



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

SENATE

STANDING COMMITTEE ON ECONOMICS

Reference: Unit Pricing (Easy comparison of grocery prices) Bill 2008

WEDNESDAY, 6 AUGUST 2008

MELBOURNE

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**SENATE STANDING COMMITTEE ON
ECONOMICS**

Wednesday, 6 August 2008

Members: Senator Hurley (Chair), Senator Eggleston (Deputy Chair) and Senators Bushby, Cameron, Furner, Joyce and Pratt

Participating members: Senators Abetz, Adams, Arbib, Barnett, Bernardi, Bilyk, Birmingham, Bishop, Boswell, Boyce, Brandis, Bob Brown, Carol Brown, Bushby, Cash, Colbeck, Collins, Coonan, Cormann, Crossin, Ellison, Farrell, Feeney, Fielding, Fierravanti-Wells, Fifield, Fisher, Forshaw, Hanson-Young, Hefernan, Hogg, Humphries, Hutchins, Johnston, Joyce, Kroger, Ludlam, Lundy, Ian Macdonald, Marshall, Mason, McEwen, McGauran, McLucas, Milne, Minchin, Moore, Nash, O'Brien, Parry, Payne, Polley, Ronaldson, Ryan, Scullion, Siewert, Stephens, Sterle, Troeth, Trood, Williams, Wortley and Xenophon

Senators in attendance: Senators Bushby, Cameron, Eggleston, Fielding, Furner and Hurley

Terms of reference for the inquiry:

To inquire into and report on: Unit Pricing (Easy comparison of grocery prices) Bill 2008

WITNESSES

ASHTON, Mr Neil, Policy Officer, Consumer Action Law Centre.....	8
AYLEN, Mr James, General Manager, Longlife, Woolworths Ltd	2
DAVIS, Mr Greg, Group Buying Director, ALDI Stores.....	20
McDONALD, Mr John Gordon, Marketing and Commercial Manager, Metcash Retail Technology, Metcash Trading.....	14
RICH, Ms Nicole, Director, Policy and Campaigns, Consumer Action Law Centre.....	8
SAMIA, Ms Nathalie, Group Manager, Government Relations, Woolworths Ltd.....	2
VOSS, Mr Brad, Manager, Public Affairs, ALDI Stores	20

Committee met at 8.59 am

CHAIR (Senator Hurley)—I declare open this meeting of the Senate Standing Committee on Economics Inquiry into the Unit Pricing (Easy comparison of grocery prices) Bill 2008. On 17 June 2008 the Senate referred the Unit Pricing (Easy comparison of grocery prices) Bill 2008 to the Senate Standing Committee on Economics for inquiry and report by 2 September 2008. The objective of the bill is to require retailers selling grocery products to display unit prices for grocery products sold by measure of weight or volume.

This is the first public hearing for this inquiry. These are public proceedings, although the committee may agree to a request to have evidence heard in camera or may determine that certain events should be heard in camera. I remind all witnesses that in giving evidence to the committee they are protected by parliamentary privilege. It is unlawful for anyone to threaten or disadvantage a witness on account of evidence given to a committee and such action may be treated by the senate as a contempt. It is also a contempt to give false or misleading evidence to a committee. If a witness objects to answering a question, the witness should state the ground upon which the objection is taken and the committee will determine whether it will insist on an answer having regard to the ground which is claimed. If the committee determines to insist on an answer, a witness may request that the answer be given in camera. Such a request may, of course, also be made at any other time.

[9.00 am]

AYLEN, Mr James, General Manager, Longlife, Woolworths Ltd

SAMIA, Ms Nathalie, Group Manager, Government Relations, Woolworths Ltd

CHAIR—I welcome Woolworths Ltd. Do you wish to make an opening statement?

Mr Aylen—Yes, please, Madam Chair. I am the General Manager of Longlife, with Longlife being pretty much everything that is in the centre of the store, such as groceries, general merchandise and anything that is probably more ambient, I suppose, is a good way to put it. This does not include refrigerated or fresh food areas. I represent Woolworths today and I would like to make an opening statement. Madam Chair, Woolworths would like to thank the committee for the opportunity to contribute to the discussions on the proposed introduction of national unit pricing.

As senators would be aware, Woolworths is a leading grocery retailer in Australia. In Australia our 150,000 employees serve millions of customers every day and we are committed to providing great value for each of them. Woolworths recognises that, with soaring commodity prices and a prolonged drought, there is a continuing pressure on the cost of food and therefore continuing pressure on the families in Australia. Our customers are savvy, discerning and hard working. We understand that everything we do to assist them will help ease their burden. We at Woolworths believe that the introduction of unit pricing can help our customers in their everyday lives. Woolworths has had unit pricing across our New Zealand supermarkets for some time, and we are now trialling the system in one of our stores in New South Wales at Baulkham Hills. We know that our customers find unit pricing an easy way to compare prices between products, and we have committed to introducing unit pricing across our Woolworths and Safeway supermarkets nationally.

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. In our trial we believe we have achieved a good unit pricing offer for our customers. Our trial displays unit price measurements of 100 millilitre or 100 grams. We believe that these measurements enable consumers to meaningfully compare items within product ranges and across stores. We have also spent four months configuring our labelling system to increase the unit font size without compromising other information on the label. I am happy to table some examples today, if you would like.

CHAIR—Thank you, Mr Aylen, that would be useful.

Mr Aylen—We have provided the committee with a detailed submission on unit pricing which we believe is in the best interests of our customers. We welcome the opportunity to discuss this in more detail today and are happy to assist the committee in any way we can. Thank you, Madam Chair.

CHAIR—Thank you, Mr Aylen. You are trialling the unit pricing system in one store here in Australia. You have a system as well in New Zealand, is that correct?

Mr Aylen—We have the same system in New Zealand as we have in Australia. When we purchased the Progressive organisation in New Zealand, they had already had a unit pricing system. Without getting into the challenges of the multisystems they had in New Zealand, we are trying to implement our common core systems into the New Zealand marketplace, and hence we had to develop a framework around unit pricing for the New Zealand marketplace.

CHAIR—Okay. When you say you want some flexibility in the system here in Australia, is that to allow for different retailers to fit it into their existing systems?

Mr Aylen—The flexibility, I suppose, is more around trying to keep it simple and keep the costs down. Most shelf labels are a given size at the moment. If we can configure the information into the existing shelf label size, clearly that will save in the costs of implementing unit pricing. If we have to change the configuration of our shelf label size, that could mean we change the configuration of the shelf stripping; then we will build significant costs, not only for us, but also I would suggest for the industry in implementing unit pricing.

CHAIR—Currently with the strip under a line of groceries, you have an amount which gives the price and a description of the goods. In most cases there would be enough room to put an additional label, occasionally not if it is a small group of products. Would this be a possibility or are you looking at incorporating it on the same label?

Mr Aylen—I think simplicity says we should incorporate it on the same label. In a number of aisles in our supermarkets there would be sufficient space. If you were to look at soft drinks, soap powders and those areas, by all means the facings on most products mean that there is good footage. But if you move into the health and beauty aisle and go into the shampoos, the hair colourants, the deodorants and some of the more finicky spices, smaller component foods that often have one facing, then you will not have any room to do it in addition to where we currently are. So, we would like one system across everything. That is easier for us as a retailer to implement, and then we just make the one change to our systems to change the shelf label.

CHAIR—When you say the systems, obviously it is printed out. Is there a single computer program that does all that? How does it work?

Mr Aylen—We have reconfigured our back office system having added a number of fields into that system by which additional information has to be keyed by our administrative clerks. The standard system has a description; it may say ‘Coca-Cola two litre’. What we now need to do is add an additional field which says unit of measure is two litres, and a comparison size for us would be 100 millilitres. The system can then take those fields, go and do the mathematics, and then calculate out the actual unit comparison on the shelf label. It is a manual operation; again, that is why we are trying hopefully to keep it simple. As good humans unfortunately the data that comes out will only ever be as good as the data that goes in, and the more variables you put into that data, as simple as it sounds, the far more difficult it is to maintain the accuracy of the information. The most important thing to us is, if we are going to provide this information to our customers, we need to ensure we can keep it simple and as accurate as possible because clearly that is our integrity and our reputation.

CHAIR—Do you have any estimate of how much it would cost Woolworths if you do it in the current system as you have described or another separate system?

Mr Aylen—Again it probably comes down to the flexibility. If we are able to roll out unit pricing in the course of changing the shelf labels, at store level, over a period of time, we believe we can absorb the costs of unit pricing to ourselves and certainly to our customers. You would then say, ‘Over what period of time, James?’

CHAIR—Yes, over what time?

Mr Aylen—Generally we would change every shelf label in our stores every 12 months. Our main system is that we do what we call category reviews. This means we will look at our soft drinks section and we will decide what products are maybe not performing well and look to move them out, and our trade partners will come to us with what products are performing very well, or they would like us to put new products into the range, and clearly you have to take some out to get some in. We would do that category review once or twice a year for every category. When we complete that review and we send our new planogram out to stores, all stores print a new run of shelf labels for every item in the planogram. This is why I am more than comfortable that we would have completed a category review on every item every 12 months, certainly on every category, and hence the store would have new shelf labels over that time.

CHAIR—Do you have any estimate for how much it would cost to change the shelf stripping?

