted by the Queensland Consumers Association which found that

for 25 pre-packaged grocery items, by buying only brands and sizes with the lowest unit price consumers could reduce a \$94 grocery bill by almost 50 per cent.<sup>24</sup>

2.24 Advocates of unit pricing also argue that, even if unit pricing is not used by a consumer to save them money, it may be used as an indicator of the relative quality of the products that they are purchasing.<sup>25</sup>

2.25 Unit pricing also allows consumers to more easily recognise when package content sizes are adjusted by manufacturers, resulting in the consumer paying the same amount for less product.<sup>26</sup> For example, a can of tomatoes might be reduced in size from 400 grams to 390 grams by the manufacturer, but the shelf price would remain the same. If unit-pricing was in place it would show an increase in the price per kg of the tomatoes, alerting price conscious consumers to the change.

2.26 Additional benefits identified by Jarratt in his review of unit pricing systems in the European Union and the USA include:

- a greater focus by retailers on price and value for money rather than brand;
- easier and cheaper entry into the market of new products and of new manufacturers;
- reduced need for prescribed package sizes; and
- increased demand for, and easier promotion of, retailers' own brands.<sup>27</sup>

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23 Citi Investment Research and Insight Partners, p. 9.

24 Queensland Consumers Association, *Submission 2*, p. 4.

25 Jarratt, I., *To investigate unit pricing of pre-packaged grocery items in the European Union and the USA*, Report to the Winston Churchill Memorial Trust of Australia, 2006.

26 Queensland Consumers Association, *Submission 2*, p. 4.

27 Jarratt, I., 2006, p. 8.

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## Arguments against mandatory unit pricing

2.27 Those opposed to the mandatory implementation of unit pricing, such as the National Association of Retail Grocers of Australia and Metcash, argue that the advocates of unit pricing overstate the likely impact on savings to customers.<sup>28</sup> In particular, assertions that unit pricing could result in savings of 40+ per cent on groceries are considered to be grossly overstated, as they are based on assumptions that consumers will switch brands to purchase the lowest unit priced product.

2.28 NARGA assert that many shoppers are loyal to particular brands of products and are unlikely to switch brands on the basis of cost alone.

For the majority of shoppers price is not their main interest when purchasing a product...many years of research have marked it as a lower level concern.<sup>29</sup>

2.29 In addition, purchase choices are influenced by the quality of the product, preparedness to try innovative products, experience, and peer recommendations.<sup>30</sup>

2.30 The Metcash submission to the ACCC agrees, noting that:

the very same research cited by unit pricing proponents indicates that the benefits of unit pricing are limited – where unit prices are displayed on shelf tags alone, almost all changes resulted from a shift to larger sizes but not to different brands. Brand switching only occurred when stores published ‘lists’ that showed SKUs [stock keeping units – number of particular variations of an item] in increasing unit prices, which is impractical to implement widely.<sup>31</sup>

2.31 Metcash go on to argue that

Enticing customers to switch to larger sizes would not necessarily benefit consumers in the long run. The perishable nature of food items, and the cost of transport, storage and wastage mean that shoppers would not necessarily benefit from purchasing larger sized packages.<sup>32</sup>

2.32 NARGA also assert that the introduction of unit pricing will benefit those stores which have access to a wide range of generic products, namely the large supermarket chains such as Coles, Woolworths and ALDI, and disadvantage smaller retailers. This would appear to be supported by an analysis of the likely impact of unit

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28 See National Association of Retail Grocers of Australia, *Submission 5*, p. 2, and Metcash Ltd, *Public Submission to ACCC Grocery Inquiry*, 11 April 2008, pp 58-59.

29 National Association of Retail Grocers of Australia, *Public Submission to the ACCC inquiry into the competitiveness of retail prices for standard groceries, Part B*, March 2008.

30 National Association of Retail Grocers of Australia, March 2008.

31 Metcash Ltd, *Public Submission to ACCC Grocery Inquiry*, 11 April 2008, p. 58.

32 Metcash Ltd, *Public Submission to ACCC Grocery Inquiry*, 11 April 2008, p. 58.

pricing undertaken by Citi Investment Research and Insight Partners<sup>33</sup> and by evidence given to the ACCC by Coles' Chief Operations Officer, Mr Mick McMahon, who indicated that

I actually think it will help our house brand sales, because it will demonstrate even more the value that's in those brands.<sup>34</sup>

2.33 In addition to providing an advantage to stores stocking generic products, NARGA suggests that unit pricing will affect Australian farmers and manufacturers as

a high proportion of these generic products are imported, [so] local farmers and manufacturers will be disadvantaged by a move to compulsory unit pricing.<sup>35</sup>

2.34 The Queensland Retail Traders and Shopkeepers Association concur with this assertion arguing that:

unit pricing would favour cheaper imported products at the expense of Australian produce.... When price is the focus, they (supermarkets) can get away with more and more cheaper foreign products which are mass-produced, with less hygiene standards and are of poor quality. If the government is led down this track of unit pricing it could potentially lead to dark days for Australian farmers and once you get rid of choice and competition then the cheap imported products will go up in price.<sup>36</sup>

2.35 In contrast, in its submission to the inquiry, Growcom, the peak representative body for the Queensland horticulture industry, states that, based on preliminary investigations, it 'does not believe that the introduction of mandatory unit pricing would have a large impact on the Queensland horticulture industry'. However it goes on to state that

if processors feel any negative economic impacts, these would most likely be passed down the supply chain to growers.<sup>37</sup>

2.36 Finally, it has been argued that unit pricing may provide a disincentive for shops to discount perishable goods at the end of a trading day, as retailers will not have time to re-calculate unit prices. As such, customers would not benefit from being able to purchase these items at reduced prices and fresh products, such as bakery items, would end up being sent to landfill if not sold.<sup>38</sup> The Committee notes,

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33 Citi Investment Research and Insight Partners, p. 14.

34 Mr McMahon, 2008, p.64.

35 National Association of Retail Grocers of Australia, *Submission 5*, p. 2.

36 Driscoll, S., Executive Director, Queensland Retail Traders and Shopkeepers Association, cited in Berry, P., 'New pricing will favour foreign goods', *The Daily Telegraph*, 26 June 2008.

37 Growcom, *Submission 11*, p. 1.

38 Woolworths, *Submission 8*, p. 6.



however, that the Bill would not appear to preclude such items being sold at, for example, half the marked price.

### ***Costs of implementation and impact on industry***

#### *Implementation costs*

2.37 Consumer groups argue that, for grocery retailers with automated labelling systems, the cost of implementing unit pricing will be one-off, relatively small, and far outweighed by the benefits to consumers. For example, Mr Ashton from the Consumer Action Law Centre told the committee that

...the costs, in my view, are very small. They are real and they cost those individual supermarkets money, but compared to the hundreds and hundreds of millions, if not more, in savings that every year grocery shoppers will benefit from, the implementation costs are very small.<sup>39</sup>

2.38 But some industry representatives argue that the cost of implementation may be quite significant, especially for small retailers, and will, in all likelihood, be passed on to consumers through higher grocery prices.

