



Australian National  
Retailers Association

## **Submission in response to the Treasury Issues Paper on Unit Pricing**

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## EXECUTIVE SUMMARY

The Australian National Retailers Association (ANRA) supports the introduction of a national scheme for unit pricing. Unit pricing can offer consumers useful comparative information to assist decision making.

A unit pricing scheme should apply to all major retailers and be consistent across all State and Territory jurisdictions. A scheme could take the form of an industry code underpinned by the Trade Practices Act 1974, provided all major retailers participate. If one or more major retailers do not participate in an effective industry code, regulation would be necessary. Details of a scheme should be agreed before a start date is determined.

The scope of unit pricing in Australia should be similar to the European Union model. A broad range of products should be covered but with clear exemptions for products where unit pricing would not assist consumers or would involve disproportionate costs.

A prescriptive scheme, such as the proposed Queensland scheme, would risk imposing unnecessary costs on businesses and consumers without adding useful consumer information. A more practical approach would be to set flexible performance standards.

The details of unit pricing should be developed by a government-industry working group, including representatives of large and small businesses. The working group could also include State and Territory government representatives. Details of a scheme should be agreed in 2008.

To minimise the cost to consumers of introducing unit pricing, a reasonable transition period should be agreed, allowing retailers to shift to unit pricing as part of their usual cycle of store upgrades. By 1 July 2010, unit pricing should be in place in all participating retail premises.

## INTRODUCTION

The Australian National Retailers Association (ANRA) represents the leading national retailers in Australia, across a broad range of retail products and services. Members of the Association include Australia's most trusted household names in supermarket chains, department stores and specialty retailers. ANRA members have a combined annual turnover of more than \$80 billion and employ about 500,000 Australians.

A full list of ANRA members is included in Appendix A.

ANRA was formed in 2006 to ensure that governments, and the community, understand the contribution retailing makes to the national economy. The retail sector touches the lives of all Australians every day. ANRA seeks to ensure that public policy makers understand the retail sector and support policies which enhance the capacity of the sector to meet consumer needs.

ANRA members endorse the principle of minimum effective regulation, as defined in the Council of Australian Governments' (COAG) Competition Principles Agreement and the COAG Principles of Best Practice Regulation.

## UNIT PRICING

Unit pricing is already in place in Australian supermarkets and specialty retailers. Products sold by weight (e.g. fresh fruit, vegetables, seafood, bakery and delicatessen items) require unit prices.

More broadly, unit pricing for packaged goods is available or being developed by most large retailers. Franklins and Aldi display unit prices in all their stores. Woolworths and Coles are in the process of developing their own unit pricing arrangements. Woolworths is conducting a trial of unit pricing in New South Wales. Coles intends to introduce unit pricing over the period to May 2010.

ANRA recognises that unit pricing can give consumers useful comparative price information. However, it is important not to overstate these benefits.

Relative prices are not the most important factor in consumer decision making. Australian consumers generally place a higher value on other factors. According to the Roy Morgan Supermarket Monitor, food safety, convenience and trading hours are more important factors influencing consumers' choice of supermarkets than price.<sup>1</sup> A study of shopper attitudes conducted by Torch Media for Woolworths in 2007 returned the same finding: only 11 per cent of surveyed shoppers chose to shop at a particular store because of expected lower prices.<sup>2</sup> The Australian Competition and Consumer Commission's recent survey confirms that food quality, store features and product range are as important as price.<sup>3</sup>

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1. Roy Morgan Supermarket Monitor, January to December 2007.

2. Torch Media. Supermarket Insights: Woolworths Shopper Behaviour, 2007, available at <http://mediatonic.com.au/files/torchmedia.pdf>.

3. Australian Competition and Consumer Commission. Report of the ACCC Inquiry into the Competitiveness of Retail Prices for Standard Groceries, p.72.

Moreover, unit pricing is unlikely to foster greater competition *between* stores. Unit pricing is most likely to be used when consumers are comparing different sized items of the same product or similar products in a single store. In these cases, unit pricing offers consumers an opportunity to decide their preferred trade-off between price, size and quality.