Mr Aylen—If we were asked to change it immediately, as an example, and not roll it out, we believe it would cost us somewhere in the vicinity of \$4 million to \$5 million in wages alone just to go into every single one of our stores and change every shelf label that we have on the shelf. If we were asked to configure a unit price larger than fits on our existing shelf label, you could probably add to that about \$7 million just for the cost of changing the width of the shelf stripping to facilitate a larger shelf label. Again, that is why we are trying to keep it simple and keep it within the confines of the shelf labels we have at the moment so there are no additional costs.

Senator FIELDING—You folks must be pretty happy with the ACCC saying there should be unit pricing in Australia, given you have said that it helps customers compare prices. I am wondering why it has taken so long for you folks to implement unit pricing given you have said that it actually helps your customers?

Mr Aylen—It is probably fair to say that unit pricing generally only came on the radar to us when we bought the New Zealand business. There had not been a lot of requests, certainly from our customers, and not

a lot of media attention about unit pricing. It came to our awareness when we bought the New Zealand business because they had it in New Zealand and therefore we needed to implement it. Having looked through it then, we felt it was an opportune time for us to potentially put this into the Australian market as well.

Senator FIELDING—When did you buy the business in New Zealand?

Mr Aylen—Please do not quote me on the date; it was around two years ago. I might be a couple of months out there, sorry. I am not quite sure of the actual date.

Senator FIELDING—What I think you are proposing on the issue of unit pricing in your submission is limited unit pricing; it does not cover products sold by length or area or count, is that right? Is that what you are suggesting?

Mr Aylen—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? We are trying to develop a unit measure per each or per pack. So, for some of the other products that are not in straight grams and millilitres, we may be able to get a comparative measure. That is where we are probably looking for some flexibility.

Senator FIELDING—You would be aware that the UK, Ireland and other European countries do the items on a per metre and those types of units, would you not?

Mr Aylen—We do not have an inherent problem with any of the units of measure as long as the customer sees, and it is easy and simple to administer.

Senator FIELDING—My concern is that it just seems to be the reluctance by yourselves and the other major players to jump on board with this. Frankly, it has been far too slow. Only obviously with the ACCC now forcing your hand—and I think you knew it was coming anyway—have you started to do something. What I am concerned about is that it seems to have got you to the table dragging and kicking and screaming. Now what I am worried about is you folks proposing a system that is in your interests and not in the interests of the customers, given that you have said that it does help them to compare. It seems surprising to me that it has taken you this long to get there. You folks have been around a long time and are pretty big players. You are putting this system in place, but I think it is for you and not for the customers. This is the reason why I will come to the next part about the per 100 grams and per 100 millilitres. Why would you not go for the per kilogram or the larger size when overseas countries do that?

Mr Aylen—At the end of the day you have to choose a size.

Senator FIELDING—Yes.

Mr Aylen—Is it per litre or is it per 100 millilitre? The NIP panel on the back of most food panels collates it back to 100 millilitre. So it is telling what the ingredients of that food are and the components are per a size of 100 millilitre. We chose 100 millilitre because it complied and fell in line with the NIP panel. Either way you will find some strange comparisons. I appreciate that, at 100 millilitre, a large litreage unit at a low price, of which there are a few items like that, may come in at 16 or 17c per 100 millilitre. But we 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. We wanted a simple way. 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.

Ms Samia—In some ways there could be some extra benefits for having 100 millilitres and 100 grams because, as we included in our submission, the nutritional information on the back is per 100 grams. So, if you are making comparisons, that could be an extra enhancement for customers to provide some further information when making those comparisons.

Senator FIELDING—The issue there is that, when you are comparing two products, the difference is greater if you do it by per kilogram, because the price difference is a lot greater. I think the example you have given us in your submission has an item there at 0.25c per 100 millilitre. It is very hard to compare that when you go up to the per kilogram. You can see a big difference between the products. The 100 millilitre argument and the 100 grams on the price are fixed on consumption, and it does make sense for that particular usage.

This is not tied to that particular usage; it is tied to the price of comparison. To compare products, I would argue, it seems a lot easier on the per kilogram and per litre basis, just from the sample that you have given us.

Mr Aylen—To me it really comes down to interpretation of the difference between 74c and 56c per 100 millilitre and the difference between \$7.40 and \$5.60 per kilogram. Does one person perceive that difference to be any greater than the other?

Senator FIELDING—I think the answer to that is yes, by a big way.

Mr Aylen—If you believe that, then I can understand that. But I am saying, mathematically, clearly, the percentages are identical. Sometimes it comes in relation to the price of a product. If you are buying Vegemite and you normally pay \$2.60, why should the comparison be in a \$15 to \$20 per kilogram comparison when your average price is only \$2.60 or \$3.50? I think you could argue very strongly either way. We just want it simple, because simplicity allows us to implement it, maintain it and maintain the accuracy much more easily.

Senator FIELDING—Have you done any trialling on customer perceptions? I know that basically you are constraining it to your current shelf space, but if you were to ask customers which one they would prefer, have you done any research on it at all?

Mr Aylen—No, we have not.

Senator FIELDING—Will you be doing any?

Mr Aylen—We had not planned on doing any at this point in time.

Senator EGGLESTON—I would just like to put a proposition to you. In another submission, a person representing a very large chain—and you can possibly work out who that might be—suggested that unit pricing might favour their house brands in that it is easier for them to sell and it is clearer to the public. Because more people come through their stores, it might in fact give them a competitive advantage, in effect, over smaller grocery and other general stores. Would you like to comment on that?

Mr Aylen—There is absolutely no doubt that, within our own supermarkets, our generic end product which we brand Home Brand is the cheapest price of any product in any category that you have. If you want to only purely look at price. Clearly there is a quality value equation, but if you look at price, Home Brand is the cheapest. So, within all our sections when the customer does their comparisons and they look at the price per 100 millilitre or 100 grams, Home Brand will be the cheapest. The challenge that comes for a customer, I suppose, is how much information they can absorb when they maybe walk into our opposition, whether it is Coles, whether it is an independent, whether it is Franklins, whether it is ALDI, who all compete very well in different market areas. Will the customer be remembering the price they paid for the product or the unit price? It is a lot more information for them. Generally generics will be seen to have the cheapest unit price because, by their nature, that is how we have set them within the marketplace. So whether within our own business we could move the customers to generics, I would suggest that we compete fairly strongly in generics across the marketplace. I would like to say my generics are cheaper than all my competitors, but clearly I conduct a hell of a lot of price checks and I know that, across many products, we are competing at all different avenues. Does that answer the question?

Senator EGGLESTON—That provides me with information, and I think that is really all you can do by way of an answer. Thank you.

Senator FURNER—I have several questions. First, the submissions, particularly from Choice magazine, Consumer Action Law Centre and Queensland Consumer Association, all purport savings of up to 47 per cent. Given the trial that you have in place currently, can you inform the committee, if at all, of the sorts of savings consumers are making on your trial?

Mr Aylen—There is no doubt in some categories on some items that there are significant savings between certain products. I think I was actually quoted on Friday, looking at some Weet-Bix that showed that the promotional price on the 1.2 kg value pack was in fact less than half the price of the 375 gram Weet-Bix in our stores last week. So there was probably about a 54 per cent saving at that particular time within our stores. Across many like items, you will find large savings. Again, Home Brand is a significantly, aggressively priced product within our stores. It is a price image product. If all customers were to move away from branded merchandise and only buy Home Brand or the base generic products, they would save significant dollars on their grocery shopping bill. The challenge is that that is based on price. You need to look at quality and brand equity. Why products such as Coca Cola survive in a marketplace is that, although I am sure most of our customers now understand that Home Brand is cheaper, they still buy the branded products because they wish

to buy those products, they do not wish to buy Home Brand or be seen with a Home Brand product. Certainly this information will give them the opportunity to say, 'It is actually that much different if I look at it in the same millage.' That may change some consumers' patterns. But if you were to say, 'I can save 47 per cent on my entire grocery bill every week', I would suggest that your trolley would be full of either promotional or Home Brand items. You probably have that choice now if you wanted to make the maximum saving. That would be recognised that that is where the major savings are.

Senator FURNER—We have received a submission with respect to Home Brand and generic products, and I would have liked to have asked them this question, but unfortunately the person who made the submission will not be present today, but what is your view on the statement that the introduction of unit pricing will have a higher proportion of these imported generic products affecting local farmers and manufacturers and who will be disadvantaged as a result of the move to compulsory pricing? Out of your Home Brand or generic product, are you able to state what percentage of those are imported product as opposed to local, domestic food manufacturing or food processing in Australia?

Mr Aylen—I do not have the actual figure, and especially considering the legalities around this meeting I do not wish to give you a figure off the top of my head.

Senator BUSHBY—Will you take it on notice?

Mr Aylen—I am very happy to take it on notice and it will be far less than is reported in any of the media papers. For example, we have a big generic business in the dairy industry. It has to come from Australia because there are significant rules around where you can actually purchase and what products you can bring into the Australian market. But yes, we do have some generic lines that come from overseas. When people are looking to make a statement, they will isolate it down to a small group of products and effectively try to get their point across. But we are very happy to give you that percentage; we can work that out.

Senator FURNER—I will just finish my question, because there were two parts to the question. What is your view on that statement that unit pricing will affect producers in this country, whether it be food processing plants or otherwise?

Mr Aylen—I find it difficult to make a statement on that. Believe it or not, we think our business is simple. The consumers actually tell us whether we are delivering the quality and the value to them that they want. They have a choice; if they are not happy with what we are delivering, they can easily find another supermarket within a short trading area in many areas and go and shop with them. The one thing is the generic products will have the cheapest price per gram or millilitre within our stores. That means there will be greater volume in the generic products. I do not know the margins the supplier side of the business is making on generics versus their branded merchandise, given that with generics they do not have to spend on marketing and they do not have to support the brands or do a lot of the other things that they do to support their branded merchandise. I am probably not helping you a lot there.