2.39 In its submission to the inquiry, Metcash indicates that it would cost their independent supermarket sector approximately \$10 million to comply with the unit pricing requirements set out in the Unit Pricing (Easy comparison of grocery prices) Bill 2008, in a 12 month timeframe. This estimate would increase if small stores<sup>40</sup> were required to comply, and would increase significantly if shelf stripping needed to be replaced to comply with shelf ticket size requirements.<sup>41</sup>

2.40 In addition to the costs associated with initial implementation, Metcash estimates that it would incur additional ongoing costs of \$0.4 million per annum, associated with additional data entry for unit pricing requirements, while the ongoing costs for individual independent grocery retailers was unknown.<sup>42</sup>

2.41 In respect of the large supermarket chains, Coles has estimated the cost of implementing a unit pricing scheme to be around \$10 million if unit pricing was rolled out over a 12 month period, allowing them time to 'get the IT right' and then to replace pricing tickets 'in the normal course of business.'<sup>43</sup> If it had to be done more quickly, then the costs would rise accordingly.

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39 Mr Ashton, *Proof Committee Hansard*, 6 August 2008, Melbourne, p. 12.

40 Note: Metcash advocated for stores with a relevant floor area of less than 1200 square meters to be exempt from any mandatory unit pricing scheme.

41 Metcash, *Submission 12*, p. 1.

42 Metcash, *Submission 12*, p. 10 of PowerPoint presentation.

43 Mr McMahon, 2008, pp. 65-67.

If I sent a team out today to change over 27,000 shelf edge tickets in 749 supermarkets, that would be a big cost, \$20 odd million. If we were able to just do it in the normal course of business it's still an incremental cost, but by no means as large.<sup>44</sup>

2.42 In evidence to the ACCC grocery inquiry, Woolworths estimated the cost of implementing unit pricing nationally, along the lines of the trial that they are currently conducting, to be approximately \$4 million.<sup>45</sup> If they were given 12 months in which to implement changes to shelf labels etc, allowing it to be done in the normal course of such things, they state that it could be achieved at no additional cost.

2.43 However, in their submission to this inquiry, Woolworths estimated the cost of implementing unit pricing in accordance with the Unit Pricing (Easy comparison of grocery prices) Bill 2008 to be \$30 million, due to the need for in-store redesign and technology upgrades.<sup>46</sup>

2.44 In an exchange with the Chair, Mr McDonald, from Metcash explained to the committee why the need for larger labels, in order to comply with unit price font size requirements, could result in the need for store re-designs.

I have brought two examples of the larger labels. In our environments very few stores actually use these larger labels because we have to put new shelf stripping on and whatnot, and as you do that, if you can just compare the size of these two, if you times that by six shelves, all of a sudden you have lost 10 to 15 centimetres of shelf space, and then we have to start re-laying stores to fit products back in again. The changes from one shelf label size to another are not just the cost of the label, which is insignificant between the two sizes here, but also the cost of the stripping in stores, because it has to be replaced, and as well there is the loss of shelf space. In turn, we have to re-lay a store to fit the same amount of products back on the shelves.

CHAIR—The size of the strip on the supermarket labels affects how many products you can put in the store?

Mr McDonald—Absolutely, yes.

2.45 The figures provided by grocery retailers underscore the fact that the costs of implementing a mandatory unit pricing scheme will vary significantly, depending on the particular requirements of the scheme and the capacity of the grocery retailer. Given that implementation costs are likely to be passed on to consumers, thus potentially undermining any savings that access to unit pricing information may generate, the committee believes that it is essential that any mandatory unit pricing scheme finds the right balance between maximising the usefulness and effectiveness

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44 Mr McMahan, 2008, p. 67.

45 Mr Luscombe, Chief Executive Officer, Woolworths Limited, *Transcript of Proceedings Grocery Price Inquiry Hearing*, Australian Competition and Consumer Commission, Melbourne 19 May 2008, pp 101-2.

46 Woolworths, *Submission 8*, p. 3.

of the scheme for consumers and minimising the costs of implementation to grocery retailers.

***Potential impact of unit pricing on the grocery industry***

2.46 According to a market analysis undertaken by Citi Investment Research and Insight Partners<sup>47</sup> the Australian grocery industry would feel the impact of unit pricing in two ways. Firstly, unit pricing would see consumers shift their purchasing to higher value, more economical pack sizes, resulting in a 'loss of some margin premium for convenience'.<sup>48</sup> This means that

From a retailer's perspective, the quantity of product purchased will be unchanged. However, the shift to more economical pack sizes will reduce the overall dollar value of sales, as shoppers become smarter.<sup>49</sup>

2.47 Secondly, unit pricing may see consumers switch to private label products, such as Woolworths' *Homebrand* or Coles' *Smart Buy*. Increased uptake of private label products would impact significantly on branded suppliers, with an estimated 1.5% reduction in sales.<sup>50</sup>

2.48 Overall, the Citi analysis estimates that the introduction of a mandatory unit pricing scheme in Australia would result in an estimated \$810 million reduction in revenue for the grocery industry, with the burden shared across grocery retailers and grocery suppliers.<sup>51</sup> The analysis estimates that Earnings Before net Interest and Tax (EBIT) would fall by an average of 5.1% for retailers, 5.3% for suppliers and 1.7% for commodity input providers.<sup>52</sup>

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47 Citi Investment Research and Insight Partners, 2008.

48 Citi Investment Research and Insight Partners, 2008, p. 12.

49 Citi Investment Research and Insight Partners, 2008, p. 12

50 Citi Investment Research and Insight Partners, 2008, p. 14.

51 Citi Investment Research and Insight Partners, 2008, p. 3.

52 Citi Investment Research and Insight Partners, 2008, p. 11.



## Chapter 3

### Unit Pricing (Easy comparison of grocery prices) Bill 2008

#### Overview

3.1 The Unit Pricing (Easy comparison of grocery prices) Bill 2008 amends the *National Measurement Act 1960* to require retailers of grocery products to:

- display on the premises posters and pamphlets containing information about unit pricing, for the use of consumers;
- indicate the selling price for all grocery products that are, or may be, for sale to a consumer. Grocery products sold in bulk or advertisements for a grocery product are exempt; and
- indicate an accurate unit price for all grocery products that are, or may be, for sale to a consumer. Certain products and circumstances are exempt from this requirement.

The Bill also:

- specifies the font size of unit price information on shelf labels, its prominence in relation to other information, and the location of such labels;
- specifies the manner in which the unit price is to be calculated and the measurement units to be used; and
- outlines an enforcement regime, including: providing for the appointment of unit pricing inspectors and detailing their powers, which include search and seizure powers; providing for the issuing of infringement notices; allowing the Secretary to publicise contraventions; and prescribing civil penalties for failing to comply with the requirements set out in the Bill.