## **KEY PRINCIPLES**

An effective unit pricing scheme will provide clear information to consumers at minimal cost: elaborate, prescriptive schemes are unlikely to give consumers more useful information but will risk unnecessary costs.

ANRA believes that unit pricing in Australia should be:

- Simple and clear;
- Flexible rather than prescriptive;
- Apply to all supermarket retailers; and
- Nationally consistent.

Unit pricing arrangements should be cast as minimum effective regulation, avoiding as far as possible prescriptive rules which add cost and unnecessary complexity. A prescriptive scheme would risk stifling innovation and could inhibit the capacity of retailers to respond to consumer preferences.

ANRA would propose that the details of a unit pricing scheme be developed by an industry-government working group. The working group should include representatives of large and smaller retailers. State and Territory fair trading agencies could be represented on the working group, possibly through their National Trade Measurement Advisory Committee. The working group should be given a short deadline to reach agreement on a scheme, preferably reporting to the Government this year.

## **SCOPE OF LABELLING**

Designing a unit pricing scheme requires decisions as to which retailers would be required to offer unit pricing, what products should be labeled with unit prices and what units of measurement should be used.

### **1. RETAILERS**

ANRA believes that unit pricing should apply to all supermarkets and grocery stores selling a significant range of products. The benefit of unit pricing should be available to consumers regardless of their choice of supermarket or grocery store. If there are to be any exemptions they should be limited to small convenience style operations.

The Queensland government has proposed that retail premises with an internal floor area of at least 200m<sup>2</sup> used for the display of grocery products and stocking at least seven listed products (e.g. bread, cereal, meat) should offer unit pricing. ANRA would suggest that the 200m<sup>2</sup> threshold may be too low. In such smaller stores, there is unlikely to be a sufficiently broad range of products for consumers to make meaningful use of unit pricing.

On the other hand, some parties have called for a much higher threshold starting at 1,200m<sup>2</sup>. Restricting unit pricing to stores with areas greater than 1,200m<sup>2</sup> would mean that more than two-thirds of supermarkets and grocery stores would *not* offer unit pricing. There are more than 8,500 supermarkets and grocery stores in Australia.

A more practical threshold, capturing supermarkets but not smaller convenience stores, could be 500m<sup>2</sup>. A lower threshold than 1000m<sup>2</sup> is necessary to capture many supermarkets used by consumers, especially in regional areas, for their regular weekly or fortnightly shopping.

It is interesting to note that most EU states either do not exempt small retail businesses from unit pricing obligations or have decided to remove their initial small business exemptions.<sup>4</sup>

An alternative to a size test could be a turnover test. A turnover test could be readily applied by requiring the disclosure of the tax data already provided on an ongoing basis to government. Australian Bureau of Statistics data identifies about 4,500 food retailing businesses in Australia (excluding cafes and restaurants) with annual turnover greater than \$2 million.<sup>5</sup> Adopting a \$2 million turnover test would therefore capture considerably more stores than setting a floor space test of 1,000m<sup>2</sup>. But such a test would still not capture about half of the supermarkets and grocery stores in Australia. Further investigation may be needed to identify an appropriate threshold for a turnover test but \$1 million annual turnover appears reasonable.

A second alternative could be to apply a unit pricing obligation on all retailers operating a store selling more than a set number of grocery and related items. This threshold could be set at 600 items which would easily exempt smaller convenience stores.

## 2. PRODUCTS

Some products will not require a unit price. There are obvious cases of products which are sold as single items with a final price (e.g. books, clothing and newspapers). Other exceptions should be discounted goods being sold as clearance, deleted or damaged stock, assorted goods sold in mixed or gift packs, goods with identical unit and final sale prices and goods supplied as part of a service (e.g. a recharger for a mobile phone). These exceptions are consistent with the approach adopted by the European Union (Directive 1998/6/EC).<sup>6</sup> The EU also allows for exemptions for goods sold in small quantities (e.g. below 5 g or 5 ml).

