



TRADING LIMITED AUSTRALASIA

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James Chisholm
Competition and Consumer Policy Division
The Treasury
Langton Crescent
PARKES ACT 2600

Dear Mr Chisholm

Executive Summary

This submission is prepared by Metcash on behalf of the IGA National Board of retailers & its members, other retailers supplied by IGA>D and Campbells Cash & Carry.

Metcash is a strong supporter of independent retailers, who serve an important function in providing choice and competition. It is critical that the competitive position of independent retailers are not undermined by the introduction of a unit pricing regime which imposes disproportionately higher compliance costs on independent retailers compared to the major chains. The unique characteristics of the independent retailing sector (diverse I.T. systems, different shelf edge labels in place, and the relative difficulties that independent store owners have in managing cashflow to fund the significant one-off compliance costs) should be considered in the Government's regulatory decisions. A setback to the competitive position of independent retailers would effectively increase the dominance of the major chains and in the long run, result in less choice and higher prices to Australian consumers.

Metcash supplies an extensive national footprint of 2,700 independent supermarkets and thousands of convenience sized stores. These include IGA branded stores, Lucky 7, and many others. Within this extensive footprint, there is a wide range of I.T. systems. Store owners choose their software. It would be very onerous and costly to our retailers if this Unit Pricing change is legislated and made mandatory in the short term.

Metcash understands the debate for Unit Pricing and notes that some of our competitors are currently capable of implementing it whilst some are not. Although we are not convinced of the level of benefits to consumers (as published in the Unit Pricing RIS), if the Government legislates the change Metcash would give assistance to our customers to facilitate compliance. We would appreciate that the following information be considered, and concessions be allowed so as not to unduly impose burdens on independent retailers. Any legislation proposed should be a national standard, not differentiated by state. This will ensure consistency, and keep compliance costs to a minimum.

As opposed to the major chains, retailers supplied by Metcash currently have over 30 different software systems operating in our retail supermarket environments that must be modified to meet the new Unit Pricing requirements. Metcash also has to modify our current I.T. systems as well as three mainframe legacy systems that must be made compliant for data entry and data file generation. Small stores that do not operate software and do not use scan at the checkout will have no means to electronically generate shelf edge labels. They will find it extremely difficult to comply with any unit pricing legislation.

Costs to comply with this legislation in a 12-month time frame are estimated to cost our independent supermarket sector approximately \$10 million. This estimate would increase if every small store was forced to comply. A significant increase in cost would also result if the shelf ticket size was mandated to increase from the current size. This is due to shelf stripping in all stores requiring replacement. Depending on the standards established, stores with electronic shelf edge labels could also require replacement resulting in even further costs being imposed on the independent retail sector.

Metcash suggests that the grocery industry should adopt and implement Unit Pricing as a voluntary code indefinitely, similar to the Scanning Code of Practice. This will ensure that the cost to implement Unit Pricing is kept to a minimum (by progressively rolling it out) and further cost is not built into our supply chain (costs that would ultimately need to be passed on to the consumer and which could possibly reduce the competitiveness of independent retailers).

As a minimum, we believe that any store that has a trading area below 1,200m² should be excluded from any mandatory legislation. Proposed compliance should focus on stores where consumers would do their "main shopping". This would include stores such as our Supa IGA branded stores, but exclude our IGA branded stores and anything smaller. These IGA size stores (less than 1,200m²) would also encounter the most difficulties in meeting compliance, as they are not resourced to the extent of the major supermarkets.

It will remain Metcash's goal to facilitate an automated Unit Pricing solution for our customers but at the lowest cost to ensure prices are not increased due to the change. This means shelf edge labels could be updated as part of the normal ongoing product change process rather than all at once which would result in a significant cost to the industry.

Costs to all parties in the independent sector are significant but could be dramatically reduced if time frames allow for an extended period before compulsory compliance is required. As with the Scanning Code of Conduct, Metcash can facilitate technical solutions that would be made available to the market though cannot ensure compliance by individual retailers. If the unit pricing regime is legislated Metcash will do all it can to ensure our retail customers comply.



Andrew Reitzer
Chief Executive Officer

Submission directed to
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SUBMISSION

HOW UNIT PRICING WORKS

What are the main benefits of a unit pricing regime?

What savings can be made by consumers? On what basis are these savings made?

Metcash is always supportive of initiatives that result in an informed consumer. Metcash believes that unit pricing would be of beneficial to consumers, particularly for those who have difficulty in deciding which products offer value for money. In addition to price there are however other factors which influence consumer purchasing behavior such as brand loyalty, quality and so on which need to be taken into account.

How can the Government maximise the benefits of unit pricing for consumers?

The cost of implementing unit pricing could dramatically be reduced by allowing time frames for compliance to be extended as well as a voluntary code of conduct. This in turn would reduce costs being passed onto the consumer.

Legislation or compliance for an increased shelf ticket size will also dramatically increase the cost of implementation and compliance. This cost is represented through the modification of current I.T. systems and shelf stripping to accommodate the proposed shelf ticket size. Metcash suggests that the unit of measure font required should be clearly visible and unambiguous to consumers.