Ms Samia—We have some very strong relationships with local suppliers through both our branded products and our generic and Home Brands. We do not expect that to change. The reality, and one of the advantages of unit pricing, is that it delivers to the customer a little bit more power and information. At the moment we see customers who mix up their basket with both generic, Home Brands, and also with branded products. They are very, very smart, and they are savvy, and we do not expect that to change. It might be that they have a little bit more information to be able to do that even better. There are some products that people will choose and will move to that, but some people are very committed to a particular branded product. We do not really expect that to change significantly.

Mr Aylen—But whether it will affect the farmers, I do not really know, to be honest.

Senator FURNER—I did not expect you to give me a straight out answer. I just wanted your view on that because it does concern me that, if those sorts of statements are being made, it will affect an already fragile manufacturing base we have in this country.

CHAIR—Mr Aylen, have you noticed any difference in consumer behaviour between the store in which you are trialling unit pricing and your other stores?

Mr Aylen—In fairness, we have not. It was interesting that we did ask a couple of customers. 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. Our Baulkham Hills store is trading extremely well.

CHAIR—But no difference from previously?

Mr Aylen—There are other reasons, unfortunately. It has come out of a refurbishment and we spent \$5 million or \$6 million on refurbishing the store, so we would like to think we are getting a return for our expenditure there. There has not been any anecdotal feedback. I spoke with the management at Baulkham Hills on Friday and they are not being rushed off their feet with people telling them how wonderful it is, or any negative or positive information, to be honest.

Ms Samia—If there were to be an introduction nationally, which obviously is something we would like to see, we would hope that the government would also back that with a promotional campaign that would encourage people to use it and understand it, and we imagine that we would probably get more questions on it in the future.

Mr Aylen—Clearly we are in favour of this. We believe an element of our customers will use. Not all customers will use it, but there will be customers who do use it. I am old enough to remember that we had this in Safeway stores in Victoria way back in 1979 or 1980. Again we are going the other way, because you could quickly ask, ‘Why did you not keep it?’ Safeway was purchased by the Woolworths organisation in 1985 and we had to take the Woolworths organisation’s core systems which did not facilitate for unit pricing. I was in Victoria, and it is fair to say we actually had very few customer concerns, but we did have some. Certainly it is too long ago to tell you exactly how many we had. But I remember it well; I was running pricing and we had some but not a lot. However, there will be customers who will use; there will be customers who will like the information, and that is why we are more than happy to put the system in because we can assist those customers, hopefully, in making better decisions.

Senator FIELDING—Some of those customers are walking around with calculators trying to work it out themselves.

Mr Aylen—There are customers now; I have seen them with their calculators adding up their grocery bills, and it is probably fair to say that there are more pressures on many of our customers today than there may have been in the past. There are plenty of challenges in the economy at the moment for all of us.

Senator CAMERON—Mr Aylen, two words get me interested: one is flexibility and the other is self-regulation. You have used flexibility on a number of occasions. I just think this whole question of labelling is a very interesting area. There are examples of your labelling in your submission.

Mr Aylen—In the submission I believe we had the example of a small font size.

Senator CAMERON—Can I just say that I find supermarket labelling very confusing and not much of a help. You cannot determine where a product is made from the labelling and that has been an ongoing issue. So I think we will be back again, even after this, to talk about some of these issues. What is put to me continually is that the bar codes are probably a technological step forward for the company in terms in terms of efficiency, but a step backwards for consumer understanding. I am told that years ago, when you bought new product, you could actually compare it with the old product because the price was on the product, and you could see whether the product price had gone up or down or had stayed the same. What I am told is you cannot do that any more, so there is no sort of tracking for the consumer. That information is not there. Unit pricing is one small step I think towards empowering the consumer. What do you say about Woolworths taking a further initiative and putting some kind of sophisticated tracking system on each product so that when you go into the supermarket every week you can check what it was last week, you can check what it is now, and this is the next step from the unit pricing approach to empower your customers that you say are so discerning and for whom you care so much?

Mr Aylen—I am happy to take it on notice. We have 25,000 items in our store. There is all sorts of information we could provide but it all comes with a cost. The more information you provide to me, the more complex and confused the customer might be in actually trying to decipher and take all that information in while they are just walking around a supermarket.

CHAIR—Thank you to Woolworths.

[9:37]

ASHTON, Mr Neil, Policy Officer, Consumer Action Law Centre

RICH, Ms Nicole, Director, Policy and Campaigns, Consumer Action Law Centre

CHAIR—Welcome back, Ms Rich. Do you have an opening statement?

Mr Ashton—Yes, thank you, senators. The Consumer Action Law Centre strongly supports unit pricing. Australia is a country that has an agricultural surplus yet relatively very high grocery prices compared with other OECD countries. 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. We strongly believe that the result of that will be a once-off reduction in grocery prices that will be maintained. There are some problems that we see with a unit pricing system or some ways in which the system could be effective or less so. That focuses around the actual physical display itself, the size of the font and the location of the unit price label. 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. We support a national mandatory and uniform system together with a public education campaign to educate shoppers about the system. Finally, we believe that the studies overwhelmingly show that there will be a significant benefit to consumers in the form of lower shopping bills if a unit pricing system is properly and effectively implemented.

Senator FIELDING—Thank you for your submission. I am still staggered to think it has taken us this long to get to a place in Australia where we are saying we are going to have a system, considering the benefits that consumers will receive. It puts the power in their hands. I am particularly interested in the displaying of unit pricing. We have in front of us a sample of unit pricing from Woolworths. I do not know whether you have seen their sample at all. It has a quarter of the space for the bar code, which obviously is going to help the consumer a lot. If you look at the unit price here, it is so small that I just do not think it will have any great effect from that point of view. How do we resolve this? We have Woolworths coming in—and I can use their name because they have just been here; I am not having a go at them because I am sure the other ones are probably very similar—saying that is basically what we will do, and that is what we will lobby for. Frankly they have come dragged to the table kicking and screaming even to get unit pricing. Now we are at the table, we are asking how we will implement it. Is the size of the price per unit important, from your point of view? Please just go through the research that you have found?

Ms Rich—The short answer is yes, the size is very important. It is one of the factors that will make the difference between an effective unit pricing scheme and a non-effective unit pricing scheme. If you accept the rationale for introducing a unit pricing scheme, which we certainly believe in, which is that it will be effective in helping consumers to make proper choices or, at least, informed choices about their shopping and which prices represent better value for money—it is not necessarily the only thing consumers take into account but obviously it is important—then you want the system to be effective in allowing consumers to do that. 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. In our submission we are supporting, essentially, a standard that would say it should be a 10 millimetre font size or 50 per cent of the sale price marking, whichever is greater. There are good reasons for that, because otherwise it is too hard for consumers to use the information.

Senator FIELDING—Have you done any research just generally on the labelling on the shelves in supermarkets? It just seems to me it is more for the supermarket than it is for the customer. Have you done any research? This morning when I looked at it again, it just seems that a lot of the information is not for the customer, but it is for the supermarket.

Ms Rich—We have not done any research on supermarket labelling generally; it has been more on the issue of unit pricing. I do not know if we can comment about the labelling that you are currently seeing. Suffice to say that obviously the clear indication of the total selling price is very important to the consumer. In terms of

unit pricing, there is no doubt from overseas experience that, if you do not allow for the unit price marking to be a significant size and displayed prominently—that is, together with the sale price—then it will not be as effective in helping consumers to make informed choices about how they use that information.

Mr Ashton—I suppose the only other thing is apparently there is no legal requirement, certainly in Victoria, to put any shelf label size or even put a price on shelves.

Senator FIELDING—With respect to the bill and the proposed plan for unit pricing, is there a need for a mandatory, nationally consistent scheme rather than maybe a voluntary type system? What are your thoughts on that?

Ms Rich—Yes. Again we strongly believe that the system needs to be uniform, national and mandatory. There are good reasons for that. You can take as a very good comparison the situation in the US versus the situation in the UK or the EU more generally. In the EU it is mandatory to have unit pricing and each of the member states has legislation. In the US, in some jurisdictions it is mandatory, in other jurisdictions it is common but it is voluntary.

I can speak from personal experience as I have just spent a year in California where it is not mandatory but it is voluntary. The standards vary greatly in terms of how the unit pricing was displayed and used. Sometimes even different units were used for the same product across different brands. You do get varying quality of system if it is not made mandatory. There is a lot of research and information just generally about regulation. If you want all of an industry to meet a certain standard, generally the best way to do that is to make the standard mandatory. If you make it voluntary, then some players come along and do it well and others do not. In some ways you punish the players who are the best players in the industry because they implement decent standards and the recalcitrant players do not, and there is nothing you can do about it. I guess we would also say there is no reason why consumers shopping at one supermarket should have it any better off than anyone else. This system potentially will bring benefits to all consumers in Australia. Why would you deny those benefits to some people over others? If it is a national, uniform and mandatory system you can ensure that all consumers will get the benefit of the system.

Senator FIELDING—One final question and we will pass it around, as I know the time is tight here. The government says it will consult widely to determine the unit pricing scheme. Obviously Family First has put forward a plan, and we are happy for the government to adopt that from that perspective. But obviously from the submissions here, already supermarkets are posturing to limit its scope a bit. For example, do you see it being supplied as per metre or per length and those sorts of things as being important across the board?

