5. Other Influences on Prices

Departmental Profit Level

29. A conventional retailer told the Sub-committee that prices were set to meet an overall profit objective for each department in his store. Some products provided the department with little return and the overall profit objective of the department was maintained by the higher returns achieved by high mark-up lines. This practice is known as cross-subsidisation.

30. The practice of cross-subsidisation is widespread in retailing and several arguments are usually advanced to support it. Firstly, it is argued that some products, such as slow selling lines or items requiring special storage facilities, absorb a greater share of overhead costs and consequently require a greater than average mark-up. Secondly, retailers could argue that consumers expect low prices on some commodities such as sugar or tea and these items are sold at, or near, cost. Consequently, extra profit has to be made on other items. Thirdly, for marketing reasons, retailers sometimes offer items with little or no mark-up to attract customers into their stores and, again, their overall profit level is maintained by higher mark-ups on other items. While not necessarily endorsing these arguments, the Committee points out that they cannot be applied to carpet tile retailing. The effect of this practice on the general price level is a complex matter and the Committee will include this subject in the study mentioned in paragraph 35.

Discounts from Manufacturers

31. Reference has already been made to the competitive incentive provided by discount houses whose development was encouraged by the banning of resale price maintenance. Discount houses also take advantage of low overhead expenses,

high turnover and keen wholesale prices. The Sub-committee was told that the major manufacturer of carpet tiles allows discounts according to the monthly volume of sales. These discounts are available to all retailers who qualify for them.

32. The Sub-committee was told that volume discounts from manufacturers were based on the rationale that a larger volume of sales resulted in economies of scale in manufacturing and these economies were passed on to retailers. The Committee recognises that larger production runs will only result in decreased costs per unit in the short term where spare plant capacity exists and this is apparently the case with the major manufacturer of carpet tiles. The Committee believes that these discounts have enabled discount houses to compete more effectively with conventional retailers. However, conventional retailers' reliance on recommended prices prevents the benefits of manufacturers' discounts being passed on to consumers and could result in higher mark-up to retailers.

<u>Laying Charges</u>

33. There is a wide variation in the cost of laying carpet tiles. Retailers commonly arrange for the tiles to be laid by contractors and the cost passed on to the purchaser. A retailer told the Sub-committee that his contractor had been charging $1.00 per square yard to lay carpet tiles but during this Inquiry learned that they could be laid for 65 cents per square yard.

<u>Efficiency of Retailing</u>

34. The Sub-committee was told that there is some inefficiency in the retail industry and that this inefficiency is inherent in the nature of the trade. It is inevitable that the costs associated with this inefficiency are reflected in higher retail prices and the Committee believes that insufficient attention has been given to this problem.

35. The Committee believes that consumers are paying unreasonably high prices in some cases because of costs associated with outdated and inefficient retailing methods. The retail sector absorbs a considerable proportion of resources and its inefficiencies add to retail prices. Past studies of productivity in Australia have concentrated on the manufacturing sector and the Committee intends to turn its attention within the limits of its resources to a study of the productivity and efficiency of retailing. The Committee notes that the National Bureau of Economic Research has commissioned such a study for the United States of America. The study was published under the title The Service Economy and written by Victor R. Fuchs, professor of economics at the City University of New York.

C.J. Hurford

C.J. HURFORD
Chairman

4th December 1973

APPENDIX

LIST OF WITNESSES

LOOSLEY, Mr Linden Bryan, General Manager, Norman Ross (Canberra) Pty Ltd.

ROBINSON, Mr Jack Ernest, Managing Director, Heuga Australia Pty Ltd.

WOODRUFF, Mr Robert Charles, General Manager, Charles Rogers and Sons Pty Ltd, trading as Mates, Canberra.

LIST OF PERSONS PRESENTING SUBMISSIONS INCORPORATED IN THE TRANSCRIPT OF EVIDENCE

HOLLANDS, Mr George Thomas, Group Administrative Executive, The Myer Emporium Ltd.

JONES, Mr Jack, Executive Officer, Carpet Manufacturers' Federation of Australia.

EXHIBIT

Exhibit 1 : The following attachments to the submission from the Carpet Manufacturers' Federation of Australia:

"Manufacturers in Australia of Textile Floor Coverings as at October 1973".

"Description of Carpet Manufacturers' Federation of Australia".

"Australian Carpet Industry and Tariff Board Inquiry concerning General Tariff Duty Rate".

"The Supply Production Plus Imports, Excluding Sisal and Wire Coir - June 1973".