Submission to GROCERY Choice Senate Inquiry

by

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Shopping for groceries undoubtedly presents challenges to consumers with busy lives and finite cognitive capacities. Rational choice is inhibited by the following:

- The sheer number of products between which choices are being made (over 10,000 in a large traditional supermarket, probably around 700 at Aldi).
- The memory demands caused by major differences in store layouts between chains and periodic changes in them, which make periodic intelligence gathering time consuming and encourages consumers to stick to one chain.
- Differences in store layouts even between branches of a particular chain, which discourages shopping 'on the run' at whichever branch happens to be convenient and thus makes it easier for each chain to engage in price discrimination between stores in a particular city.
- Differences in pricing strategies—for example, one chain may compete via offering variable 'specials' while another may focus more on 'everyday low prices' across a wider range of products.
- Some shopping malls only have one supermarket, while some of those that have more than one have them at a considerable distance from each other within the mall. The latter is something that is perfectly rational for mall managers to have in order to promote browsing in other kinds of stores but which adds to the time costs of consumers who are simply shopping for groceries.

Price information is thus costly to gather and frequent changes of price (some due to seasonal factors and others due to strategic behaviour by the stores) make the payoffs to investing in gathering such information short-lived.

These factors do suggest the public interest would be served if consumers had access to the grocery equivalent of webjet.com. What consumers need is *not* a website that has enumerators collecting data from various locations regarding the costs of buying a 'typical shopping trolley load' of groceries. Such a website would be inherently flawed since the data will inevitably be out of date and the mixes of groceries vary vastly between different households due to differences in household composition, dietary habits, shopping strategies and capacities to store groceries at home.

Rather, what consumers need is a fully automated website that is based on real-time unit-price data that comes directly from the stores' own information systems. Such a website needs to be designed so that consumers can store their own shopping list 'favourites' rather than hunting for them each time on hierarchical menus. Consumers should be allowed to specify their favourites in terms of particular branded products (e.g. Heinz vegetarian baked beans, 500g) or by category. It needs to enable them to mark which of these favourites they wish to buy on the particular shopping trip, and to add to it non-standard items for that particular trip. It should also allow them to specify a set of preferred shopping centres. Once a consumer have entered their requirements, the website should enable them to download two kinds of output: (a) which supermarket is cheapest if they wish to cut their shopping costs by doing a one-stop shop, and what is the cheapest way of getting the items on their shopping list within their stated geographical area (they should be presented with a list of what to buy at which store).

The technology exists to do this, and because it would be fully automated it would be cheap to run once the fixed costs of setting it up had been incurred. The main updating problem to address would be changes to the menu of items as new products are introduced and others are discontinued, but this surely can be automated since = the stores themselves have to record this in their own information systems. Each store's scanning and checkout systems are based upon the necessary data (even unit price data are now built in as this is displayed in shelf labels). Auditing would be easier in so far as the system works in real time and spot checks could be done by comparing what the system displayed for a particular store on a laptop connected by mobile broadband to what was evident on the shelves in that store.

Clearly, stores are likely to complain that such a system is onerous because, if they do not do nationwide or state-wide pricing, each store's information system will have to be hooked up to the website. The lack of standardized prices across a particular chain would indeed add to the costs of developing the website. However, regulators and policymakers need to remember that differences in prices for individual items within a particular geographical area are not driven by differences in transport costs (whereas they might be between metropolitan stores and those in rural and regional locations). Such price differences are essentially ploys by the stores to maximise returns by price discrimination and the result quite often can be that those who are poor, either in terms of access to transport or time to shop, end up paying more than those who are better endowed with resources. If the major chains were to use the lack of uniform pricing in their stores as a mean of arguing against the introduction of regulations requiring them to provide the necessary price information, there is a strong case for introducing regulations that require them to have uniform prices within each urban area, if not state-wide or nationwide. If Aldi can do it, their major rivals can, too.

In some markets, price comparison websites emerge without any intervention by governments because entrepreneurs see scope for making profits by devising and running them and the firms whose prices are being compared see strategic

reasons for joining them. These kinds of websites work without compulsion because they function rather like what economists call ' Marshallian business districts'. Over a century ago the British economist Alfred Marshall noticed that firms selling similar kinds of products often grouped together: although this put them under much greater pressure to match their rivals' prices compared with a situation in which they were spread out and each served a distinct geographical area, this sacrifice was worth making because there were advantages of being next to their rivals: more customers would arrive with lower marketing costs (a firm that locates in such a district can piggyback on the marketing efforts of its rivals nearby) and the firms themselves were in a better position to gather intelligence about their rivals' behaviour, which could enable them to position themselves more accurately to serve particular market niches, and so on. (Such districts also provide opportunities for firms to specialize much more and benefit by easier access to skilled personnel from each other, as with Hollywood and Silicon Valley.)

The Australian grocery market does not appear to be one where we can yet expect this to happen without Government intervention. Matters might be rather different if the market were less of a duopoly. A virtual Marshallian business district becomes viable when there are many players keen to grab a share of the market and where the website can reduce their costs of displaying what they have to offer, for example, as with Amazon.com's 'marketplace' system, and where the product is commonly purchased online and involves network externalities that promote sharing of data, as with airlines.

Even so, it might be argued that the case of government intervention and a government-sponsored website is weaker than the foregoing arguments might appear to imply. The key to this argument is the emergence of online shopping opportunities with the major supermarket chains and the increasingly wide geographical availability of these services. By using two web-browser windows, it is perfectly possible to compare the current costs of shopping at Coles and Woolworths and work out which item to buy from which store. The problem, of course, is that, as yet, one cannot extend the comparison to rival chains such as Aldi and IGA in one's area, who might actually be offering the products for less but do not offer online shopping. Neither can one be sure that online prices are the same as prices in the stores—and this is significant since economists would expect differences between online and in-store prices as part of such firms' price discrimination strategies.

If online grocery shopping becomes so common that all supermarket chains offer this service, it will become possible to compare like with like and, if this encourages greater entry by new chains (since access to prime mall sites will not be such a concern—in fact, a specialist online supermarket could be located in an industrial estate), the competitive situation that consumers face will change drastically. Although such an environment will make it easier for consumers to shop rationally than they can right now even if there is no comparison website for groceries, such a website would be more likely to emerge if the number of players in the market increased greatly.