Ms Rich—Yes, it is. There are various things I think a lot of the retailers are arguing about. They are saying, ‘Yes, we will adopt the scheme, but we want it to be voluntary or we want it to have this and that standard.’ But, we do not agree with a lot of things. We do not agree that the unit sizes should be smaller. As a general rule, we would say that the units that should be adopted are as in the bill—per kilogram, per litre and those kinds of units. 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.

Senator FIELDING—So the key to it, through this process, is not to make it supermarket friendly but to make it consumer friendly? I think that is the key to unit pricing?

Ms Rich—Certainly the implementation of the scheme will have one-off costs for the retailer. We are not unsympathetic to the fact that it will cost the retailers something to implement this scheme. But yes, if you want it to be effective, then you need to do it in a particular way. Otherwise, in some ways, why would you do it? If it is just a scheme that will suit the retailers, why do it? The point of implementing a unit pricing scheme is because it will bring benefits, not just to individual consumers or households doing their shopping who we think will be able to save money, but generally economy wide. This sort of a measure is a classic information measure that drives competition from the demand side. It is a plain vanilla competitive initiative that you can introduce. But to do that, it has to be effective, so yes, it does have to be consumer friendly, taking into account legitimate concerns about one-off costs.

Senator BUSHBY—This bill has a provision that exempts certain smaller stores, single ownership under a certain square metreage. You just mentioned that quite clearly there are one-off costs in delivering this. It seems to me that, in the interests of promoting the smaller end of the market, it is an advisable thing to exempt some smaller stores from the provisions of the bill. Would you agree with that?

Mr Ashton—Yes. The short answer is there do need to be exemptions for stores of a certain size. Very small stores perhaps in country areas, just to use an extreme example, do not have even automated labelling systems and that sort of thing. We are really concerned to ensure that supermarkets and other sorts of larger stores that sell groceries are subject to a mandatory national unit pricing system. I guess what size to exempt will be based partly on the floor size of the retailer.

Senator BUSHBY—Which can act as a disincentive for investment by smaller stores to get bigger?

Mr Ashton—I do not really agree with that. I think if you want to run a supermarket, whether or not you have to unit price will not make you decide to run a supermarket or not. But certainly 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.

Senator BUSHBY—Do you see advantages in unit pricing arising from consumers being able to compare products within stores or across stores or across businesses or all of the above?

Ms Rich—Definitely the primary impact is within store when you are shopping. That is when the information should be available. You are going around and picking items off the shelf. You can see immediately what the unit price is, not only between brands but between package sizes. A lot of the savings are just simply consumers understanding that actually buying that 2-litre bottle of milk is not cheaper than buying two 1-litre bottles of milk, for example. It is primarily a measure to help consumers, at the time they are doing the shopping, which is why it is such a good information measure.

Senator BUSHBY—That is where I think we will see the major benefits as well. I am interested in how that would play out across stores. I am concerned on the impact on the smaller end of the market and what impact that may have in competition in the longer run and any impact on consumers. We have had issues raised such as toilet paper and how do you compare apples with apples, and also the issue that Senator Fielding has been pursuing about the actual measures. Saffron was used as an example of one that would be \$134,000 a kilogram. Would there be advantages in introducing this to have an industry code? Surely consistency is the main thing that we are looking for so that you can compare apples with apples, and developing a code, if you are talking about saffron or herbs or other items that are very light, where there is an agreement that in all stores across Australia they will unit price that in a measure that is appropriate to the actual good that we are talking about? The same applies with toilet paper where you do have issues with how many ply it is, how big the sheets are and how long it is. How do you go about that? Do you think that an industry code that went through the trouble of addressing all of this and had a mandatory way, I think, of addressing each product so that, if you unit price Woolworths in Deloraine in Tasmania or Karratha in WA, you know that it will be done in accordance with that standard, where it is not necessarily a per kilogram or per litre, but it is appropriate to the product?

Ms Rich—First I would probably say an industry code as long as it is a mandatory code, for example, under the Trade Practices Act. I do not think we could support a voluntary industry code on these things for the reasons that we have already outlined. We were having a chat about this because 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. If you did it per count, consumers still know the difference between the standard toilet paper you get in a public convenience versus what you might want to buy when the guests are coming around. I think people can make a decision understanding that this pack is more expensive per count because it is better quality. Nevertheless, people might be surprised to learn that toilet paper, for example, that is marketed as being of the same quality as another one is actually cheaper. The issue of per count is not necessarily as easy as doing it per litre or per kilogram, but I think it is still doable.

Senator BUSHBY—When you say per count, are you talking about per roll?

Ms Rich—It could be per roll but probably more logically it would be per sheet, say per 100 sheets or something like that. Tissues, paper products and things like that particularly fall under that kind of category. In terms of saffron, we were having a chat about that as well. There will be cases where it might seem like you

get this huge unit price because you are pricing it per kilogram. If necessary, potentially you could provide for exemptions. Certainly the UK Price Marking Order has a table in it which, for certain things, is priced per a different number of grams to other things because of that. That said, I do not know if we would want to go too far down the path of doing that. I think it is preferable to keep it as consistent as possible. We would probably also point out that consumers already have little bit of experience with unit pricing for fresh meat and fresh cheeses, for example, that are packed in random weights. They already have to be priced per unit price. We will all know that if you go and buy a piece of meat, and I am quite fond of that Parmesan cheese and it gets packed randomly, and the price of that per kilogram is quite high, and you do look at it and go, 'Wow, that is really expensive.' But, the price of the actual piece that you are buying is a lot lower than that. People do have experience of that and I think they understand that the price per kilogram can be expensive but, of course, you are not buying anything near a kilogram of Parmesan cheese, beef or saffron. So people can understand the price they are going to pay and are able to work through those issues.

Senator CAMERON—I would like to see the price of a kilo of some of these beauty products. I think you would think you were in Zimbabwe when you looked at the price. I am interested in this issue of flexibility and the cost that the companies are claiming this puts on them. I have not had a look at Woolworths' profits recently, but I do not think a couple of million dollars to introduce such an important consumer benefit would be a burden on them. Would you have a view on that?

Mr Ashton—I think Mr Luscombe from Woolworths appeared before the ACCC on 19 May 2008. He said—I am not quoting him directly and I suppose the record of his testimony might need to be viewed—basically if Woolworths had 12 months, they could do it cost free. If we are insisting on a minimum size in the label for the unit price to be fair to Woolworths, they may have to change things, and where they have to change things in their IT systems or whatever, there will be some cost. Only they can estimate their cost but, based on the fact that initially Woolworths was saying it would be cost free if they were given 12 months, I do not think the cost would be very great. I think it would be probably very low.

Senator CAMERON—Have you seen the sample unit pricing labels?

Mr Ashton—The Woolworths ones, yes.

Senator CAMERON—There seems to me that there is a lot of potential to increase the font size if you simply move the price up, and you would have a significant chance to increase the unit price. Are you aware of what font size that is?

Mr Ashton—I spoke to Woolworths about it and to Iain Jarratt of the Queensland Consumers Association. Woolworths told me it was 2.5 millimetres. It is tiny and it is unreadable, I would say that much.

Senator FIELDING—You cannot see it.

Senator CAMERON—That really defeats the purpose of the ACCC's position and giving consumers a clear idea of the unit price, would that be right?

Mr Ashton—Perhaps Woolworths is putting in a first trial and, to be fair to Woolworths, it was probably something new for them and perhaps in all good faith they were doing their best. But, if that were to be the unit pricing system that we would have nationally and a mandatory system and supermarkets could do that, it would, in my view, utterly hamstring the system. I think the effectiveness of the system would be reduced many fold and the benefits of the reduced shopping bills would be a fraction of the benefits than if it were big.

Ms Rich—Obviously we do not have a unit pricing system in Australia yet, so it is hard to quantify the benefits. In the United Kingdom, and I just dug this up the other day, they have had unit pricing in the EU for a while now and they put in a new Price Marking Order in the UK in 2004. As it so happens, the UK was going through an exercise of assessing different regulation. They are doing pilot testing in how you assess the benefits of regulation and they happened to pick the Price Marking Order as one of the things they would test. They did an analysis of the benefits of unit pricing in particular. Obviously it is not directly comparable, as this is the UK, but it is a similar grocery system. It was based, to some degree, on estimates, but it did indicate a positive net impact for their economy of between £38 million and £122 million. Even if you took the lower range of that, it is still very significant benefits for the economy of that order.

CHAIR—Is that just for the UK and not across the European Union?

Ms Rich—That is not across the EU; that is just for the UK. When you started, senator, you asked about the costs versus the benefits, and I totally agree with my colleague. In addition. I would point out that the costs of

implementation are one-off and the benefits will be ongoing benefits. We will see those in the medium to longer term. For a one-off start-up cost we will see some significant benefits in the future.

Senator CAMERON—In its verbal submission, Woolworths indicated that, if consumers did not like what they did, it was easy to find another supermarket. But that is not really to say that there is real competition out there, is it, given that both Woolworths and Coles have about 80 per cent of the market?

Ms Rich—I agree.

Senator CAMERON—In terms of a consumer, it is not a real option is it? It is a flippant approach to say, 'Just go and find somewhere else.'