#### Stakeholder views

3.2 The majority of submissions to the inquiry were supportive of the policy underpinning the Bill, namely the introduction of a mandatory unit pricing scheme in Australia (with the exception of groups such as the National Association of Retail Grocers of Australia and Master Grocers Australia, who indicated a preference for a voluntary scheme<sup>1</sup>). However, there were mixed views about what such a scheme should entail, with consumer groups largely supportive of the requirements set out in

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1 See National Association of Retail Grocers of Australia, *Submission 5*, p. 2, and Master Grocers Australia, *Submission 4*, p. 2.

the Bill and industry groups calling for a less prescriptive approach. For example, Mr Aylen from Woolworths told the committee that

Our challenge as retailers is to keep our unit pricing system simple and easy to understand for the customers. We have in excess of 25,000 items in our stores, so implementing unit pricing is no easy task, and we believe that the key is flexibility. A national unit pricing scheme should be sufficiently flexible to allow retailers to implement within current store designs and technological platforms. This will enable us to introduce unit pricing quickly. If the system is too prescriptive it could be difficult, time consuming and costly to implement and hinder the benefits to our consumers.<sup>2</sup>

3.3 Both consumer and industry groups raised some concerns about specific sections of the Bill, which are discussed below.

### ***Proposed new section 18ZZH – Interpretation***

#### *Stores to be exempt*

3.4 Under proposed new sub-paragraph 18ZZK(3)(d)(i), *single premises shops* are excluded from the requirement to provide unit pricing information. Proposed new section 18ZZH defines a *single premises shop* as the shop of a retailer that operates from only that unique location and which has a relevant floor area not exceeding 200 square metres.

3.5 There appeared to be general agreement that some exemptions from mandatory unit pricing should be provided for smaller stores. For example, Mr Ashton from the Consumer Action Law Centre, in response to a question from Senator Bushby about exemptions, noted that

as a matter of common sense and in the interests of smaller businesses there do need to be exemptions. I think everybody would agree with that.<sup>3</sup>

3.6 The criteria that should be used to determine eligibility for exemptions was a matter for debate, however. Mr Cameron suggested that the exemption provisions in the Bill would help to reduce the impact of the Bill on small rural businesses, but raised concerns that in rural areas floor space is much less costly than in cities, so the ‘arbitrary’ choice of 200 square metres may ‘hinder growth of small businesses in lower floor space cost locations.’<sup>4</sup>

3.7 Metcash indicated that they would like to see exemptions for stores with a relevant floor area not exceeding 1,200 square metres. Metcash's Marketing and Commercial Manager, Mr McDonald, told the committee that

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2 Mr Aylen, *Proof Committee Hansard*, 6 August 2008, p. 2.

3 Mr Ashton, *Proof Committee Hansard*, 6 August 2008, p. 10.

4 Mr Cameron, *Submission 1*, p. 1

The reason for choosing 1,200 square metres is that we have different tiers within our distribution system so that the large or first tier is what you might see around as our super IGA supermarkets... [these] supermarkets in many cases form part of the main shop or the primary shop per week, and they certainly compete against the chains for customers' businesses. Below that we get into different branding, and the different branding is an IGA—it used to be called IGA Everyday—or certainly IGA Express and smaller stores. Those stores tend not to compete...directly against major supermarket chains in that competitive environment...the cost impost on our smaller retailers who fit below that super channel is a lot higher. They do not have the manpower and, in general, the resources...I guess the exclusion from mandatory legislation is something that we would like for those smaller stores.<sup>5</sup>

3.8 The ACCC acknowledged that floor space is one means of estimating the size of a store, but noted that turnover is generally a good measure of the size of a business and, along with other indicators, might provide an appropriate means of identifying smaller stores where the cost of implementing unit pricing may eclipse any benefits.

Floor size is just an indicator. Turnover and the size of the business are generally good indicators of their ability to do some of these things and to minimise the costs and to spread especially some of the fixed costs that you might incur with the IT system over a greater range of products and revenue. So turnover is generally a good size that you would start from, and floor size is an indicator of—<sup>6</sup>

3.9 Mr Jarrett advised the committee that various criteria are used to provide exemptions from unit pricing overseas. For example, the Irish system exempts stores that do not have the technology to automatically produce shelf labels.<sup>7</sup> While the Consumer Action Law Centre advised that the European Union provides exemptions for stores with less than 280 square metres of floor space.<sup>8</sup>

### *Stores to be included*

3.10 Proposed new section 18ZZK requires that a *retailer* who indicates that any grocery product is or may be for sale to a customer must indicate the unit price of that grocery product (with some specified exemptions). Proposed new section 18ZZH defines *grocery products* as

products sold by any retail grocery store and include but are not limited to staple foods such as meats, fruit and vegetable produce, baked goods and dairy products, canned and packaged goods, snacks and confectionary, non-alcoholic beverages, household goods (tissues, paper towels, food

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5 Mr McDonald, *Proof Committee Hansard*, 6 August 2008, p. 16.

6 Mr Dimasi, *Proof Committee Hansard*, 11 August 2008, p. 14.

7 Mr Jarrett, *Proof Committee Hansard*, 11 August 2008, p. 9.

8 Ms Rich, *Proof Committee Hansard*, 6 August 2008, p. 13.

wraps, bin liners, light bulbs, batteries, and similar products), pharmaceutical products, cosmetic products, make-up products, toiletries, baby supplies such as nappies, haberdashery, tobacco and tobacco products, household cleaning products, pet supplies and other household supplies, and alcoholic beverages when such beverages are sold by a retailer of grocery products but exclude clothing, newspapers, magazines, greetings cards, compact discs, video and audio tapes, toys, plants, flowers, electrical appliances, kitchen hardware, gardening equipment and books and **grocery product** means any one of them.

3.11 In their submission, Woolworths suggested that, as currently drafted, the Bill would apply to stores such as Big W, Dan Murphys and some of Woolworths' petrol outlets, as well as to their supermarkets,<sup>9</sup> as all of these stores sell some of the goods included in the definition of *grocery products*.

3.12 The Queensland Consumers Association also raised this issue, indicating that it was unclear whether the Bill was meant to apply only to those retailers who sell a range of grocery products, or to retailers who sell any grocery product.<sup>10</sup> For example, the list of items considered to be *grocery products* includes pet supplies and cosmetic and pharmaceutical products, so the Bill may be interpreted as applying to pet shops and pharmacies, who also sell these products. The Association drew the committee's attention to a provision in the Regulatory Impact Statement for the proposed Queensland unit pricing legislation, suggesting that a similar provision should be included in this Bill. The provision states that

...retailers of grocery products will only be captured by the unit pricing scheme if they sell a range of the items identified above, but part of the range must include staple foods. It is not intended to extend the unit pricing scheme to specialty stores such as hardware, pharmacies and pet stores.<sup>11</sup>

### *Units of measure*

3.13 Proposed new section 18ZZH defines *unit price* as meaning:

the final price, including GST and all other taxes, for one kilogram, one litre, one metre, one square metre or one cubic metre of a grocery product except in respect of grocery products sold by number, where unit price means the final price including GST and all other taxes for an individual item of the grocery product.

3.14 ALDI, who have already implemented unit pricing in its Australian stores, indicated that they believe that a unit of measure smaller than that proposed in the Bill is likely to be more practicable and easier to understand for consumers. They indicated that many grocery items are less than the unit descriptions proposed and that, in these

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9 Woolworths, *Submission 8*, p. 3.

