

# **SUBMISSION TO THE NZ COMMERCE COMMISSION MARKET STUDY INTO THE RETAIL GROCERY SECTOR**

## **BACKGROUND**

I am a retired economist and I do voluntary work for the Australian consumer movement, including being on the executive committee of the Consumers Federation of Australia (the peak body for Australian consumer organisations).

I have a strong interest in unit pricing (pricing per unit of measure), especially for grocery products. I have been working on grocery unit pricing issues since 2003 and this has included observing and studying it, encouraging and assisting others to undertake research on it, publicising its benefits, and advocating for retailers to provide unit pricing that is very easy for consumers to notice, read, understand and use.

I am also knowledgeable about legal metrology (commonly referred to as weights and measures/trade measurement), especially the many aspects that are highly relevant to unit pricing. These aspects include requirements regarding the units of measure that can/must be used to indicate the quantity of product in packages and the units of measure used to indicate the price of grocery products sold loose from bulk and/or in pre-packages of random measure (such as cheese, nuts and dried fruit, and fresh meat, fish, fruit and vegetables).

I have visited New Zealand several times for several weeks during which I have used and studied the grocery unit pricing provided. In 2008, after failing to get a supermarket to correct inaccurate unit prices I made a formal complaint to the Commerce Commission which was investigated and acted on.

I have experienced and studied grocery unit pricing in many countries including eleven EU countries, the USA, Canada, South Africa, Namibia, and Japan, as well as in Australia and New Zealand. I have also obtained information from various sources about unit pricing in many other countries.

My unit pricing achievements include:

- Being awarded a Winston Churchill Fellowship to spend seven weeks studying unit pricing in the USA and four European Community/Union countries (Belgium, Ireland, Sweden, and the UK).
- Leading the Australian consumer movement's campaign that resulted in the ACCC in 2008 recommending the introduction of a national mandatory system of unit pricing of products sold in pre-packages of constant measure, and the federal government implementing the recommendation.
- Advocating for, and participating in the development of, Best Practice Guidelines on Unit Pricing by the USA's National Institute for Standards and Technology (NIST) .
- Representing Consumers International on an International Standards Organisation (ISO ) Project Committee that developed a Guidance Standard on Unit Pricing.
- Making submissions to official inquiries into grocery unit pricing in the UK and Australia.
- Undertaking research on the influence of print size and prominence on the effectiveness of unit prices on shelf labels, and on consumer use of and opinions on unit pricing.
- Encouraging and assisting researchers and consumer organisations in Australia and several other countries (for example UK, Germany, Canada, New Zealand, and Japan) to undertake research on grocery unit pricing issues.
- Via CFA, getting the ACCC and state and territory governments in 2020 to undertake a national consumer education campaign designed to help consumers, (including those for

whom English is not their first language) to be aware of and use grocery unit pricing, and assisting with the preparation of campaign material.

**More information about these achievements, including links to or copies of documents, can be provided if required.**

### **BENEFITS OF EFFECTIVE UNIT PRICING**

The many benefits for an economy and consumers from retailers providing consumers with effective grocery unit pricing (i.e. that is comprehensive, accurate and easy for shoppers to notice, read, understand and use) arise primarily from the resultant greatly increased price transparency which in turn results in:

- more informed, effective and efficient consumer choice
- time savings for consumers
- more direct feedback of consumer preferences to manufacturers and retailers
- increased competition between manufacturers/suppliers of grocery products and between retailers.

Effective unit pricing is particularly beneficial for grocery products because they are very numerous, bought frequently and, although the cost of each item is often low, for many consumers total expenditure on these products is large and it represents a high proportion of total expenditure.

It is important to recognise that effective unit pricing allows consumers to quickly and easily make **numerous** types of effective price/value comparisons including between:

- package sizes
- brands
- packaged and non-packaged products
- different types of packaging
- products in different forms (for example fresh, chilled, frozen, canned)
- products with different levels of convenience
- regular prices and special offers
- similar/substitute products
- retailers.