Ms Rich—Yes. I would say first that we have a very concentrated grocery retail market in Australia. In some ways it is a flippant comment because there is one primary competitor that consumers could switch to. There are other options and to some extent that is correct, but I am not sure how fair that is. Secondly, we would point out that studies show the more exposure consumers have to unit pricing the more they understand it and understand its benefits and use it. If shoppers at Woolworths never get anything better than this, they will not necessarily know the difference and they will not necessarily know that there is a better system out there that they could use at other supermarkets. I guess the third thing we would say to this is that in some ways the arguments are not really matched. We were saying before that the primary benefit of this is the in store shopping experience. You are going around shopping, you get the information at the same time that you are shopping, and that is why it such a useful measure. It drives competition between brands and package sizes, and helps consumers make informed decisions at the time that they are shopping. To argue that consumers can go somewhere else is missing the point. The reason this is such a positive measure is that it helps consumers to drive competition at the time they are shopping.

CHAIR—Do you have any view as to whether there would be any difference between the so-called major retailers such as Coles and Woolworths and the other retailers with the implementation of this system? We know that ALDI, for example, already have unit pricing. Can you first of all say if you think there will be any difference in the impact on those retailers, and secondly, have you had a look at ALDI's unit pricing and the effect of that?

Mr Ashton—Citigroup Global Markets did a study on the impact of unit pricing. They were concerned more with the revenue impact, and it will have a revenue impact on every supermarket, and that is because shoppers are saving on their shopping bills and there is less money going to the supermarkets. I can give you a copy of that report.

CHAIR—Yes, thank you.

Mr Ashton—As far as the implementation costs, which is a separate thing, loss of revenue means the system is working. Implementation costs are a different category. I do think that if a supermarket has an automated labelling system, which virtually every supermarket in Australia has, wherever it is—and I am sure there are exceptions, but overwhelmingly it is the case that supermarkets have automated labelling systems—there is no real reason, in my view, that they cannot unit price. Whether there will be a difference in implementation costs for smaller supermarkets or for supermarkets that are not as far down the road, I do not know. ALDI might find it easier because it is somewhat down the road already. There probably will be some slight differences in implementation costs per store et cetera. But 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.

CHAIR—So you are not concerned that some of the smaller supermarkets might find that they are even further behind in competing with Coles, Woolworths and ALDI?

Ms Rich—We have talked about necessary exemptions and we have seen that in the EU regimes as well. So, to the extent that it is perhaps inappropriate for some smaller stores to be subject to this regime, at least at this time, they will hopefully not be subjected to it. For the bigger supermarkets, yes, there might be some differences in implementation costs. But I guess you need to consider whether it is appropriate for some consumers, even though they are shopping at stores of a significant size, should not also have the benefits of this. It does depend on store size ultimately. But if they are big enough to be running a supermarket, then essentially they are probably big enough to be unit pricing, and I do not see why their customers should not also be able to make these savings. Again, we come back to saying that this is a competition enhancing measure. So, if you accept that supermarkets like other businesses should be subject to competitive forces, it is

good for consumers, it is good for the economy and so on, then that means there is less reason to provide those sorts of exemptions for big businesses who we want to be subjected to competition and who we want to innovate and provide better products and services for their consumers. They will not be able to do that if consumers are unable to tell them which are actually the best products at the best prices.

CHAIR—How do you see this being policed? We have heard evidence that, because it is a manual entry system, even though it might be an automatic calculation, there may be problems, so how would the policing work in your view?

Ms Rich—As with a lot of these sorts of re-entry systems, generally we support a mix of different enforcement mechanisms and remedies to be available for this kind of regulation, as we do for a lot of competition and consumer protection regulation. In some ways it depends. This bill proposes to situate enforcement functions with the National Measurement Institute. Other potentials are with the ACCC and so on. In terms of this bill, it is with that measurement. We would suggest that there are already inspectors, whether it is at the National Measurement Institute or the ACCC, that have experience with inspection, and they can certainly do this sort of inspection as part of it. In terms of enforcement mechanisms and remedies, there needs to be a range and it needs to be flexible. You do not want it to only be that you can take criminal prosecutions. That does not work with any regulatory regime, let alone with unit pricing, so you need to have a range of measures. You do need to have that capability there for the most egregious breaches of law, but you need a more flexible mix. In the UK, for example, you can take a criminal case, and fines are possible. You can apply for injunctions to stop conduct which is very important because essentially the conduct hurts consumers. So, if you can get an injunction, you can actually force change which is the most important thing. Again, for the most egregious examples, perhaps there should be criminal penalties. We also support civil penalties, just generally. There is the possibility for civil penalties in, for example, the Trade Practices Act, but only for certain offences. It might be appropriate to allow for that. Other measures are also appropriate. Infringement notices are a very good measure; they are essentially a fine for where breaches are perhaps inadvertent or have an impact but were clearly not intended and that kind of thing. You need to correct it. It might be bad enough that there should be some punishment but it is not bad enough that it is appropriate to run some huge court case, so an infringement notice regime is also appropriate.

Senator FURNER—You referred to the exemptions in the EU with respect to smaller stores. From your knowledge what size would those stores be?

Ms Rich—I think it is 280 square metres floor size.

Senator FIELDING—I have just one further question. If the government wanted to fast track the bill, because the longer it takes to come up with a standard, the longer it will be before we get the supermarkets doing something, does this bill have a reasonable basis? You have read the bill, and you have seen the European material; is it some sort of sound basis to work off if the government wanted to?

Ms Rich—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.

CHAIR—Thank you for coming in this morning and giving evidence.

Proceedings suspended from 10.11 am to 10.22 am

McDONALD, Mr John Gordon, Marketing and Commercial Manager, Metcash Retail Technology, Metcash Trading

CHAIR—Welcome, Mr John McDonald from Metcash. Mr McDonald, do you wish to make an opening statement?

Mr McDonald—Yes, thank you. I represent Metcash and our IGA boards and all the retailers that we service throughout the industry. I have provided you with a pack that hopefully includes a number of supporting bits and pieces of documentation as well as evidence. The executive summary I think outlines fairly clearly Metcash's position, if you like, and some of the issues that we face with the unit pricing, as well as a more detailed presentation including costing and whatnot.

I might just outline the key points which are different or which differentiate Metcash from potentially our supermarket chain competitors. At Metcash we have a number of different trading divisions, and the two key divisions which will be possibly impacted by unit pricing include our IGA distribution arm and also Campbell's Cash and Carry. IGA distribution services 2,700 retailers nationally, including a number of brands from IGA obviously, super IGA supermarkets, FoodWorks, Supabarn and a number of others. Campbell's Cash and Carry has 80,000 businesses, again dependent on the type or boundaries, if you like, of unit pricing that could well engage or embrace some of those businesses as well.

There are three key differences between Metcash's business and the supermarket chain competitors or, if you like, our customers who we represent as well. First, our supermarket owners are completely independent of Metcash and in many cases operate completely outside franchise agreements and the like. They operate completely independently. We also service large businesses as well as small businesses. So we have full blown supermarkets that do compete with our major chain competitors. We also have medium size and small size, right down through to convenience stores. I guess that differentiates some of our actual stores from major chain competitors. Our IT systems are also as disparate as our customers. We have over 30 different software packages operating in our retail environments. That means that, with any integration of unit pricing or calculation, we have a lot of third party software vendors to work through to ensure that we can make the capability of unit pricing happen with those guys.

Probably one of the other major differences is that, in our environment, we send all our retailers a data file which includes a lot of their pricing and, in turn, that is the type of file that we would send down unit pricing information. Metcash sell customers anywhere between probably 50 and 75 per cent of their goods; the remainder they buy directly. When we sell them those goods, we can send them the data that is relevant to those goods. When they purchase them directly, they need to manually enter all that information and key enter any data related to a product that they purchase directly, so there is a fairly manual impost. For example, we host down 25,000 items in any store, and in a large store they may have up to about 9,000 items that they manually key. That is something that is done store by store, if you like.

I guess the last difference that we have in our footprint is that we have electronic shelf labels that I have highlighted here. A number of these are operating in many supermarkets. We actually have a fairly large investment in that technology, and depending on obviously the requirements of unit pricing, whether or not these devices will actually satisfy that requirement.

Senator FIELDING—I noticed that in Metcash's submission to the ACCC's grocery inquiry you say the benefits of unit pricing are limited because, 'Almost all changes by consumers using unit pricing resulted from a shift to larger sizes but not to different brands.' Is it not true that customers can make significant savings within brands? For example, Family First did a bit of a check on some of the supermarkets and has found that a 25-bag box of Lipton tea was 50 per cent more per bag than a 200-bag box. In other words, the larger one was actually more expensive per unit. Can you just go through what you are finding?

Mr McDonald—I am not in a position to answer opinion on the likely increase or decrease in pricing or whatnot because of unit pricing. What I can say is that we can and will have an ability, working through our software vendors and our own IT systems, to be able to provide the capability to deliver that unit pricing over time, but I cannot speculate or comment on the likely increases or decreases in pricing.

Senator FIELDING—No, but the submission from Metcash to the inquiry stated, 'Almost all changes resulted from a shift to larger sizes but not to different brands.' That is what you are saying, but I do not think that is totally true, is it?

Mr McDonald—To follow up my previous comment, I am not in a position to answer questions on increases or decreases, especially in regard to the ACCC pricing submission. As to the information which I presented here today, which includes the PowerPoint presentation and executive summary, I can certainly walk through those sorts of issues but not comment on those increases or decreases in possible pricing.

Senator FIELDING—Right. I obviously have not been able to read your submission, the stuff that you presented here, because there was no submission from Metcash to this inquiry?

CHAIR—It has just been handed out.

