

Submission to the Review of Retail Grocery Industry (Unit Pricing) Code of Conduct

28th February 2019

By Email: UnitPricingReview@treasury.gov.au

Unit Pricing Code Consultation Paper
Consumer and Corporations Policy Division
The Treasury
Langton Crescent
PARKES, ACT 2600

Dear Secretariat,

We thank the Treasury for the opportunity to comment on the Retailer Grocery Industry (Unit Pricing) Code of Conduct (the Code).

The Consumer Policy Research Centre (CPRC) is an independent consumer research organisation which undertakes research to inform policy reform and business practice change. Our goal is to achieve a fair outcome for all consumers. We conduct research across a range of consumer markets, with a focus in 2018 on consumer decision-making, housing, consumer data and the online marketplace. We work collaboratively with academia, industry, government and the community sector.

Last year CPRC published a report considering the demand-side settings necessary to facilitate effective product/service comparison and choice. Our report, *Five Preconditions of Effective Consumer Engagement – a conceptual framework*, draws on much of the behavioural literature on consumer decision-making and outlines a range of interventions across different sectors to demonstrate how the preconditions might be implemented by regulators and policymakers.¹

We attach the report in full to this submission and consider the *Review of Retail Grocery Industry (Unit Pricing) Code of Conduct* consultation paper through this lens. In particular we would highlight preconditions 2 and 3:

- **Key product information is disclosed in a relevant, clear and comprehensible manner:** Consumers need to be access information about different products or services to enable simple and accurate comparisons.
- **Comparison tools are accurate, simple and effective:** Consumers can easily compare different products with minimal financial or thinking costs which can create barriers to choosing a product that better suits their needs.

¹ Consumer Policy Research Centre, *Five Preconditions of effective consumer engagement – a conceptual framework*, March 2018.

1. Has the Code helped consumers make informed decisions when purchasing grocery items and improved price competition? How so?

In our view, standardised unit pricing provides a particularly useful tool to understand the cost of a product and enables consumers to better compare the cost of different products. Standardised unit pricing of products across different supermarkets and even different mediums is also important – if consumers cannot rely on consistent measures they may be unable to effectively compare and evaluate whether the price presented represents value or how a price compares to the price of the same product elsewhere, or similar products stocked in the same store or elsewhere.

The literature from behavioural economics indicates consumers decision-making deteriorates as choices become more complex. Far from being perfectly rational actors that rational choice theory predicts, consumer-decision making is affected by a range of biases and limitations. Where individuals encounter an overwhelming amount of information, their capacity to identify products that suit their needs deteriorates, resulting in poor choices or even no choice at all.

Among the literature examining the behavioural effect of unit pricing, there is broad agreement that unit pricing makes consumers more inclined to identify and purchase lower unit priced products – providing obvious consumer benefit. Unit price information reduces consumer confusion when faced with numerous combinations of prices and sizes of homogenous products.²

More recent evidence has found that unit pricing has additional benefits for consumer decision-making. In a multi-part study, Yao and Oppewal found unit pricing shifts consumers choices to products with lower prices, even where competing brands are packaged in identical quantities.³ Moreover, the presence of unit pricing has a positive motivating effect on consumer's motivation to choose cheaper products.⁴ And contrary to the researchers' expectations, "participants perceived the equal-sizes shopping task as less difficult when unit prices were provided" – which suggests that consumers may use unit pricing as a heuristic.⁵ In its second part, the study found that "the presence of unit prices also tends to increase the price sensitivity at the individual level, particularly for less price-conscious consumers".⁶ And in its third part, the study found:

"While the price discount setting makes price information more salient in general, we find that unit pricing further increases consumer price sensitivity, resulting in a greater perceived value of the discount when unit prices are present".⁷ Moreover, "the results of the mediation tests demonstrate that unit pricing increases consumers' purchase intention for a discounted product because it increases the perceived value of the discount".⁸

² Yao, Jun, and Harmen Oppewal. "Unit pricing increases price sensitivity even when products are of identical size." *Journal of Retailing* 92, no. 1 (2016): 110

³ *Ibid.*, 113

⁴ *Ibid.*

⁵ *Ibid.* 114

⁶ *Ibid.* 116.

⁷ *Ibid.* 118

⁸ *Ibid.*

This evidence demonstrates the value that unit pricing has as an aid for consumer decision-making.