Effective grocery unit pricing also makes it much easier for consumers to notice and take account of:

- reductions in pack size not accompanied by reductions in price (“shrinkflation”)
- between-retailer differences in pack sizes for the same brand and product
- excessive slack fill in packages
- non-provision of net content information on the front of packages.

For retailers, the provision of effective unit pricing can increase customer satisfaction and repatronage intentions.

The consumer benefits actually obtained from the use of unit prices are influenced by many factors including:

- The quality of the unit pricing provided because usage is greatly reduced when: unit prices are inaccurate, difficult to notice and read, not well located; and inconsistent units of measure are used for different items of the same product sold in packages and for products sold in packages and loose from bulk. (Unfortunately, the quality of provision is often low.)
- The magnitude and significance of differences in unit prices between brands, packages, types of packages, products sold loose from bulk, substitute products. etc. (Differences in unit prices are often large.)

- Consumer awareness of, and willingness and ability to compare, unit prices. (This is often suboptimal due to inadequate provision and insufficient consumer education.)

Consequently, there are a wide variety of possible outcomes for consumers from the provision of unit pricing.

However, especially when unit pricing is provided effectively and there has been adequate consumer education, consumers prepared to change existing behaviours, can significantly reduce the cost of purchasing many goods and this can result in lower total expenditure on groceries or getting more for the same expenditure. Some research has also shown that for some products some consumers may use the introduction of unit pricing to change to higher unit priced items.

Australian research has shown that by using unit prices to compare values within and between grocery products sold pre-packaged and loose from bulk can allow consumers to achieve major savings on baskets of grocery items. For example, over 40% by changing only the brand of packaged products bought, over 20% by changing only the pack size within a brand, and 19% by choosing the lowest unit priced items when the product is sold loose from bulk and pre-packaged. Also, the unit price of products providing high levels of convenience (for example, pre-sliced/shredded cheese and individual serves of breakfast cereals) is often substantially higher than the same product in a less convenient form or packaging. So, consumer can often make large savings by comparing the unit prices of products offering different levels of convenience.

The following table shows the magnitude of differences in the unit price of several pre-packaged grocery items and the impact of consumer brand and pack size preferences on potential unit price savings. Three types of unit price comparisons were examined (of pack size within brand only, of brand only within pack size, and of both pack size and brand) for seven homogenous<sup>1</sup> pre-packaged products (butter, flour, sugar, rice, cheese, milk, and olive oil) in similar types of packaging. The percentage savings shown are what consumers could currently achieve at a major Australian supermarket by choosing the lowest unit price items rather than the highest when comparing regular<sup>2</sup> prices.

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<sup>1</sup> Homogeneous products were chosen to reduce the influence of quality differences.

<sup>2</sup> Special offer unit prices were not included because these are usually temporary. However, since special offers are very common in most supermarkets and whether they provide the best value for money (in terms of unit price) relative to alternatives can vary greatly. Therefore, it is essential that retailers provide the unit prices for special offers as well as for products on offer at regular prices..

**UNIT PRICE SAVINGS POSSIBLE WITH THREE TYPES OF UNIT PRICE  
COMPARISONS FOR SEVEN SIMILARLY PACKAGED HOMOGENOUS FOODS IN A  
LARGE AUSTRALIAN SUPERMARKET**

*February 2021*

**Comparison 1. Different pack size within a brand**

*(How much unit pricing could save you if you want your usual brand but will consider a different quantity.)*

<b>Food</b>	<b>Pack size comparison</b>	<b>National Brands</b>	<b>Supermarket own brand</b>
Salted butter	500g vs 250g	19%	11%
Self Raising Flour	2kg vs 1kg	17%	10%
White Sugar	2kg vs 1kg	33%	10%
White long grain rice	2kg vs 1kg	17%	0%
Tasty cheese block	1kg vs 500g	4%	17%
	500g vs 250g	42%	34%
Full cream milk	3L vs 2L	2%	0%
	2L vs 500mL	29%	33%
Extra virgin olive oil	1L vs 500mL	14%	13%
	Average	20%	14%
	Range	4% to 42%	0% to 34%