Senator FIELDING—It has just been handed to us so I have not been able to go through it. Obviously the ACCC recommended a mandatory national consistent unit pricing regime. I did not hear your opening statement. Are you supportive of that position?

Mr McDonald—We are definitely supportive of having absolutely a national standard for unit pricing. The types of things that we would like to see in any unit pricing system certainly would be a national standard so there are no discrepancies between states. We would like to see store exclusion sizes, so that stores that are not competing in major chain environments or against major chain competitors would be excluded from mandatory legislation. Over time we would also like to have the unit pricing rolled out so as to reduce the cost impost on our retailers. Also, we would like to ensure that we have a working group, potentially with chains or with government, to ensure that we actually do meet the mandatory requirements. We are certainly not against introducing unit pricing as such; it is more a case of doing it over a reasonable time frame so that our cost impost is not extraordinary. I forwarded our written submission yesterday. To highlight some of our major concerns, I refer you to a table that includes costs associated with unit pricing. If I could just draw your attention to the penultimate page of the submission, this is where some of our key concerns lie.

If it was something where we could actually introduce it over a couple of years in the major stores that would compete against the supermarket chains, which I believe is where this initiative is targeted, we could potentially introduce it with a fairly limited cost. If we need to introduce that in a shorter time frame, it could result in re-ticketing of supermarkets. I have here a number of tickets that are the current labels that we have, and I have included these in everybody's packs. Also dummied up, if you like, the unit pricing down the bottom there shows the capability today of a couple of our software vendors. Depending on what font size and whatnot was required, we may be forced to go to a larger size of stripping, and I have included two examples of these. That also incurs a fairly large cost that I have indicated in the cost comparison chart here. Our position is that we are certainly not against having unit pricing introduced, and we are capable of doing so; it is more a case of trying to work with our current capability that we have in store using these smaller labels rather than changing the size of those labels where we start to have to change stripping and start to incur fairly large costs.

Additionally to that, I will hold up the electronic shelf labels which I have also provided to everybody. These labels are used extensively in our larger stores, and they are also used internationally. For the sake of this exercise, they have dummied up the unit pricing information up top. That is the same unit pricing information that we would be capable of preparing. These are two different size labels, and both have a fairly large footprint in our market today. I think I have mentioned the cost in there to replace some of those things as well.

Senator BUSHBY—In making your submission to the ACCC inquiry that Metcash estimates the cost of implementing unit pricing to be \$9.9 million, and I am not sure how that relates to the cost comparison you have here, but regardless of that, there are substantial costs depending on how it is implemented and the requirements that are placed upon you. Would Metcash pick that up or, given the nature of your retailers that they are independent family owned businesses, would they be picked up at that end or would you be looking to provide some subsidy?

Mr McDonald—The \$9.9 million is a combination of two numbers in here. First, the IT systems cost is \$1.2 million, along with the shelf-edge label cost replacement. That was assuming two things: that we make the changes in a reasonably short timeframe to our major IT systems, our major eight, which represent a fairly large footprint, and then we would replace these tickets through all our stores, which adds up to our \$9.9 or \$10 million, so that is the component. I guess we have not gone through this scenario before where we have had to legislate and change a number of things in our retail environment. The closest we possibly had was GST where we worked closely with a lot of our software vendors and over time implemented those changes, so we provided a lot of assistance. For all Metcash customers, we actually provide the capability to usually achieve these things rather than actually fund the dollars. Again, I am probably not in a position to say exactly

what we would or would not be able to fund, given that we do not have constraints of what exactly those costs might be.

Senator BUSHBY—There is a risk that the cost of it may have to be borne by the individual business owners at the store level?

Mr McDonald—Absolutely. We are certainly not in a position to replace retailers' labels and whatnot, and in normal circumstances any costs that would be incurred at retail level would be incurred by the independent retailer, which is obviously independently owned and operated. They tend to make changes in their environments, whether it be with systems or internal costs that they would incur, and we allow them to completely do that independently of Metcash. We do not control them.

Senator BUSHBY—If they had to wear those costs, would it be fair to say that they would have to pass that onto consumers which would make their prices higher and affect their competitiveness in a competitive environment?

Mr McDonald—I cannot comment that they would pass those costs on as increases, but certainly additional costs would be borne by those retailers in that environment.

Senator BUSHBY—You raised the issue of exemptions for smaller businesses. This bill contains a couple. Basically, they need to be individually owned stores and no greater than 200 square metres in floor area. Do you think that is appropriate, and if not, what other factors would you like to see? Do you think it should be different for regional areas? Where would you like to see the exemption?

Mr McDonald—We would like to see the exemption at 1,200 square metres. 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. Part of the criteria for somebody to become a super IGA is that they need to be of reasonable size and, in turn, the 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, and I think to use the terminology from the ACCC report, they are 'major supermarket chains', so they do not compete directly against major supermarket chains in that competitive environment. Rather, they have other factors which they would say is their competitive advantage, such as service, convenience and other factors. I guess we would like to see a change in not so much a regional versus metro but rather the actual size of the store, because that then represents somebody competing against the major chains versus those who are not competing against the major chains. Again, 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. Just to add a little bit more to that, over time the technology and whatnot that would flow through from rolling out unit pricing in the major stores would slowly flow through to those smaller stores anyway, and over time that would slowly happen. I guess the exclusion from mandatory legislation is something that we would like for those smaller stores.

Senator BUSHBY—Obviously the purpose of the legislation is to deliver benefits to consumers, and whether they are in a large store or a small store, being able to compare would be useful to consumers. I think that last comment you made was quite useful, that that could be delivered progressively to a smaller size supermarket down to a certain floor size.

Mr McDonald—There are two reasons: as a general rule they have a lot fewer SKUs, stock keeping units, in smaller stores. You have many fewer products in those stores so you do not have the differentiation in products that you would want to compare unit pricing on. It is a completely different scenario in terms of their product mix and what they are trying to achieve. You may go into one of our IGA Express stores and, for example, we might only have one bag of sugar, which is fairly pointless to compare that against anything else. The reason for a customer shopping in those stores is usually different from shopping in a first tier or a main shop supermarket, which is for your primary shop.

Senator BUSHBY—That is a good point; thank you.

CHAIR—Could you just take me through these labels again? The electronic label that you printed out has a very small size barcode. The current labels have a much larger barcode size. Is that a difference in technology that enables that, or would all supermarkets be able to go to that much smaller barcode size?

Mr McDonald—No. We have two types of barcodes in supermarkets, and sometimes we have what we call the APN barcode or the GTN barcode, and the second one is the one represented here which is the Metcash order code. Generally, stores will use the Metcash order code to order. What we have in these examples here

are just dummied up shelf labels to highlight what we can do with unit pricing in the electronic shelf label environment. These do not represent exactly as they would appear but rather I have tried to dummy up what we could do with unit pricing on the electronic shelf labels that operate in our environment today. The barcode would not be representative of that.

CHAIR—So, the paper bit would actually look different?

Mr McDonald—The format of the paper would change to represent the information we need to run the supermarket, so ordering codes and bits and pieces. Essentially we changed it to include the unit pricing here, but this would have to be modified. That modification does not occur with the owner of this; it actually occurs with the 30-odd software vendors that we need to use for the insert.

CHAIR—That electronic part plus the paper bit would be required?

Mr McDonald—Correct.

CHAIR—The smaller stores presumably would be moving progressively to the electronic one?

Mr McDonald—No. We have not had many small stores moving to the electronic shelf-edge labels; rather, large supermarkets are the stores that have so far gone down the path of shelf-edge labels. I cannot quote off the top of my head what the smallest site might be, but I think we will find they are just about all in our first tier environment where we do compete against the chains.

CHAIR—If we went to the unit labelling systems, the smaller stores would continue to use that kind of label but would have smaller unit pricing?

Mr McDonald—No. I mentioned that we had 30 software houses that we need to work with to make something happen. All software houses have the ability to possibly change and make it look like either of these two. Depending on legislation, we could work with them to change their label layouts to include either of those two. 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.

CHAIR—Supermarkets are clearly reluctant to change that?

Mr McDonald—Yes, because we currently have these in our stores, so it would require literally changing of shelf stripping, changing of the size of the shelf labels as well as potentially re-laying stores so that you can fit the same number of products in. Just as a brief example, if you had that sort of shelf label where you used to have this one, you have shelves of about that thickness, so you put the two in there. If you had sauce bottles or whatever else and you cannot pull them out, you need to change all the shelf heights. So, that re-lay comes at a fairly significant cost throughout a whole store. We are not just talking about one store; we have 600 to 700 fairly major supermarkets as well as another 2,000-odd smaller stores.

CHAIR—Obviously whenever you go through the checkout the operator scans that barcode. Is there any technical reason why the label needs to be that size as opposed to that size?

Mr McDonald—No. That is not the actual barcode that is scanned. These are our order codes, but again it is a similar looking barcode, so it is the GTN barcode that is scanned at the supermarket scales. The reason for the two sizes has traditionally been that the actual shelving in supermarkets is about 20 millilitres wide, so this stripping then fits on fairly flush with those shelves. Historically it has represented everything that we have ever required on a shelf label, from ordering capability to product information and obviously, most importantly, price. I guess we have tried to format that shelf-edge label to include what we would see as reasonable size font for the unit pricing information so that we do not incur that cost.

CHAIR—What I am trying to get at—and Senator Cameron referred to this earlier—a lot of the label is taken up with what the supermarket needs. Is there any reason why that could not be made quite a bit smaller?