10 Queensland Consumers Association, *Submission 2*, p. 6.

11 Cited in Queensland Consumers Association, *Submission 2*, p. 6.



cases, the unit price would be more effectively displayed as price per 100 grams or per 100 ml. ALDI provided an example of a 5 gram pack of herbs, where the unit price per kilogram would be extremely large and fairly meaningless to customers. In this instance, they suggested a unit price per 10 grams would be a more appropriate measure.<sup>12</sup>

3.15 As outlined by ALDI's Group Buying Director, Mr Davis, at the Melbourne hearing, ALDI's current unit pricing system is based on the UK model, with graduated unit prices according to the size of the product.

The UK model currently is the model that we have based all ours on, and that is 10 grams as an exception on things like herbs and spices, 100 grams on most of the packaged goods, and one kilogram on obvious products like cheese, fruit and vegetables, meat and those types of things.<sup>13</sup>

3.16 Similarly, Woolworths recommended that unit pricing be per 100ml or 100 grams, which they state is consistent with nutritional information and is therefore familiar to consumers. They too gave an example of saffron, which would have a per kg price of \$133,000 for a 0.1 gram package.<sup>14</sup>

3.17 In contrast Consumer groups were highly supportive of the unit price information being presented per kilogram or per litre, arguing that larger units of measure are preferable as:

- price per kilogram is the measure currently used for items such as meat and cheese sold in random weight packages, and is therefore familiar to consumers; and
- they maximise price differentials between products and therefore provide more meaningful information to consumers. For example, a consumer is more likely to take note of a price differential of \$2.34 per kg rather than one of 23.4 cents per 100 grams.<sup>15</sup>

3.18 The Consumer Action Law Centre noted that

In overseas jurisdictions you tend to see where they have gone through this process that, when they have said, 'Yes, we will do unit pricing', the retailers have pushed for the adoption of smaller units of measurement as the base units. The reason for that is reasonably clear. The smaller the units, the smaller the price difference between different products or different sizes and the less it looks like there is a saving to be made to the consumer and the less it drives the consumer to make a decision based on that information. The bigger the units, the clearer the price differences are and

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12 ALDI, *Submission 6*, p. 2.

13 Mr Davis, *Proof Committee Hansard*, 6 August 2008, Melbourne, p. 21.

14 Woolworths, *Submission 8*, p. 6.

15 Mr Jarratt, *Proof Committee Hansard*, 11 August 2008, Canberra, p. 8.

the clearer the consumers can see quickly that there is a difference in price and can make a decision based on that.<sup>16</sup>

3.19 The Queensland Consumers Association did, however, raise concerns that the unit price for products sold by count should not be for an individual item of the product, as specified in the Bill. Rather, because the number of items in a pack may vary greatly, they stated a preference for unit prices to be calculated on a sliding scale depending on the number of items in a pack. For example for 1 to 9 items in the pack the unit could be per each, for 10 to 99 the unit could be per 10 and for 100 and over the unit could be per 100.<sup>17</sup>

3.20 The ACCC did not express a set view on what units of measure would be the most appropriate for a unit pricing scheme in Australia, noting only that the units chosen should be appropriate to the products, and that there should be some scope to adjust the scheme as it is rolled out so that it is responsive to any emerging problems.<sup>18</sup>

### ***Proposed new section 18ZZJ – display of selling price***

3.21 Subsection 18ZZJ(1) requires retailers of grocery products to indicate the selling price for all grocery products that are, or may be, for sale to a consumer. Grocery products sold in bulk or advertisements for a grocery product are exempt.

3.22 In their submission to the inquiry, NARGA indicated that this provision ‘is the first time such a requirement has been introduced into Australian law’ and asserts that the requirement is particularly difficult for very small retailers, who currently do not price label all of their goods and are not required to do so. In evidence to the inquiry, Mr Ashton of the Consumer Action Law Centre also noted that

...apparently there is no legal requirement, certainly in Victoria, to put any shelf label size or even put a price on shelves.<sup>19</sup>

3.23 While the Bill provides an exemption from providing unit price information for single premise shops, no such exemption is provided for the requirement to indicate the selling price.

### ***Proposed new section 18ZZL***

#### ***Labelling requirements***

3.24 Proposed new subsection 18ZZL(2) requires a retailer to:

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16 Ms Rich, *Proof Committee Hansard*, 6 August 2008, p. 9.

17 Queensland Consumers Association, *Submission 2*, p. 6.

18 Mr Dimasi, *Proof Committee Hansard*, 11 August 2008, p. 15.

19 Mr Ashton, *Proof Committee Hansard*, 6 August 2008, p. 9.

ensure that the font of the indication of the unit price on shelf labels of a grocery product offered by the retailer to consumers or to prospective consumers is the greater of:

- (a) 10 millimetres; or
- (b) 50 per cent of the size of the font of the indication of the selling price.

3.25 This provision caused considerable consternation among witnesses from the grocery industry. ALDI indicated that, in their view, a requirement that unit price information be 50 per cent of the selling price was impractical and would result in cluttered and confusing price tags.<sup>20</sup> To meet this requirement, ALDI indicates that it would have to undergo a ‘full re-design of its price displays incurring considerable and in our view, unnecessary cost.’ They propose that the Bill instead prescribe a minimum size unit price, allowing retailers the flexibility to manage price displays in line with current practices.

The current 50 per cent of the greater of 10 millimetres or 50 per cent of the retail price we believe would start to become a little confusing for customers... We have been working to try to make that unit price a little bit larger. We do not have the capability to make it any larger as of tomorrow, but we are working to make it slightly larger and I think we have recommended a 10 millilitre (sic) minimum as a size that we could consider. I think even that on the smaller price cards will start to look very large.<sup>21</sup>

3.26 Similarly, Woolworths indicated that the current size of their supermarket labels accommodate sale price font sizes of between 5mm and 23mm. Meeting the unit price font size obligations in the Bill would require them to reduce the size of other items on the label, such as the product description, unit of measure and the price of the product, possibly leading to confusion for customers and taking considerable time and effort. For example, they indicate that reconfiguring labels for the unit pricing trial that they are currently undertaking has taken four months. Woolworths also asserted that a regulated font size of a minimum 10mm

...will also cause issues for shelf displays and could ultimately reduce shelf sizes and product ranges. This may have the unintended impact of driving customers to private label or generic branded products, significantly impacting manufacturers of branded products.<sup>22</sup>

3.27 In addition, Woolworths notes that there is other legislation which specifies font size for labelling etc, which may be inconsistent with this Bill, namely obligations under the Food Standards Code and under tobacco regulations.

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20 ALDI, *Submission 6*, p. 2.