**Comparison 2. Same pack size between brand**

*(How much unit pricing could save you if you want your usual pack size but will consider a different brand.)*

<b>Food</b>	<b>Pack size</b>	
Salted butter	2kg	23%
	1kg	30%
Self Raising Flour	2kg	64%
	1kg	67%
White Sugar	2kg	25%
	1kg	44%
White long grain rice	2kg	30%
	1kg	42%
Tasty cheese block	1kg	34%
	500g	24%
	250g	33%
Full cream milk	3L	31%
	2L	33%
	500mL	28%
Extra virgin olive oil	1L	42%
	500mL	43%
	Average	37%
	Range	23% to 67%

### **Comparison 3. Different pack size between brands**

*(How much unit pricing could save you if you will consider purchasing any brand and any pack size.)*

<b>Food</b>	
Salted butter	38%
Self Raising Flour	70%
White Sugar	50%
White long grain rice	42%
Tasty cheese block	63%
Full cream milk	52%
Extra virgin olive oil	50%
<b>Average</b>	<b>52%</b>
<b>Range</b>	<b>38% to 70%</b>

Notes:

1. The unit prices were calculated in relation only to regular (not special offer) selling prices.
2. The % saving is the difference between the highest and the lowest unit price as a % of the highest unit price.
3. For cheese and milk there were 3 pack sizes and for butter, flour, olive oil and sugar there were 2.
4. In Comparison 1 the larger pack's unit price was always lower (or equal to ) than the smaller pack's.
5. In Comparison 2 the supermarket own brand's unit price was always lower than the national brand's.

The range in unit price savings possible within each type of comparison was very large between items. For example, in Comparison 1 (comparing pack sizes within brand) the range for the national brands was 4% to 42% (average 20%) and 0% to 34% (average 14%) for the supermarket's own brand. Interestingly, the unit prices for different pack sizes of two items were equal and very small (2% and 4%) for two other products. This illustrates very well why using rules of thumb<sup>3</sup> (heuristics) for product choice is less effective for achieving savings than comparing the actual unit prices.

Relevant also to the need to compare actual unit prices, in this exercise all the unit prices of the large packs were either lower than, or equal to, those of the small packs i.e. there were no quantity surcharges. However, quantity surcharges do exist.

Regarding between brand differences in unit price for the same pack size (Comparison 2), the unit price of the supermarket's own brand was always substantially lower than the national brand's. The range was 23% to 67% and the average was 37%.

And, as expected given the results from Comparisons 1 and 2, the % differences between the highest and lowest unit prices (the maximum potential savings) were very high (the range was 38% to 70% and the average was 52%) when in Comparison 3 it was assumed that the consumer was indifferent to pack size and brand and would choose the lowest unit priced item.

#### **RESPONSES TO SPECIFIC QUESTIONS**

**Q1 Do you agree with our preliminary view on the grocery products to be considered in the study, as described in paragraph 29 and Table 1? Why/why not?**

<sup>3</sup> For example, the largest pack size will always have the lowest unit price, the unit price of an item sold pre-packaged will always be higher than when sold loose from bulk, and the temporary special offer will always offer the best value for money.

No

The following should be included because many consumers buy them at grocery retailers and they are also sold by other types of retailers:

- Pet foods
- Non prescription medicinal products e.g. analgesics, sunscreens, wound coverings
- Vitamins and other nutritional supplements
- Batteries

### **Questions on factors which may affect consumers' ability to make well-informed decisions**

#### **Q42 How relevant do you consider consumers' access to information is to our study?**

Extremely relevant.

However, access alone is not sufficient to enable consumers to make well-informed decisions and to achieve the public policy objectives. To do this the information needs to be accurate, very easy to notice, read, understand, and use. Plus, consumers need on-going reminders and education about the availability of the information, the benefits of using it, and how to use it.