Mr McDonald—There are ways that we could possibly look at formatting various parts of that information. It is something on which we could work with our software houses. I guess there has not been a major requirement to reshuffle a label that has been in existence for a long period of time. It has served the purpose of both store and customer for a long period of time, and we have not really needed to work on that. I can just highlight that the unit price that we have indicated on these two labels is something that we see has been put in this environment and we think that that is a reasonable size to actually include on the labels so we do not incur those costs.

Senator FURNER—You did indicate that the exemption should be lifted to 1,200 square metres. I am familiar with IGA stores because I shop at them, but there are very few to my knowledge that would be within the proposed exemption of 200 square metres. If we were to consider your suggestion, would that accommodate most of those IGA stores to be around the 1,200 square metres?

Mr McDonald—Focusing on our brand, occasionally there is a little confusion between the types of stores we have. Super IGA is our largest tier stores; then we have IGA which is our medium tier store, and then down to a Friendly Grocer and Express which is our small stores. The 1,200 square metres engages all our large super IGAs that compete against the chains directly. Below that are more the convenience and service orientated stores that do not compete directly against the chains in the same type of way. We have tried to draw a line between the two and work through a mandatory environment for the larger guys. Obviously if unit pricing is something we need to move towards, let us engage that top tier and move towards mandatory pricing for that tier, but for the other two, keep it as a voluntary code indefinitely because that technology from the larger tier will flow back through those smaller stores anyway, and the cost for them to roll that out would be a whole lot less. For example, we regularly have product price changes or cost changes from manufacturers; on top of that there could be a different case size and whatnot. Each time one of those changes comes through, we send that data down to an independent store. They process that in their back office software systems and roll out a new label. Each time there is a product change, and there are hundreds and hundreds every week, we put new labels back into the marketplace. Over a period of 12 to 18 months, we would slowly flush through all the tickets within a store and, in turn, roll out brand new labelling. If we had the unit pricing capability in place, it means that, by default, or what we call trickle feed, by trickle feed we would automatically replace all those labels in a retail environment without incurring costs of relabelling a store. I guess that is opposed to the other approach which is where the \$10 million worth of costs come in, as was raised earlier, and that is on day one replacing all the labels in a store, which is a fairly significant cost of about \$8.8 million if we were to do it for that footprint.

Senator FURNER—Regardless of what size square metreage the store is, because your clients or customers actually purchase stores and then you enter into a contractual arrangement with them to become an IGA store, is that correct?

Mr McDonald—No, it is not a contractual arrangement. That is one of the unique things about the way we work with even an IGA store, for example. It is not a franchise agreement. We have a supply agreement on supplying them groceries and whatnot, but we do not have any franchise agreement whereby we have an ability to force them to do certain things. For example, we do not force them to take on a certain type of software; we do not force them to do any of those things. When it comes to providing capability for unit pricing, Metcash certainly facilitates that and works with any third parties to make those third parties capable, but when it comes to the enforcement side, we work closely with them but we do not control them in a franchise type arrangement.

Senator FURNER—I guess where I am coming from, and I cannot think of the store prior to its becoming IGA in my neighbourhood, but whatever it was, I guess whatever sort of requirement was placed on them for the size of the store may or may not act as an impediment for them to acquire that store for unit pricing, as an example, to move forward to become an IGA or whatever brand store in the future.

Mr McDonald—I am sorry, I still do not think I understand your question.

Senator FURNER—If there is a set requirement for the square metreage of a store, and someone wishes to purchase that store, naturally that is going to impact on their acquisition of the purchase of the store, given the size of the particular store, subject to what is being proposed for square metreage to accommodate unit pricing?

Mr McDonald—If any enforcement of unit pricing were to happen at a point in time, regardless of somebody purchasing a store tomorrow if we introduced it today, for example, to me clear legislation will either apply or not apply to a certain size store. Whether that applies today or tomorrow as a current owner or a

new owner, both parties would have visibility into whether or not there was a requirement on the store for unit pricing.

Senator FURNER—With respect to the Campbell's Cash and Carry side of the business, your submissions indicate there are 80,000 small businesses including 7-Eleven, BP petrol convenience, and Lucky 7. On average, what size are those types of stores?

Mr McDonald—Most of those would be extremely small stores. The Campbell Cash and Carry footprint is 80,000 businesses. In many cases we do not differentiate between what might be a business versus a retail business in those environments. For example, we have a number of divisions within our Campbell's Cash and Carry group, but we have 80,000 registered customers on our books. To become a customer, you need an Australian business number. We service those people, whether it is a doctor's surgery, a service station or a small retail outlet. Many of those stores vary from 50 square metres to 200 or 300 square metres. In fact, I am not even sure what the largest store might be, but I can certainly find out for you, if you wish. If you have a look at your BP fuel environments, some of those are reasonable size stores attached to a BP as opposed to a small Welcome Mart or a very small corner store that you might see across the road that is 20 metres by five metres sort of space.

Senator EGGLESTON—Having had this great concentration of ownership in the retail grocery area, especially with two great chains, I suppose the formation of IGA was a response to the Woolworths, Coles domination. I notice that in your case you exclude the smaller stores, but how do you see unit pricing affecting the competitiveness issue for smaller stores especially? Will it assist the consumer? Will it affect the smaller store owners? Will it make them less busy, less competitive? What do you think?

Mr McDonald—We have different tiering that I mentioned before between super IGA and some of our smaller IGA stores for a reason, and that is they basically service, in many cases, different parts of the market. One would service super IGA service stores that compete directly against chains versus some of our smaller stores which operate maybe in a local neighbourhood environment as a top-up shop or for other purposes. From a marketing perspective we have different reasons for having different stores, and those different stores reflect a different product mix, a different service set and a number of different things. I guess that is what it looks like from that end. From an IT end, we then have a large number of software vendors that we need to deal with. In a large supermarket environment they focus on some of the top end software vendors and we will work with those people to roll out software as quickly as possible to address unit pricing. But, we have 30 software vendors in that marketplace, and many of these smaller stores could well be serviced by some of those smaller software vendors. So, for them to implement unit pricing and do it at a much lower cost, I guess the best way to achieve that is to extend the timeframes in which they can then roll that out. Hence, in the cost comparison, we talk about a trickle feed versus a big bang case of \$1.9 million up to about \$25 million without including re-laying stores and whatnot. The smaller stores are the ones that would probably suffer the biggest cost impost if they had to do unit pricing upfront. So in terms of what that means for the actual store, there is no doubt they would incur more costs, certainly as a percentage of turnover or any sort of measures that we would like to look at, and I guess we can draw our own conclusions in terms of what that would actually mean to their business.

CHAIR—Thank you, Mr McDonald, for coming and bringing these items as an example; it has been very useful.

[10.55 am]

DAVIS, Mr Greg, Group Buying Director, ALDI Stores

VOSS, Mr Brad, Manager, Public Affairs, ALDI Stores

CHAIR—Welcome here today, gentlemen. Do you wish to make an opening statement?

Mr Davis—Yes, thank you. On behalf of ALDI Stores I wish to thank the committee for the opportunity to appear at today's committee hearing. We trust that the ALDI submission and our remarks today will contribute to a sensible and informative debate around unit pricing in the proposed unit pricing bill. In November 2007 ALDI Stores became the first grocery retailer to introduce unit pricing in Australia. The rationale for the introduction of unit pricing was based firmly on the experience of ALDI Stores in other markets around the world. In our experience unit pricing significantly improves the opportunity for customers to make informed decisions about price. It also improves the customers' understanding of relative value of products, specifically across different packaging sizes and brands. The ALDI unit pricing guidelines in the current format we believe are logical and reflect the relative package size of products sold in a consumer grocery and retail environment. For this reason we have concerns with the draft bill's definition of unit price, something which we can elaborate on further this morning. With regards to the proposed bill in its current form, we believe section 18ZZL relating to labelling of unit pricing poses a significant practical implementation challenge for ALDI. We have brought with us today samples of our store price cards. These price cards have clearly identified unit pricing since November 2007 and have been well accepted by our customers. For customers to receive the full benefit of unit pricing, a consistent model must be adopted broadly across the entire grocery retailing sector as recommended by the ACCC yesterday afternoon. We believe the mandatory introduction of unit pricing is the only way for the Australian grocery market to implement a consistent model in a timely manner which will achieve the most favourable outcomes for customers. Thank you.

Senator FIELDING—Just hot off the back of the ACCC's report being made public yesterday, you folks would be pretty happy, I suppose, with the references made to you about helping with competition in Australia. This is no sleight on you, but on one hand it is it is strange that we cannot grow an Australian player to grow up and compete, and that we needed someone from overseas. That is not a complaint against you folks, but it is a sad state in Australia, and then for the ACCC to say that we have a workable competition in Australia I think is a bit of a farce. We all know that we have a duopoly here happening and that is a real concern. Unit pricing is something that you folks are obviously well aware of from overseas. You obviously had it in place here in 2007, and you have said quite clearly the benefits that you can see for consumers. I notice in your submission that the ALDI unit pricing system is based on the UK model, but it seems to differ considerably from that model. In the UK you would know that the required basic units for measure are kilogram, litre and so on, with some exceptions in particular cases, while ALDI uses a variety of measures from 10 grams, 10 millilitres, 100 grams, 100 millilitres, as well as kilogram and litre here in Australia. Does not having so many different measures confuse people?