2. If the Code is not remade, what implications would this have on the application of unit pricing in Australia?

While CPRC cannot comment on all potential implications if the Code is not remade, we would urge the Treasury to consider the energy market, where an absence of comparable pricing has prompted significant government scrutiny and intervention – first the *Independent and Bipartisan Review of the Electricity and Gas Retail Markets in Victoria*, and then the ACCC's *Electricity supply & prices inquiry*. Both final reports identified consumer's inability to understand and compare price as a key issue relating to the effectiveness of the operation of these markets. This has been driven in large part by the use of discounting as an increasingly prominent marketing tactic, with numerous incidences of retailers increasing the base from which a discount was applied, resulting in the significant inflation of the size of percentage discounts, causing direct harm to consumers through misleading and deceptive behaviour.⁹ Both the Commonwealth and Victorian governments have adopted relevant recommendations from their respective inquiries to develop a "default offer" as a means to provide a reference point for all discounts. Given the cost of continuing unit pricing is estimated to be low, removing this useful comparison and accountability tool will likely see significant material harm to consumers resulting from misleading and deceptive behaviour.

5. Are there any refinements that could be made to ensure ongoing efficiency and effectiveness of the Code, while also improving outcomes for consumers?

In a (forthcoming) academic study, Bogomolova *et al* explored the effect of changing the presentation of unit pricing – highlighting the unit pricing in yellow – utilising eyeball-tracking technology. The study found that this particular alteration of unit pricing resulted in "greater fixations on the unit price information".¹⁰ The authors conclude that the "improved layout increases potential usability of unit prices in better-informed grocery decisions" even if end choices do not result in consumers buying cheaper per unit price options.¹¹ These findings are important, as evidence suggests that some consumers may not be aware of unit pricing.¹² Of CPRC's five preconditions, our fifth precondition relates to consumer *awareness* of the tools available to aid decision-making. Where consumers are unaware of tools, they may not use them. Testing new presentations of unit pricing through new methodologies such as eyeball-tracking may help to improve the awareness and use of unit pricing, further improving the consumer benefit delivered.

In our view, there is value in testing the comprehension of unit pricing and its presentation with particular segments of the community who may encounter other barriers to engaging in markets or understanding of decision aids. For example, 54 percent of Australians (aged 15-74) are functionally innumerate and 44 percent of Australians (aged 15-74) are functionally illiterate.¹³ For some within this large segment of the Australian population, unit pricing may

⁹ <https://www.accc.gov.au/media-release/accc-takes-action-against-click-energy-for-misleading-savings-claims>

¹⁰ Bogomolova, Svetlana, Harmen Oppewal, Justin Cohen, and Jun Yao. "How the layout of a unit price label affects eye-movements and product choice: An eye-tracking investigation." *Journal of Business Research* (2018).

¹¹ Ibid.

¹² See Yao and Oppewal. "Unit pricing increases price sensitivity even when products are of identical size."

¹³ Australian Bureau of Statistics, Programme for the International Assessment of Adult Competencies, Australia, 2011-12, 2013, Excel spreadsheet, cat. No. 4228.0

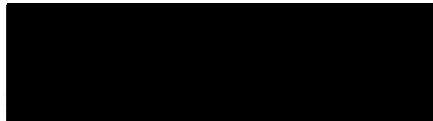
be difficult to understand without some further explanation, while for others, different presentations may lead to increased take-up.

As markets increasingly move online, we strongly urge the wider adoption of standardised unit pricing, consistent with “offline pricing” of the same or similar products. Absent clear means to compare price across different mediums, consumers may be misled by more dynamic forms of pricing being adopted in other industries. As the consultation paper notes, significant growth of online grocery shopping has not yet emerged. However, following Amazon’s entry into Australia last year, Amazon has quickly expanded its range into online groceries, with more than 2500 products available by December 2018.¹⁴

We strongly encourage the Treasury to remake and continue the Code through the necessary legislation. In addition, we strongly support the recommendations of the Queensland Consumer Association to improve the efficacy of the Code as currently legislated, as outlined in their submission to this consultation process. Many of the recommendations outlined in the Queensland Consumer Association submission are reinforced by the academic literature, identified in this submission.

If you have any queries about this submission, please don’t hesitate to contact Research and Policy Officer, [REDACTED] at [REDACTED] or [REDACTED].

Yours Sincerely,



Lauren Solomon
Chief Executive Officer
Consumer Policy Research Centre

¹⁴ <https://www.afr.com/business/retail/amazon-australia-set-to-take-bigger-bite-of-groceries-with-subscribe--save-20181211-h18zlu>