21 Mr Davis, *Proof Committee Hansard*, 6 August 2008, p. 21.

22 Woolworths, *Submission 8*, p. 4.

3.28 In contrast to the industry groups, consumer groups were strongly supportive of the font size specifications in the Bill, arguing that prominently displayed unit pricing information was essential to the success and uptake of the system. For example, the Consumer Action Law Centre told the committee that font size

is one of the factors that will make the difference between an effective unit pricing scheme and a non-effective unit pricing scheme... It is not going to be effective if it is too difficult for consumers to see, read or understand the marking of the unit price. Certainly there is research overseas in jurisdictions that have unit pricing that says the way in which the unit pricing is displayed, how prominently it is displayed and so on does impact on the use of unit pricing information by consumers. It is very important.<sup>23</sup>

3.29 The Queensland Consumers Association also advised the committee that it is common practice for legislation in Australia to prescribe minimum sizes for the presentation of consumer information.

For example, 3mm is the minimum size font for the presentation of unit price information on the labels on random weight packages of meat and some other foods. If the unit price is shown on a label not attached to the package, for example on a shelf label, the minimum size font is 10mm. Also, the Food Standards Code specifies minimum font sizes for the presentation of warning and country of origin information on any type of label.<sup>24</sup>

3.30 While supportive of the provisions specifying font size for unit pricing information, the Consumer Action Law Centre advised that the 'size of print is only one of several presentational issues of critical importance to consumers' and called on the federal government to commission

independent practical research with consumers to inform the basis of the minimum standards of information presentation for a national unit pricing system.<sup>25</sup>

### *Products packed in liquid*

3.31 Proposed new subsection 18ZZL(4) requires that:

In the case of a pre-packaged solid food grocery product presented in a liquid medium, the unit price refers to the net drained weight of the grocery product. Where a unit price is also given with reference to the net weight of the grocery product, it must be clearly indicated which unit price relates to net drained weight and which to net weight.

3.32 In their submissions to the inquiry, ALDI and Woolworths both claimed that this subsection introduces entirely new criteria for product weight, as no grocery

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23 Ms Rich, *Proof Committee Hansard*, 6 August 2008, p. 8.

24 Queensland Consumers Association, *Supplementary Submission*, 13 August 2008, p. 1.

25 Consumer Action Law Centre, *Submission 7*, p. 3.

products in Australia currently display weight in this manner.<sup>26</sup> According to Woolworths

If this becomes necessary, manufacturing process may be significantly impacted to provide a consistent drained weight and include this information on labels so retailers can calculate the unit price.<sup>27</sup>

3.33 In addition, both ALDI and Woolworths believe that this approach will result in confusion for customers, who are not used to seeing product weight expressed in this way.

### ***Proposed new section 18ZZM***

3.34 This section requires retailers, in calculating unit prices, to express the unit price to the nearest 0.1 cent if the unit price is below \$1 and to the nearest cent or 0.1 cent if the unit price is above \$1. It also provides rules for rounding up or down in specified circumstances.

3.35 Woolworths' submission indicated that the rounding provisions have the potential to conflict with the Trade Practices Act and also with proposed new subsection 18ZZK(2) of this bill, which requires that the unit price indicated by the retailer must be accurate.<sup>28</sup>

3.36 The Queensland Consumers Association recommended that rounding both above and below \$1 should only be to the nearest cent, as rounding to the nearest 0.1 cents is not consumer-friendly and will be difficult to read.<sup>29</sup>

### ***Proposed new section 18ZZI***

3.37 The Queensland Consumers Association noted that this section appeared to require all retailers to provide consumers with information about unit pricing. They recommended that such a requirement only apply to retailers who are implementing unit pricing in their store (whether voluntarily or as part of a mandatory scheme).<sup>30</sup>

### ***National Measurements Act***

3.38 In addition to the above mentioned concerns about specific provisions of the Bill, the National Association of Retail Grocers of Australia queried the appropriateness of seeking to introduce unit pricing through amendments to the *National Measurements Act 1960*, suggesting that pricing is outside the scope of the Act and that, as the Act appears to apply to the measurement of products, it is unsuited

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26 Woolworths, *Submission 8*, p. 5 and ALDI, *Submission 6*, p. 3.

27 Woolworths, *Submission 8*, p. 5.

28 Woolworths, *Submission 8*, p. 5.

29 Queensland Consumers Association, *Submission 2*, p. 7.

30 Queensland Consumers Association, *Submission 2*, p. 7.

to a requirement that relates to the provision of information not attached to the product.<sup>31</sup>

3.39 Similar concerns were not raised by other witnesses. For example, when asked by Senator Fielding whether the Bill provided a reasonable basis for moving forward with a unit pricing system in Australia, Ms Rich from the Consumer Action Law Centre replied

Yes, certainly. We think it is a sound basis. It is not dissimilar to the legislation that is being proposed in Queensland. So it is certainly a basis that we could work off for a national, uniform, mandatory scheme.<sup>32</sup>

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31 National Association of Retail Grocers of Australia, *Submission 5*, p. 2.

32 Ms Rich, *Proof Committee Hansard*, 6 August 2008, p. 13.

# Chapter 4

## Conclusions

4.1 The committee supports the policy intent of this Bill, namely to provide for a mandatory unit pricing scheme in Australia, and commends Senator Fielding for advancing the policy debate on this issue.

4.2 However, the committee is not convinced that the Bill achieves the right balance between maximising the usefulness and effectiveness of the scheme for consumers and minimising the costs of implementation to grocery retailers. In particular, the committee is concerned about:

- the exemption criteria for grocery stores required to implement mandatory unit pricing;
- the definition of grocery retailers and grocery products;
- the definition of units of measure for unit pricing; and
- the definition of the required font size for unit pricing.

### Recommendation 1

4.3 **The committee recommends that this bill not be passed.**

4.4 The committee notes that the Australian Government has committed, as a matter of urgency, to consider the best way to introduce a mandatory nationally-consistent unit pricing scheme.<sup>1</sup> While the committee has some concerns about elements of this Bill, it nevertheless considers the Bill to be a useful starting point for consultation with industry and consumer groups on the formulation of such a scheme.

4.5 The committee is of the view that the paramount purpose of such consultations should be the development of a unit pricing scheme in which the needs of the consumer are given substantial weight.

4.6 The committee also support the recommendation of the ACCC that, prior to the introduction of unit pricing, a detailed cost benefit analysis should be conducted to assist in determining to which stores unit pricing should apply. Consideration should be given to allowing voluntary implementation or a longer implementation time for those stores that fall under the 1200 square metres identified as the level at which stores compete against the major supermarkets.

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1 Assistant Treasurer, *Rudd Government Releases its Preliminary Action Plan in Response to the ACCC's Grocery Inquiry*, Media Release No. 065, 5 August 2008, p. 1.

### **Recommendation 2**

4.7 **The committee recommends that the details of a nationally-consistent mandatory unit pricing scheme be developed in consultation with all stakeholders, including consumer groups, industry, and state and territory governments.**

### **Recommendation 3**

4.8 **The committee recommends that, once the features of the national scheme are identified, a detailed cost benefit analysis be undertaken, as recommended by the ACCC, to assist in determining to which stores unit pricing should apply.**

### **Recommendation 4**

4.9 **The committee recommends that implementation should be phased in over a period of twelve months once the details of the national mandatory unit pricing scheme are established.**

**Senator Annette Hurley**

**Chair**



# **Family First - Dissenting Report**

## **Inquiry into the Unit Pricing (Easy comparison of grocery prices) Bill 2008**

Family First introduced this bill for a national unit pricing scheme in May 2008 to help Australian families cut their grocery bills by easily comparing grocery items on a per unit basis. The scheme would allow families to choose the cheapest item on a per unit basis.