Given current trends and advances in technology, what effect will technology have on a unit pricing scheme?

The I.T. systems used by Metcash and the independent retailers are not technically capable of complying with a mandatory unit of measure at this point in time. Metcash currently has over 30 individual software systems used by the independent retailers which would need to be modified to accommodate the proposed requirements. This modification would incur considerable cost. Given a reasonable time to implement, most software systems could be adapted to comply.



The implementation of a unit pricing scheme in a short time frame would have a dramatic and detrimental effect. It needs to be noted that the smaller independent convenience style stores would encounter the most difficulties and would be less capable of adapting the proposed changes.

Independent retailers have currently adopted electronic shelf labels. The proposed changes would require all electronic shelf labels to be replaced. This would be a tremendous financial burden on affected independent retailers (additional \$5.1 million).

How would consumers be best informed about a unit pricing regime?

What information should be incorporated into an education campaign?

How can education campaigns be targeted to consumers for maximum benefit?

Metcash believes a national approach needs to be taken when informing consumers about unit pricing. This would ensure that the message is clear and consistent across all states and territories.

Metcash and the independent retailers would assume that the government body implementing the unit pricing regime would undertake a complete advertising campaign to promote the adoption and education of the unit of measure scheme.

LEGISLATION OR CODE OF CONDUCT

What are the key differences and consumer experiences with the different existing approaches?

Metcash Trading is not in a position to comment on consumer experiences with differing approaches to current unit of measure display.

Should a unit pricing system be implemented through specific legislation or a Code of Conduct? What are the respective benefits and disadvantages of these methods?

Implementation through a voluntary code of conduct could be achieved through a phased approach, with less difficulties and financial impact. The market would dictate that the major retailers would adhere to a voluntary code, as with the Scanning Code of Practice.

Specific legislation would have the following implications:

- Reduced implementation time frames dramatically increases costs
- increase costs and complexity from potential changes to shelf ticket size
- place a strain on store staffing resources
- be negatively perceived by retailers because of the rigidities in its requirements
- be onerous on independent supermarket operations



A voluntary Code of Conduct will have more benefits as it would:

- be followed by all major supermarkets
- be adopted over time by smaller retailers
- reduce the overall costs of implementation
- reduce the pressure on store staffing resources
- be looked upon positively
- encourage compliance by competition
- have less impact on smaller stores

DISPLAY OF UNIT PRICING INFORMATION

Should all goods be priced using the same unit of measure?

Should there be different units of measurement for different goods?

For ease of implementation and ongoing compliance, standard measures such as the kilogram and litre should be adopted (as with the EU legislation). Adopting a product exclusion list should be established. As with the European model, there would need to be collaboration between industry and Government to determine product exclusion (negative) list.

Liquor and tobacco products should be exempt. Independent retailers would not like to be associated with promoting either product type in this manner as many are actively involved in local communities, striving to promote family values and would see this as sending a negative message.

Which goods (if any) require a different unit measure?

If any, what should this measure be?

A working group consisting of Metcash, relevant government bodies and other Australian retailers should be formed to determine all aspects of unit of measure such as the exclusion list and product classification.

Should there be lower boundaries on the value or size of unit priced products?

If so, what should these boundaries be?

It is suggested that products need to be excluded based upon a minimum weight or volume, but also on some other easily definable criteria such as:

- Products which are pre-packaged with a content equal to or less than 50 grams or 50 millilitres
- Products where the unit price of which is identical to its selling price (fruit and vegetables)
- Products where the selling price has been reduced from the usual price at which it is sold (manually priced markdowns)
- Products which comprise of an assortment of different items sold in a single package (gift baskets etc)
- Groups of products promoted at a reduced selling price (multi-buys)
- Products that are sold from an automatic dispenser or a vending (in-store drink vending machines)



In the future, how should goods requiring a different unit of measure be determined? Metcash would contribute our considerable industry experience to form an initial working group. We would hope that this could assist in reaching a consensus on issues such as ongoing product classifications.

SIZE OF UNIT PRICE INFORMATION

Should the presentation of unit pricing be prescribed?

Unit of measure requirements should be guided by the European directive which stipulates that the selling price and the unit price must:

- be unambiguous and easily identifiable as referring to that product
- be clearly visible and legible to prospective customers
- be in proximity to the product and be in the same line of sight as the selling price

How prominent should a unit price be? What aspects of unit pricing displays (including in-store and online and print advertising) should be prescribed?

Some proposed requirements for unit of measure would have a detrimental impact on the current system. The current shelf labels and shelf stripping will have to be replaced, this however is only one part of the problem. Virtually all store shelving would need to be altered to allow for the larger stripping and some existing shelving is not designed to accommodate the larger label stripping.

Further to this, many independent retailers have embraced electronic shelf labels (675,000 electronic labels are used within Australia). It is not possible for these labels to be configured to comply with the larger display requirement. Under the proposed font size all electronic labels would need to be replaced at a cost of \$5.1 million (approx).



Fig 1. Electronic label shown at actual size

SCOPE OF RETAILERS TO BE INCLUDED

Should any retailers be exempted from a unit pricing regime? If so, which retailers?