The Queensland government has adopted a very broad definition for grocery products to be captured by their State scheme. Grocery products are simply defined as products supplied by a grocery retailer to consumers, with some explicit exemptions.<sup>7</sup>

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4. Commission of the European Communities. *Communication from the Commission to the Council and the European Parliament on the Implementation of Directive 1998/6/EC*, 2006, p.9.

5. Australian Bureau of Statistics. *Counts of Australian Businesses, June 2003 to June 2007* [ABS 8165].

6. The EU directive may be found at <http://www.legalex.eu/text/en/T70689.htm>.

7. The Queensland exemptions are audio tapes, books, clothing, compact discs, electrical appliances, flowers, gardening equipment, greeting cards, kitchen hardware, magazines, newspapers, plants, tobacco and tobacco products, toys and video tapes.

### **3. UNITS OF MEASURE**

Minimising the number of standard units of measure is important to providing consumers with clear, useful information. Existing unit pricing arrangements use kilograms and litres as standard measures but these measures may not be appropriate for many packaged and other items to be included in the new scheme. Such measures, for example, are irrelevant for products sold individually or in lots.

ANRA believes that the standard units of measure, subject to some category specific exceptions, should be 100ml, 100g, metres or Each (for products sold by number).

The proposed Queensland regulations illustrate the risks of excessive regulation. The Queensland regulations are unduly complex by requiring different labeling according to the size of products (e.g. per litre, per 100ml, per kilogram, per 100g) or the number of units sold in lots (e.g. 1 to 9 units in a lot, 10 to 99 units in a lot, 100 or more units per lot). In the first case, as most supermarket items are sold in sizes less than one kilogram or one litre, it is arguable whether these units are appropriate. In the second case, the regulations would prevent an easy comparison of the same items sold in slightly different quantities (e.g. 5 and 10 unit packages).

The Queensland regulations set four different arrangements which would vary the unit of measurement (e.g. per litre, per 100ml, per kilogram, per 100g) according to the sale price of the item. In the case of items sold in lots (e.g. 10 tablets, 6 rolls of toilet paper), the Queensland regulations vary the unit measure from 1 unit, 10 units to 100 units. This is unduly complex

### **OTHER ISSUES**

The Government's issues paper raises other issues which can be briefly addressed.

ANRA believes that the ACCC has sufficient powers to enforce a unit pricing scheme under the relevant provisions of the Trade Practices Act 1974. The case for further regulatory powers needs to be made explicit by the Commission before any consideration by government. The need for new powers would be best considered after experience has been gained in the enforcement of the new scheme.

The costs borne by retailers, and ultimately consumers, will depend on the obligations imposed on business by the unit pricing scheme. The more prescriptive the scheme, the higher these costs are likely to be. Woolworths has estimated that adopting the Queensland scheme would cost it more than \$30 million in store redesign and technology upgrades. To mention just one example, the Queensland regulations insist on a 10mm or greater unit price on the shelf edge label which would require retailers to change their labels and shelves. A more flexible approach has been taken by the EU which simply requires that the unit price must be unambiguous, clearly identifiable and clearly legible.

Costs will also turn on the timing of introduction of unit pricing. Rushed introduction of unit pricing will involve implementation costs which would not occur as part of normal store refurbishment cycles. Unit pricing should be phased-in over the period to 1 July 2010 when the national trade measurement legislation is due to commence.

The basis for a future scheme could be an industry code under Part IVB of the Trade Practices Act 1974 or directly through legislation. Self-regulation has the potential to deliver a more cost-effective and flexible approach than regulation. ANRA believes that the key requirement should be universal coverage to ensure that consumers have ready access to accurate information in all appropriate stores and competition in the market is not distorted. The Government could seek to broker an agreement between all major retailers to comply with an industry code underpinned by the Trade Practices Act. In the event that one or more major retail chains, including independent chains, did not participate, regulation would be preferred.

## **APPENDIX A**

### Membership of the Australian National Retailers Association

Woolworths Ltd  
Coles Group Ltd  
Franklins  
Best + Less  
McDonalds  
Just Group  
Bunnings Group Ltd  
David Jones Ltd  
Best and Less Pty Ltd  
Angus and Robertson  
Borders  
Luxottica Australia