Families are spending hundreds of dollars every fortnight on groceries, and with prices skyrocketing a saving of even a few per cent on the supermarket docket can make a big difference to a family's budget.

A mandatory unit pricing or comparative pricing scheme:

- Displays the prices of grocery items per unit of measure, such as per litre or per kilogram. This allows shoppers to quickly compare items to select the cheapest product on a per unit basis;
- Is already a familiar feature displayed for the sale of fruit, vegetables, meat and deli products where price is displayed per kilogram;
- Helps to increase the focus on price and value for money and those families who want good prices can make big savings on their grocery bills; and,
- Produces a better result than a voluntary system as overseas experience shows that under voluntary systems there can be a lot of goods offered without unit pricing information.

Without consistent rules, unit pricing may be dropped for promotions, may not be accurate, may not be used consistently, not be displayed prominently or not printed in advertisements.

The prominence of the display of unit prices has been shown to be a key factor in consumer awareness. Unless the unit price is large enough, families will not see it and the scheme will be useless.

The Rudd Government should not be bullied by the big retailers and tricked into setting up a unit pricing scheme that suits retailers but undermines families being able to choose the cheapest grocery items.

Family First's bill details a unit pricing scheme that can be implemented now, so there is no excuse for the Rudd Government to delay the scheme.

## What is unit pricing?

The Public Interest Advocacy Centre explained that:

Unit price information enables consumers to compare like with like, that is, to compare the amount per kilo or litre being charged for the same product by different retailers, or even by the same retailer for the same product from different manufacturers. For example, it would enable a consumer to compare the price per litre of milk across a range of milk packaging and producers in the same supermarket, irrespective of who the producer is or whether the milk is being sold in a 600mL, a 1L, a 2L or a larger container. Similarly, it enables consumers to make the same comparison across supermarkets through comparing the advertised price.<sup>1</sup>

Unit pricing can be used for a number of tasks:

Consumers can use unit prices to make a variety of comparisons when choosing grocery products. For example, they can compare:

Sizes and brands of a package type within a product type, for example jars of jam

Sizes and brands between product types, for example butter versus margarine

Product form within a product type, for example fresh versus frozen salmon steaks

Product form between product types, for example fresh and frozen salmon steaks versus fresh and frozen barramundi fillets.

Types of packaging within and between product types, for example unpackaged cheese with pre-packaged.<sup>2</sup>

Unit pricing is not a new concept, with:

the provision of unit prices for pre-packaged grocery items ... compulsory in each of the 27 countries of the European Union and in several states in the USA. Overseas, it is used by 50-70% of consumers and provides major benefits to consumers and the economy at very low cost.<sup>3</sup>

It is time that Australia caught up and offered families this very useful tool to help cut grocery bills.

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1 Public Interest Advocacy Centre, submission 3, page 1.

2 Queensland Consumers Association, submission 2, pages 3-4.

3 Public Interest Advocacy Centre, submission 3, page 2.

## Why unit pricing?

The cost of food is a big part of every family's budget and the fact that food prices have been increasing faster than the inflation rate for more than a decade<sup>4</sup> means that families are really having a hard time making ends meet. The Consumer Action Law Centre argued unit pricing is one way of helping to address the problem:

There are increases in grocery prices here that have not occurred elsewhere, which leads us to think there is a problem with grocery prices. They are too high and they have been going up too much. One modest but important step in combating the inflation in grocery prices is unit pricing. There are a number of problems in the grocery industry in Australia. We think that unit pricing, in providing more information to customers about the true price of the products they are buying, will increase price competition.<sup>5</sup>

Unit pricing can also help to put downward pressure on inflation:

... unit pricing increases the transparency of prices and makes it easier for consumers to assess value for money. As a result, competition between manufacturers and between retailers increases thus helping to reduce price inflation. Without unit price information, consumers have to do the calculations themselves and understandably few do this and rely on rules of thumb about value for money such as larger sizes are always the lowest unit price.<sup>6</sup>

Estimates of savings from unit pricing range from 21% to 50% of a family's grocery bill:

Our survey of grocery prices indicates savings of 21% by buying the most cost effective branded pack size and another 34% if switching to private labels. Our estimate of an \$810 million fall in revenue assumes one in twenty shoppers switch to the most economical pack size.<sup>7</sup>

The Queensland Consumers Association said it has done research which "... shows that for 25 pre-packaged grocery items, by buying only brands and sizes with the lowest unit price consumers could reduce a \$94 grocery bill by almost 50 per cent."<sup>8</sup>

A survey by Choice found "89% of consumers said they would find comparison product pricing very useful or somewhat useful."<sup>9</sup>

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4 The Economic Contribution of Small to Medium-Sized Grocery Retailers to the Australian Economy, with a Particular Focus on Western Australia. A report prepared by PriceWaterhouse Coopers for the National Association of Retail Grocers of Australia, June 2007. Page 6.

5 Mr Ashton, Consumer Action Law Centre, Committee Hansard, 6 August 2008, page 8

6 Queensland Consumers Association, submission 2, page 4.

7 *Unit Pricing in Supermarkets*. Citigroup Global Markets Equity Research, 14 July 2008

8 Queensland Consumers Association, submission 2, pages 4.

Woolworths representative at the inquiry, James Aylen, also noted shoppers are working to do their own unit pricing, saying “there are customers now; I have seen them with their calculators adding up their grocery bills ...”.<sup>10</sup>

But most people do not have the time to do their own unit pricing, with the Australian Competition and Consumer Commission’s (ACCC) concluding:

Unit pricing assists consumers by improving the pricing information available to them. Consumers often do not have the time, inclination or in some cases the ability to accurately analyse which product has the lowest unit cost in a timely manner. Unit pricing is a tool that would make it easier for consumers to acquire and process pricing information and assist them in engaging in a meaningful price search. There appears to be broad support for unit pricing, with the ACCC’s consumer survey finding that 76 per cent of consumers contacted consider that unit pricing would be helpful.<sup>11</sup>

### **Debate over the parameters of unit pricing**

Over recent months Australia’s two biggest supermarket chains Woolworths and Coles have moved from opposition to unit pricing to support. Aldi has already introduced unit pricing into its shops. But it has been found that:

Aldi’s system and Woolworth’s current trial in a Sydney supermarket, both of which are voluntary, do not fully meet consumer requirements, ... especially regarding presentation of information and units of measurement.<sup>12</sup>

There is concern the supermarkets are introducing a type of unit pricing that may suit supermarkets more than families, with disputes over the size of the unit price on shelf labels, the standard units of measurement to be used by supermarkets, the level of information given to families and the range of groceries to be covered by the scheme.

