8 February 2008

By email: trade@measurement.gov.au

Murray Gordon
The Legal Metrology Branch
National Measurement Institute
PO Box 264
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Dear Mr Gordon

National Trade Measurement System Discussion Paper

Consumer Action Law Centre (**Consumer Action**) is pleased to make a submission to the National Trade Measurement System Discussion Paper (the **Discussion Paper**).

Consumer Action supports the proposed national trade measurement system, and strongly supports the inclusion of unit pricing for pre-packaged products sold in supermarkets.

A national trade measurement system is in the interests of Australian consumers. Such a system would be most effective if the conduct of inspection and enforcement takes advantage of local state knowledge. Consumer Action recommends that the current level of inspection and enforcement be sustained or increased, and that the national system retain local state knowledge by retaining inspection and enforcement resources in capital cities in the states and territories.

Unit pricing is an important anti-inflationary tool that promotes economic efficiency and consumer welfare. The absence of unit pricing in most supermarkets in Australia is disadvantageous to consumers and the economy, and is particularly important in the current context of inflation pressures.

The structure of unit pricing regulation has an important impact on its effectiveness. The specific format for the display of unit price information (eg. font size) is important. To achieve its purpose, the display of the unit price should be large and prominent. To achieve national conformity, and compliance with the specifications for unit price format, the unit pricing system must be national and compulsory.

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Background on unit pricing

Unit pricing involves displaying a price per unit of measure (eg. kilo and litre) for items in addition to the items' actual price. Unit pricing is standard in a number of overseas jurisdictions, in particular the United States and European Union (**the EU**).[1] Unit pricing became an issue in the United States in the late 1960s, and since approximately 1970, increasing numbers of states have legislated to require supermarkets to display unit prices. Unit pricing up-take in the United States is widespread, and it is rare to find a supermarket that does not display unit prices in some format. Likewise, the nations comprising the EU were required by a 1998 directive[2] to ensure unit prices are displayed in supermarkets.

One reason for the adoption of unit-pricing in these jurisdictions was the move away from standard measurements for grocery items. For example, while many consumers may have little difficulty in determining themselves the lowest unit price comparing one and two kilograms of flour, modern grocery products are now sold in a vast array of variable sizes (eg. 175grams, 680 grams, 1.25 litres etc.). Determining the best value buy when faced with such an array of non-standard measurements is impossible for most consumers.[3] Where the measures in which similar or identical products are sold differ widely, price competition is eroded.

Benefits of unit pricing

A number of benefits from unit pricing have been identified:

- Unit pricing promotes price competition, reduces prices and is anti-inflationary;
- Unit pricing enhances consumer sovereignty and welfare; and
- Unit pricing reduces consumer confusion and increases consumer confidence.

Unit pricing makes it easier for consumers to perform price comparisons between products. Unit pricing results in consumers switching container size within brands (to the lowest unit price container size) and switching brands. Unit pricing also results in consumers paying less for the same quantity of groceries.

Even where unit pricing does not result in consumers paying less, it does allow them to better assess 'value for money'. Some consumers use unit pricing systems to help them determine the likely quality (rather than always buying the lowest unit priced product, brand or size).

Empirical research has examined the impact of unit pricing over time and has found that unit pricing does have a substantial and, from the perspective of competition and consumer welfare, positive impact.[4]

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[1] Ian Jarratt, 2006 Churchill Fellow, "To investigate unit pricing of prepackaged grocery itemsin the European Union and the USA", available at www.churchilltrust.org.au under business section.
[2] European Community Directive 98/6/EC on consumer protection in the indication of the prices of products offered to consumers, 16 February 1998.
[3] Monroe, Kent B. & LaPlaca, Peter J., 'What are the Benefits of Unit Pricing?' *Journal of Marketing*, Vol.36 No.3 July 1972, page 20. (A 1970 study showed college educated women, asked to identify to identify the most economical package for 20 different product types, erred 43% of the time).
[4] Aaker, David A. & Ford, Gary T., 'Unit Pricing Ten Years Later: A Replication', *Journal of Marketing*, Vol.47 No.1 Wiinter 1983.

Unit pricing leads to changes in consumer behaviour, including switching to lower-priced package sizes and brands. Unit pricing also makes demand more price-elastic.[5] This is to be expected as unit pricing makes price comparison easier, therefore increasing price competition.

While the precise savings for consumers from unit pricing are difficult to quantify, the preponderance of recent research indicates unit pricing does lead to consumers choosing lower priced items (and therefore paying less). In one study, unit pricing demonstrated a reduction in consumer spending in supermarkets of 1-3%.[6] Unit price usage has also been shown to increase over time once a unit price system is in place.[7]

However, as shown below, the effectiveness unit pricing varies widely based on the system's characteristics (eg. non/uniform, non/compulsory etc.).

Key characteristics of an effective unit pricing system

An optimal unit pricing system will include the following features:

- unit pricing is national, uniform and compulsory; and
- unit prices are displayed on supermarket shelves in large clear font that is set by regulations at a minimum size in general and at a minimum size relative to the actual item price.

National system

Any unit pricing system that is introduced should be national, uniform and compulsory. A national system is the only sensible way to organise unit pricing. A federal uniform system would be consistent with State and Federal policy in relation to trade measurements. While voluntary unit pricing systems may provide some consumer and market benefits, a national compulsory unit pricing system is required to realise the fullest possible benefits of unit pricing.

An effective unit pricing system requires clear and consistent unit price display – such consistency and clarity is not possible in a voluntary system. Under a voluntary system, there would emerge a series of different formats for displaying unit price, and the different formats of display would confuse consumers, reducing consumer awareness and understanding of unit price. As research discussed below has demonstrated, consumer benefit from unit pricing systems depends on the prominence of the display of the unit price.[8] It is only possible to ensure that unit prices are displayed in a prominent way if there is compulsion to display them in a specified manner.