#### **Q43 How do consumers compare offerings across grocery retailers? Where do consumers access the information they need to make these comparisons (for example, advertising by grocery retailers, price comparison websites)?**

Most consumers take into account price/value when comparing products and the offerings of grocery retailers.

Many consumers also take into account numerous other matters, for example nutritional composition, ingredients, warnings, country of origin, and use by/best before dates. Therefore, grocery retailers need to ensure that consumers have easy access to this information in all situations not just in store where normally they can get it from the labels on packaged products or near products sold loose from bulk. This means that grocery retailers need to ensure that the required information is provided on websites (and other places) where products are offered for sale and in all types of advertising.

#### **Q44 How easy is it for consumers to compare product offerings once in store? What factors influence this?**

In my experience, and as indicated by work undertaken by Consumer NZ, it is definitely not easy enough for NZ consumers to compare value for money because grocery retailers are not required to provide:

- the unit price (price per standardised unit of measure) for grocery products sold in fixed measure pre-packages.
- unit pricing that meets certain standards of accuracy, quality of display, and uniformity/consistency in the units of measure used for unit pricing of products in fixed measure packages.

As a result New Zealand's economy and consumers are currently obtaining far less benefit from unit pricing than could be achieved with a better system.

The unit pricing currently provided is very sub optimal due to inconsistent and intermittent provision, inconsistency in the units of measure used for the unit prices, and the inadequate prominence, legibility and location of unit prices.

Consumers are also disadvantaged because some retailers do not provide unit prices on their websites or in advertising.

NZ consumers need a mandatory comprehensive, integrated and consistent unit pricing system that covers grocery products sold loose from bulk, and in random and constant measure pre-packages. To achieve this may require not only legislation to require retailers to provide unit pricing for products sold in pre-packages of constant measure but also changes to trade measurement legislation relating to quantity information on packaged product and the unit pricing of products sold loose from bulk and in pre-packages of random measure.

In this regard it is important to recognize that the Australian system for unit pricing constant measure prepackages takes account of trade measurement requirements for unit pricing products sold loose from bulk and in random measure prepackages. For example, for products such as meat, fish, cheese, fruit and vegetables, etc. which are sold loose from bulk and/or in random measure prepackages (many of which must be unit priced per kg) the unit of measure for the unit price of these products in constant measure packages must also be kg. This is to ensure consistency of unit pricing of products sold in different forms and thus facilitate unit price comparisons. The standard unit of measurement for the unit pricing for other products sold by weight in constant measure prepackages was set at 100g. I do not support this and consider that, as in the EU, large units of measure (such as kg and litre) should be the standard units of measure and that others should only be allowed when justified for example for products normally sold in very small packages, such as herbs and spices.

This market study gives New Zealand an opportunity recognise the need for major improvements to the current unit pricing arrangements and to introduce a much more effective system.

The design and implementation of such as system should be guided by the experiences of other countries, including Australia, and by recent publications on the provision of effective unit pricing. Examples of such publications include:

ISO 21041:2018 Guidance on unit pricing

Available for purchase here

<https://www.iso.org/standard/69727.html>

NIST SP 1181 Unit Pricing Guide “A Best Practice Approach to Unit Pricing”

Available free here

<https://www.nist.gov/system/files/documents/2017/04/28/SP1181-Unit-Pricing-Guide.pdf>

The German standard DIN 1450:2013-04 Lettering – Legibility which recently has been published in English and which can be purchased here:

<https://www.beuth.de/en/standard/din-1450/170093157>

is also an extremely useful source of information relevant to the display of printed unit prices since it:

- Indicates the main factors that influence text legibility and to be considered when planning and executing the provision of printed information.
- Contains minimum type sizes for different types of text (signage, consultation, and body) at different viewing distances.
- Contains a formula to increase the type size to compensate for perpendicular text being viewed from above or below (a common situation with unit prices in stores).
- Contains type size conversion factors related to the viewer’s visual acuity and the luminance of the substrate.