The Queensland Consumers Association stated:

... there are pressures from the retailers to have systems which perhaps are more to their advantage than to the consumers’ advantage, and we think they should be resisted. It is particularly important that we have a system, as is provided for in this bill, which makes it very easy for consumers to see and also to use the unit price information.<sup>13</sup>

Mr Jarrett from the QCA argued that:

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9 Choice, submission 9, page 2.

10 Mr Aylen, Woolworths, Committee Hansard, 6 August 2008, page 7

11 Australian Competition and Consumer Commission, *Report of the ACCC inquiry into the competitiveness of retail prices for standard groceries*, July 2008, page 450

12 Queensland Consumers Association, submission 2, page 5.

13 Mr Jarrett, Queensland Consumers Association, Committee Hansard, 11 August 2008, page 7

We have to remember that retailers are in business to make money for their shareholders. We also have to remember that the majority of retailers in Australia have vigorously opposed the introduction of unit pricing on either a voluntary or a compulsory basis for many years. So we have to recognise that they may not have the consumer's or the economy's interests at heart.<sup>14</sup>

### ***Unit of measure***

The basic units of measure chosen for unit pricing are important to the success of the system. Family First has carefully selected kilograms and litres as the best standard measures to give consumers price information.

Woolworths argued it had chosen a smaller unit of measure for simplicity:

We wanted to have the one measurement across all categories, across all products, and we chose 100 millilitre for simplicity. That was the only reason. There was certainly no other reason around why we chose 100 millilitre rather than one litre.<sup>15</sup>

But Ms Rich from the Consumer Action Law Centre pointed out:

In overseas jurisdictions you tend to see where they have gone through this process that, when they have said, 'Yes, we will do unit pricing', the retailers have pushed for the adoption of smaller units of measurement as the base units. The reason for that is reasonably clear. The smaller the units, the smaller the price difference between different products or different sizes and the less it looks like there is a saving to be made to the consumer and the less it drives the consumer to make a decision based on that information. The bigger the units, the clearer the price differences are and the clearer the consumers can see quickly that there is a difference in price and can make a decision based on that.<sup>16</sup>

Family First believes that litre and kilogram should be the standard measures for grocery products.

### ***Size of unit price displayed on shelf labels***

The absolute size of the font for the unit price and the font size relative to the size of the overall price of the product are crucial to ensure consumer awareness and use of unit price information.

Family First's bill specifies that the size of the text giving the unit price information should be either 10 millimetres or 50% the size of the font of the text giving the selling price, whichever is greater.

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14 Mr Jarrett, Queensland Consumers Association, Committee Hansard, 11 August 2008, page 7

15 Mr Ayles, Woolworths, Committee Hansard, 6 August 2008, page 4

16 Ms Rich, Consumer Action Law Centre, Committee Hansard, 6 August 2008, page 9

The Consumer Action Law Centre emphasised this point:

The research that we have looked at, and I think you would have also, shows that larger font sizes displayed next to the actual sale price of the item are necessary. If it is too small, consumers cannot see it without bending over the shelf, and people will not bend over the shelf every time they select a product in the supermarket.<sup>17</sup>

Mr Jarrett from the Queensland Consumers Association stated:

Evidence here and from overseas, including New Zealand, where Woolworths provide unit pricing in some of their stores, suggests that there is a definite tendency for retailers to make the unit price extremely small so that it is less noticeable to consumers and consumers do not use it as much.<sup>18</sup>

In the supermarket close to where I am [in New Zealand], I can crawl on my hands and knees on the floor of the supermarket and still cannot read the unit price information on the bottom shelf.<sup>19</sup>

Mr Jarrett commented on the Woolworths trial of unit pricing at its Baulkham Hills stop in Sydney:

I was extremely disappointed that the font size on the shelf labels where they were provided was down about two to 2½ millimetres. They may have increased it slightly since then but, even if they made it slightly larger, it is still insignificant and impossible to read on the bottom shelves.<sup>20</sup>

The Consumer Action Law Centre described the 2.5 millimetre font as “tiny” and “unreadable”.<sup>21</sup>

Clear guidance is needed to supermarkets on the size of the print of the unit price information as it has:

... huge effects on consumer awareness and use of the information. Consequently, compulsory national standards are needed for the major components of presentation. For example, overseas experience shows that when only general guidance on size of print is given in regulations, for example clearly legible, the size varies greatly between retailers and often is far too small.<sup>22</sup>

The size of unit pricing information on shelf labels is a make or break question for the success of unit pricing in Australia.

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17 Mr Ashton, Consumer Action Law Centre, Committee Hansard, 6 August 2008, page 8

18 Mr Jarrett, Queensland Consumers Association, Committee Hansard, 11 August 2008, page 7

19 Mr Jarrett, Queensland Consumers Association, Committee Hansard, 11 August 2008, page 7

20 Mr Jarrett, Queensland Consumers Association, Committee Hansard, 11 August 2008, page 8

21 Mr Ashton, Consumer Action Law Centre, Committee Hansard, 6 August 2008, page 11

22 Queensland Consumers Association, submission 2, page 6.

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### ***Information given to families about unit pricing***

An information campaign to inform families of the existence and benefit of unit pricing information is necessary for the success of the scheme:

Unit pricing is designed to make it easier for consumers to save money by comparing prices. It is a consumer information tool. Therefore, it will be more effective if an education campaign coincides with the introduction of unit pricing. This education campaign should have as its goal the transmission of knowledge regarding what unit pricing is and how it can be used.<sup>23</sup>

Woolworths pointed out that many customers were still not aware that unit pricing information was available in their test site:

I am not quite sure if you are aware that we had *A Current Affair* in our Baulkham Hills store on Friday. They randomly asked a couple of customers and some said they did not even know it existed yet. It has been in the store for five months. Some other customers had seen it and said that they like the idea and they do actually look at it.<sup>24</sup>

Family First's unit pricing bill provides for an information campaign:

Consumer Action supports the proposal to require supermarkets to display posters explaining unit pricing and to distribute pamphlets explaining unit pricing. Appropriate consumer information on the website of the Australian Competition and Consumer Commission would also be appropriate, as would be a short-term government information campaign through the media.<sup>25</sup>

An information campaign to inform families how to use unit pricing to save money is a key component of a successful scheme.

### ***Range of groceries covered by the scheme***

Concerns were also raised over the limited range of groceries supermarkets may cover with a unit pricing scheme, unless there is clear direction given in legislation like Family First's bill.

Mr Jarrett from the Queensland Consumers Association commented on the Woolworths trial:

They are also not giving the unit prices for many of the products in their shop that we think they should. For instance, when I was there, they were not giving any unit prices for the small continental cheeses that were in one area of the store but they were giving unit prices for cheeses in another part

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23 Consumer Action Law Centre, submission 7, page 4.