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[5] Isakson, Hans R. & Maurizi, Alex R., 'The Consumer Economics of Unit Pricing', *Journal of Marketing Research*, Vol.10 No.3 August 1973, page 284.
[6] Russo, Edward J., 'The Value of Unit Price Information', *Journal of Marketing Research*, Vol.14 No.2 May 1977, page 197.
[7] Aaker, David A. & Ford, Gary T., 'Unit Pricing Ten Years Later: A Replication', *Journal of Marketing*, Vol.47 No.1 Wiinter 1983, pages 119-120.
[8] Miyazaki, Anthony D. et al, 'Unit Prices on Retail Shelf Labels: An Assessment of Information Prominence', *Journal of Retailing*, Vol.76 No.1 2000.

There may be general concerns with increasing the volume of regulation with which business must comply. In relation to unit pricing, this concern is misplaced. Unit pricing requirements would be situated in the relevant Commonwealth national trade measurement system instrument. There would thus be no need for separate legislation. In addition, unit pricing for a very limited number of products (see below) is already required for certain products, so a universal system of unit pricing would expand an existing system, rather than introduce a new and untried system.

Like all new regulation, the benefits of unit pricing must outweigh its costs. Supermarkets may be concerned about the cost of implementing a unit pricing system. Such costs will be minimal because most supermarkets have electronic scanning and computerised labeling systems and therefore already have the foundations of the technology required to print and display unit prices. In fact, the display of a unit price is already required under state law for certain fresh foods (eg. meat, cheese) sold in random packages. Supermarkets already implement this selective unit pricing system (the difference being that the unit price is typically attached on individual items, not to the shelf). Thus most supermarkets already have the basic technology and system required to implement broader unit pricing, and therefore the cost of regulation would be minimal.

The national supermarket chain Adli has recently introduced unit pricing across all its stores. The fact that Aldi has adopted unit pricing demonstrates that it can be implemented without significant costs to the business. Aldi has also said that a consistent, national approach would serve to benefit consumers and has called on other supermarket chains to adopt unit pricing.[9]

Format of display of unit price

The prominence of the display of unit price is critical to the effectiveness of a unit pricing system. A recent study tested the impact of different label formats on which unit prices were displayed.[10] It showed that the labels with more prominent, larger displays of unit price were more effective than the less prominent displays. That is, where unit price was more prominently displayed, shoppers were more likely to select lower unit priced items.[11] This was particularly so for consumers with low levels of price consciousness.[12]

Because of the importance of the format of display of unit price, we believe it is critically important for a national system to detail the required dimensions of unit price displays. While general requirements that displays be 'unambiguous, easily identifiable and clearly legible'[13] are useful, more specific detail is necessary for unit pricing. For instance, New Jersey requires the font of the unit price to be 'not less than 50 percent than that of the retail price.'[14] We recommend that the size of the font displaying the unit price be regulated. From the research done thus far, we believe a large, easily readable display of unit price will

[9] Aldi, Media Release – New Aldi price system helps shoppers see true value, 8 November 2007.
[10] Miyazaki, Anthony D. et al, 'Unit Prices on Retail Shelf Labels: An Assessment of Information Prominence', *Journal of Retailing*, Vol.76 No.1 2000.
[11] Ibid, page 107.
[12] Ibid, page 104.
[13] *The Price Marking Order 2004*, section 7 (1) (a), UK.
[14] *New Jersey Administrative Code, Administrative Rules of the Division of Consumer Affairs,* Subchapter 14 §13:45A-14.7 (1), New Jersey.

bring more consumer benefit than a unit price displayed in small font. We believe that further consumer testing may be necessary to determine the optimal display characteristics.

To give some indication of a possible minimum unit price display, in Queensland a shelf-label setting out the unit price of pre-packed random weight meat[15] must display the unit price in font at least 10mm high.[16] There is a need for regulation to specify both the general minimum unit price font size and the minimum size of the unit price in relation to the size of the actual item price. We believe the determination of such sizes is key to the success of a unit pricing system.

Advertising and on-line purchasing

There are clearly benefits from requiring the unit price to be published whenever the item price is published in advertising material. Unit pricing in advertising allows consumers to easily compare prices not only between items within a store, but between retailers. The UK and Irish approach, based on an EC Directive, requires the unit price to be quoted in most advertisements.[17]

There is also benefit from requiring the unit price to be published on websites used for on-line purchasing. The consumer benefit from the use of unit prices in these circumstances is clear, particularly considering the number of individuals who now purchase on-line. As Coles' online shopping website[18] displays unit prices when customers add products to their 'shopping cart', it is obviously not too great a technical hurdle to implement unit pricing for on-line shopping.

Exemptions

While the cost and burden of implementation of unit pricing will be small for most supermarkets, we recognise that for some small businesses the burden may be higher. We support consideration of possible exemptions for small businesses so that these are not subject to undue costs because of new regulation.

Exemptions could be given based on a number of factors, including size of business. We believe an examination of overseas jurisdictions would provide a useful common-sense checklist of necessary exemptions.

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[15] One of a few products in all Australian jurisdictions that, currently, must be unit priced.
[16] *Trade Measurement (Prepacked Articles) Regulation 1991 (Qld)*, regulation 28(2)(a)(i).
[17] *European Communities (Requirements to Indicate Product Prices) Regulations 2002*, section 5(4), Ireland; *The Price Marking Order 2004*, section 5(4), UK.
[18] http://www.coles.com.au.

If you would like to discuss any matters raised in this submission please contact Neil Ashton on 03 9670 5088.

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