Metcash believes that stores not directly competing with major supermarket chains should be excluded from a unit pricing regime. This would exempt stores with a trading area less than 1,200m². These stores normally do not have extensive ranges, have lower product turnover and are restricted via limited staffing resources and technical capability.

If an exemption is made, all independent retailers would still be encouraged to adopt unit pricing, as with the Scanning Code of Conduct.

On what basis should exemptions be made (if any)?

As alternatives to the above suggestions, exemptions could be based on:

- Dollar turnover
- Store trading size
- Supermarket independently owned
- Number of products stocked
- Stores not considered to be a main shop

PACKAGED GROCERY ITEMS TO BE INCLUDED

Should the same units of measure be required for packaged goods as unpackaged goods?

We suggest that it should remain as is. In almost all instances with unpackaged goods, the price per unit of measure is displayed to the customer prior to purchase. The policy should be constructed around prepackaged goods to maintain a simplistic approach towards implementation and maintenance.

Which goods (if any) should be exempted? On what basis would exemptions be made?

How would any future exemptions be determined?

As previously mentioned, an industry working group should be formed to determine the products that should be excluded.

ENFORCEMENT

Would any additional powers be required by the enforcement agency in order to effectively enforce a unit pricing scheme?

Metcash would like to see a voluntary code of conduct. A voluntary code can be an effective vehicle to deliver benefits for both businesses and consumers alike, while reducing regulatory costs. The Scanning Code of Conduct has been in place for many years now (1989) and has proved itself to be an efficient means of regulation.

COMPLIANCE COSTS

What extra costs would be involved for businesses to comply with a national mandatory unit pricing scheme?

The cost to implement a unit pricing regime differs depending on the approach:

- | | |
|--|------------------|
| • Specific legislation and reduced time | = \$10 million |
| • Specific legislation and increase to ticket required | = \$23.8 million |
| • Voluntary code of conduct and no ticket change | = \$1.9 million |

As Metcash stated to the ACCC, the cost of implementing a unit pricing regime in a reduced time frame would be in excess of \$10 million assuming current ticket size remains the same. As presented to the Senate Standing Committee on Economics, the cost to implement a unit pricing scheme under the proposed guidelines is in excess of \$23.8 million under the proposed increase ticket size.



Below is a break down on estimated costs depending on time to implement and label size only.

Change required	* Cost Voluntary implementation	** Cost Mandatory implementation
IT Systems Cost (inc Retailer – 8 Bosv)	\$0.9 M	\$1.2 M
Additional Software Vendors (30 + Bosv)	\$1 M	\$2 M
Shelf Edge Label Cost (inc hanging)	\$0	\$8.8M
Electronic Shelf Edge Labels (ILID)	\$0	\$5.2 M
Shelf Stripping Costs (inc Labour)	\$0	\$6.6 M
Shelving Relay Costs (inc Labour)	\$0	\$?M
Direct Product Data Entry at Store Level	\$?M	\$?M
Fresh Food Scale Changes	\$?M	\$?M
Total Implementation Costs	\$1.9 M+	\$23.8 M+
Ongoing Cost (Metcash)	\$0.4 M pa	\$0.4 M pa
Ongoing Cost (Retailer)	\$? M	\$? M

* No Shelf Ticket Font Increase

**Shelf Ticket Font Increase, assumes no small convenience stores or no non-scan stores

What effects would this have on prices of grocery items?

Metcash does not dictate the retail price to any independent supermarkets. The cost imposed on independent retailers would be minimised through the adoption of the suggestions recommended in this document. This would reduce the likelihood of consumer prices being increased to cover the additional costs.

TRANSITIONAL ARRANGEMENTS

How long would it take for retailers to prepare for a mandatory unit pricing regime?

The time it would take to implement a mandatory unit pricing regime would depend entirely on the final form of the unit pricing model. If the proposed increase in shelf ticket size is approved this would make it all but impossible to give an estimate of time. Similarly if all stores that sold prepackaged groceries were forced into the regime, the lack of technical ability within smaller stores would see these retailers being placed in a situation where they may not be able to comply.

Would any transitional arrangements be required?

With the suggestions outlined, Metcash would recommend that independent retailers should be given two to three years to implement the required changes. If unit pricing is implemented as a voluntary code of conduct, along with realistic guidelines for store and product exclusion, we would be confident that our independent retailers could comply in a more effective manner.



SUMMARY

Metcash supports an informed consumer and as such welcomes further discussion on how best a unit of measure regime could be implemented without dramatically affecting the compliance burden on independent retailers.

Key recommendations

- For there to be a national approach to the unit pricing regime
- The regime to be implemented as a voluntary code
- The font size requirement not set to be a specific size(e.g. 10mm minimum)
- A store exclusion list to be developed
- A product exclusion list to developed
- A working group to be formed
- A collaborative approach to be taken in developing and implementing the changes

CLOSING PARAGRAPH

Metcash Trading would like to thank you for the opportunity to make this submission. We welcome the opportunity to work together to ensure an effective unit of measure regime can be implemented nationally.