24 Mr Aylen, Woolworths, Committee Hansard, 6 August 2008, page 6

25 Consumer Action Law Centre, submission 7, page 4.

of the store. That makes it difficult for consumers to make comparisons. They were not giving any unit prices at all for prepackaged fruit and vegetables, and they were not giving any unit prices for the wide range of paper products that there are in the store. As I say, I went there expecting a really good system and I was terribly disappointed.<sup>26</sup>

The Woolworths trial is limited to products measured by 100 grams or 100 millilitres, which means there is a danger many products would not be covered by a voluntary Woolworths scheme:

The trial we have at the moment covers any product in a litres or grams, and yes, it goes to 100 millilitres or 100 grams. During the trial we had not looked at other measurements. We have in the intermediate time looked at other measurements but we have not completed the work to implement them at this point in time. The challenge comes as to how you measure some of these products, and if any measure is actually valid. If we look at toilet rolls, for example, is it per roll; is it per each; is it per pack; is it per sheet; or is it per metre? There are a number of different ways to measure, and then you have one, two, three and four ply. It sounds simple, but what is the accurate measure for each of those areas?<sup>27</sup>

But the Consumer Action Law Centre dismissed these concerns:

... we have seen the saffron and toilet paper examples. I should point out that I have seen toilet paper included in systems in the US. You can do it per count, and issues concerning the quality and whether it is two or three ply. They are issues of quality. I do not think we should assume that consumers do not understand those things.<sup>28</sup>

It was also pointed out that:

The exclusion of toilet paper, or any other product type, because of quality differences is contrary to the fundamental objective of unit pricing to facilitate comparison of prices per unit of measure. Quality is a completely separate issue. Exclusion of products because of quality differences effectively means not providing a unit price for any product with competing brands or different qualities within a brand!<sup>29</sup>

Unit pricing has been in operation in parts of the world for more than 30 years. The question of how to measure different products has been solved in other jurisdictions and is not a major problem.

also have a product called saffron from one of our suppliers, and if we had the price per kilogram, it would be \$134,000 per kilogram.<sup>30</sup>

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26 Mr Jarrett, Queensland Consumers Association, Committee Hansard, 11 August 2008, page 8

27 Mr Ayles, Woolworths, Committee Hansard, 6 August 2008, page 4

28 Ms Rich, Consumer Action Law Centre, Committee Hansard, 6 August 2008, page 10

29 Queensland Consumers Association, submission 2, supplementary submission, page 3

30 Mr Ayles, Woolworths, Committee Hansard, 6 August 2008, page 4



Family First wants unit pricing implemented in Australia as a matter of urgency. Although there were varying estimates of the cost of implementation, the cost of implementation is a once only cost, with the benefits continuing into the future.<sup>31</sup>

### **ACCC inquiry**

In July the ACCC reported to the Federal Government the results of its inquiry into grocery prices. The ACCC recommended:

... a mandatory, nationally-consistent unit pricing regime be introduced for standard grocery items both on in-store price labels and in print advertising. The ACCC recommends that the unit pricing regime apply to significant supermarkets, including Coles, Woolworths, ALDI and large independent stores. Smaller stores will face higher implementation costs relative to turnover compared to larger stores. The ACCC therefore considers that before unit pricing is introduced a detailed cost-benefit analysis should be undertaken to determine which stores unit pricing should apply to.<sup>45</sup> Grocery outlets not required to comply with the unit pricing regime should be allowed to display unit prices on a voluntary basis. If they choose to do so, they should be required to comply with the mandatory requirements.<sup>32</sup>

The Federal Government accepted the ACCC's recommendation and announced that:

The Government will consider the best way to introduce a mandatory nationally-consistent unit pricing regime. Issues such as the product range that's captured and store size will need to be worked through in consultation with industry to ensure compliance costs are kept to a minimum. Unit pricing has proven to be a transparent and popular tool for overseas consumers.<sup>33</sup>

The government's announcement does not give any detail of how unit pricing will be implemented. Family First's *Unit Pricing (Easy comparison of grocery prices) Bill 2008*, according to the Consumer Action Law Centre, provides a "sound basis ... that we could work off for a national, uniform, mandatory scheme."<sup>34</sup>

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31 Ms Rich, Consumer Action Law Centre, Committee Hansard, 6 August 2008, page 11-12

32 Australian Competition and Consumer Commission, *Report of the ACCC inquiry into the competitiveness of retail prices for standard groceries*, July 2008, page 456

33 Media release: *Rudd Government releases its preliminary action plan in response to the ACCC's grocery inquiry*. Chris Bowen, Assistant Treasurer and Minister for Competition Policy and Consumer Affairs. 5 August 2008.  
<http://assistant.treasurer.gov.au/DisplayDocs.aspx?doc=pressreleases/2008/065.htm&pageID=003&min=ceb&Year=&DocType=> (accessed 29 August 2008).

34 Ms Rich, Consumer Action Law Centre, Committee Hansard, 6 August 2008, page 13

## **Conclusion**

Family First introduced legislation to implement unit pricing in May, with the ACCC subsequently recommending and the Federal Government announcing it would implement a mandatory national scheme.

The Committee's report identifies four areas of concern in the bill, each of which can be dealt with by simple amendments to the legislation.

Family First's *Unit Pricing (Easy comparison of grocery prices) Bill 2008* details a unit pricing scheme that can be implemented now, so there is no excuse for the Rudd Government to delay the scheme.

**Senator Steve Fielding**  
**Leader of Family First**

# APPENDIX 1

## Submissions Received

<b>Submission Number</b>	<b>Submitter</b>
1	Mr James Cameron
2	Queensland Consumers Association
3	Public Interest Advocacy Centre
4	Master Grocers Australia
5	National Association of Retail Grocers of Australia (NARGA)
6	ALDI Stores
7	Consumer Action Law Centre
8	Woolworths Ltd
9 & 9a	CHOICE
10	Mr Robert Maher
11	Growcom
12	Metcash Ltd

## Additional Information Received

### TABLED DOCUMENTS

- Tabled on 6 August 2008, in Melbourne, Vic by the Consumer Action Law Centre. *'Unit Pricing in Supermarkets'* paper dated 14 July 2008.



## **APPENDIX 2**

### **Public Hearings and Witnesses**

#### **MELBOURNE, WEDNESDAY, 6 AUGUST 2008**

- ASHTON, Mr Neil, Policy Officer,  
Consumer Action Law Centre
- AYLEN, Mr James, General Manager,  
Longlife, Woolworths Ltd
- DAVIS, Mr Greg, Group Buying Director,  
ALDI Stores
- McDONALD, Mr John Gordon, Marketing and Commercial Manager,  
Metcash Retail Technology, Metcash Trading
- RICH, Ms Nicole, Director, Policy and Campaigns,  
Consumer Action Law Centre
- SAMIA, Ms Nathalie, Group Manager,  
Government Relations, Woolworths Ltd
- VOSS, Mr Brad, Manager, Public Affairs,  
ALDI Stores

#### **CANBERRA, MONDAY, 11 AUGUST 2008**

- DIMASI, Mr Joe, Executive General Manager,  
Regulatory Affairs Division, Australian Competition and Consumer  
Commission
- HENRICK, Mr Kenneth Michael, Chief Executive Officer,  
National Association of Retail Grocers of Australia
- JARRATT, Mr Ian, Vice President,  
Queensland Consumers Organisation
- van RIJSWIJK, Mr Gerard Anthony, Senior Policy Adviser,  
National Association of Retail Grocers of Australia