Mr Davis—We believe the unit of measure is relative to what the customer is purchasing. We have used the UK model, and they have a standard list of exceptions. We can provide you with the 2004 list that they created. We have based our model on a similar list, so that when you are purchasing gravy mix, you are buying it in 100 grams, and when you are buying sugar, you are buying it in a kilo, so we have that comparative situation. We believe it reduces the confusion for customers. It is in the size that they are used to purchasing the product, if that makes sense.

Senator FIELDING—To help the committee, what research is that based on? Do you have research on that that you could table? I am just saying that on one hand the UK is doing it one way and—

Mr Davis—We follow the UK. They use 10 grams for herbs; they use 100 grams for confectionary; they use one litre for soft drinks. We have followed the UK model in that regard. As to research, we have had nothing but a positive response from our customers to our implementation of unit pricing.

Senator FIELDING—We are not that familiar with it in Australia, other than from the perspective of your stores. What benefits do you see flowing from unit pricing? Do you do research on that yourselves at any stage?

Mr Davis—We do not commission research specifically regarding unit pricing. We can only feed back that the unit pricing that we have implemented has been positive with the customers. I have asked customers in

stores. Our store managers get the feedback on a regular basis. From what we have implemented so far, we have had nothing but positive feedback.

Senator FIELDING—Why do you think it is that in Australia the two bigger ones have not moved down this track even faster? Just out of curiosity, do you have reason why we seem to have a lack of unit pricing even happening in Australia?

Mr Davis—I am not aware of the systems and the IT systems for our competitors. We did it because we felt that there was a need for transparency, a need for an easy comparison. We believe that once the entire grocery market has unit pricing our exclusive brands will be more easily compared with the brands in other retailers, obviously offering a value for money equation for customers.

Senator FIELDING—We have had a bit of a discussion this morning about the size per unit display. Do you have any comments to make on that?

Mr Davis—In our current format I have some price cards for you, and by holding them up you can see they are probably one of the largest in the industry.

Mr Voss—Perhaps it is worth explaining to the committee exactly how they are used in the store as well.

Mr Davis—We do not have a barcode; we have a four digit number on the left hand side that allows the store manager to order the products on a daily basis, and the price card is about having enough information on there for the consumer to make an informed decision. We sell everything from laptop computers to baked beans on one of these price cards. It needs to allow for possibly a \$999.99 laptop, if you like, down to a 99 cent box of 200 tissues. That is one of the reasons why it is so large. We do sell a wide cross-section. Also it is very clear for the customer to be able to see.

Mr Voss—Sometimes they are displayed up quite high in the store as well for customers to see them. We use another label, but that is the smaller one which is used on shelving, freezers and other types as well.

Mr Davis—We have normally two shelves and the top price card. We believe that you are at the point of purchase and you can see the unit price, and it is quite clear, it is not cluttered. 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 the ability to be able to make a slight change. I have been working with our IT departments around the world, because that price card works throughout Europe as well. ALDI is about simplicity, keeping things simple and easy, to reduce costs, and to pass them onto consumers. 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 minimum as a size that we could consider. I think even that on the smaller price cards will start to look very large.

Mr Voss—Back to your question about the speed with which ALDI has been able to implement unit pricing, it comes from our experience in Europe and the US. That differs from the existing marketplace here. Australian operations perhaps do not have that experience in other markets. We have economies where we are able to leverage off existing systems in other countries and existing experience to be able to move very quickly. That is one reason as to why perhaps the local players have not been able to move as quickly, because we have those existing systems which we can leverage off.

Mr Davis—We were able to look at the UK model and the German model and see how they are handling unit pricing and roll it out from there very simply. 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. If the product is 200 grams worth of sausages, we do that in one kilo, so within a category you can make easy comparisons. With exceptions to the bill that allow for a relative unit price, we believe that a unit price that the consumer can understand when they are purchasing the product is the most beneficial for the customer. We do not believe that a customer can do the sums of what a kilogram of gravy powder is worth; I have mentioned that twice now. That is just not something they would understand, but they would know that 100 grams would be more relevant to them.

CHAIR—You mentioned that you introduced unit pricing in 2007. When did ALDI start operating in Australia?

Mr Davis—In 2001.

CHAIR—Why did it take you from 2001 to 2007 to start unit pricing?

Mr Davis—We had a lot of other things on our plate at that time. We started with two stores in 2001 and we are now up to 172 stores. We will have over 200 stores before the end of this year. We implemented it at the time that we believed was right. We have had a number of major growth initiatives. This is one of these things that we believed the time was right; it was on the cards.

CHAIR—Given you have had the experience with unit pricing in your overseas stores, why did you not automatically start with it here in Australia?

Mr Davis—It was just a matter of trying to fit into the Australian supermarket industry as best as we could, and it was not something that we felt that was possible. We have had a couple of upgrade system changes, so we did not start in Australia with the exact UK model or the German model when it comes to IT, but we have been able to pull them into line now, so it is much easier.

CHAIR—Do you not have a barcode at all on your shelf labelling?

Mr Davis—Not on the shelf labelling at all.

CHAIR—You only have the four digit code?

Mr Davis—Four digit product code.

CHAIR—Now maybe my maths is wrong, but four to the fourth is 256, is it not? Do you only have 256 products?

Mr Davis—No, 9,999, so we can have almost 10,000 products. There is no check sum there, so we can allow 9,999 items with four digits. We are looking at making that five digits. With the expansion of ALDI into other countries around the world, there is probably a requirement to make it five now.

CHAIR—You have no intention of using the barcode system?

Mr Davis—Not at this stage, but it is not that we would rule that out in the future, but it is definitely not in the short term or medium term.

Senator BUSHBY—Congratulations on your successful penetration of the market over the last seven or so years. I look forward to your expanding into other states, particularly Tasmania. I know you have had a few letters from a very noisy local councillor down there who is agitating for that. I am interested in how flexible your system is. You have expressed some reservations about some of the measures in this particular bill. We are also aware that the government is intending to introduce legislation of its own which may or may not be based on Senator Fielding's legislation. Are you concerned that the legislation may impose more costs on you to actually bring you up to whatever that legislation may require, which would effectively punish you for being the leader in unit pricing?

Mr Davis—We are concerned. In its current format we would require changes. We do not believe that those costs are hugely significant, and with enough time to make those changes we believe that we would be able to cover any of those costs internally. However, we do have a flexible system.

Senator BUSHBY—Was it a significant cost to actually change to unit pricing in 2007? In answering that, could you also advise whether you did it in a trickle down approach, like a gradual process, or was it a big bang and it was all done.

Mr Davis—It was a big bang. We are fortunate that we have 900 exclusive brands that we sell in the ALDI supermarket, and to be able to change 900 price cards in a big bang was something that we could do, and we did it. It was a cost labour side, printing the cards, but we believe that it was a benefit there for transparency for customers.

Senator BUSHBY—So, there were costs, but it was not a huge cost. Do you think the cost of doing that reduced your ability to be competitive at all?

Mr Davis—No, not at all.

Senator BUSHBY—What is the average floor space of ALDI Stores?

Mr Davis—The average is 850 square metres to 1,000 square metres.

Senator BUSHBY—What would the smallest be?

Mr Davis—You have got me with that one. It would be very close to the average.

Senator BUSHBY—Very close to the average?

Mr Davis—Yes. We do not vary greatly. I can get you that number.

Senator BUSHBY—If you could, that would be appreciated, thank you.

Senator FURNER—Forgive me for my lack of knowledge on ALDI's products, but my understanding is that most of the products sold in your stores are generic or home brand, is that correct?

Mr Davis—We refer to them as exclusive brands. We match the market leading product in the marketplace. We introduce premium exclusive brands into the Australian marketplace.

Senator FURNER—Where do you source those products from?

Mr Davis—Over 70 per cent of those products are sourced from Australian manufactures. The majority of the products are sourced from local manufactures. From the introduction into Australia, our main aim was to ensure that we had local manufacturing making the products for us in Australia.

Mr Voss—It is in the high nineties when it comes to meat; I think about 95 or 98 per cent of meat is sourced from Australia, 98 per cent of fresh fruit and vegetables is sourced from Australia, and then the vast majority of the remainder of grocery items are also sourced from Australia.

Senator FURNER—What is your opinion on this statement—and I did ask one of your major competitors this morning the same question—in the submissions received by the committee, one part stated as a result of unit pricing there will be an impost and probably a deterioration of local farmers and manufacturers as a result of the need to move to higher quantity of product. I just cannot understand why they have drawn that conclusion. Do you have an opinion on that?

Mr Davis—We believe that the main benefit would be that you can compare ALDI exclusive brands against the market leading brands in our competitors and see the savings that you could benefit from. There is a price value equation that consumers look at. Our products offer a great alternative to the market leading brands and they do not include the marketing and advertising funds. That is why they are cheaper. It is the same quality without the marketing and advertising funds.

Mr Voss—We only have very small range of about 900 products compared to possibly 20,000 or 30,000 of some of our competitors. It is very narrow, so we believe the true benefit in unit pricing is not so much within an ALDI store comparing between products or between product sizes, because that is pretty narrow. We see the full benefit will be comparing what ALDI has compared to what Coles has or what Woolworths has, but doing it at a per unit basis as well between stores.

Senator FURNER—For example, you might sell only a 200 gram tin of baked beans as opposed to other stores selling 200, 350 and so on?

Mr Davis—Yes.

Mr Voss—They might have four or five different kinds of brands of baked beans in different sizes as well where ALDI is limited to maybe one or two.

Mr Davis—We have one toothbrush, and our competitors have over 200, so there is some confusion for you.

CHAIR—Thank you. As there are no further questions, thank you for coming in today.

Committee adjourned at 11.15 am