PRICES OF HOUSEHOLD SOAPS AND DETERGENTS

Report From The Joint Committee On Prices

Canberra: 1974
THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

STATEMENT BY SENATOR A.T. GIETZELT,
MEMBER OF THE JOINT COMMITTEE ON PRICES,
WHEN TABLING IN THE SENATE THE REPORT ON
PRICES OF HOUSEHOLD SOAPS AND DETERGENTS

This Report on the Prices of Household Soaps and Detergents which has just been tabled is the first Report of the Joint Committee on Prices established in the Twenty-ninth Parliament. The Report will be tabled in the other place by the Chairman of the Committee, Mr C.J. Hurford, M.P., at the commencement of the Budget sittings.

On behalf of the Chairman of the Committee, I wish to outline the salient features of the Report.

The Inquiry on which this Report is based was conducted by the Committee established in the Twenty-eighth Parliament. The views, conclusions and recommendations, however, are those of the present Committee.

Briefly, the Report underlines the value of price investigations that encompass an industry rather than the individual companies that constitute that industry. Thus, the industry examination shows that the starting point for analysis is the domination of the market by the two major manufacturers who between them control over 80 per cent of the market. Interestingly enough, where their market power is reduced as it is in the dishwashing (or liquid) detergent part of the market (where they control less than 45 per cent), cost increases have been absorbed with the result that the rate of price increase has been less frequent than in other sections of the market.

With the above exception, the Committee has found that this industry exhibits an absence of real or effective competition. Incidentally, this conclusion is not very different to the one arrived at by the United Kingdom Monopolies Commission that examined the household detergents industry in that country.

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The absence of real or effective competition has been reflected in:

(i) the absence of price competition (with the exception of dishwashing detergents referred to previously);

(ii) the unnecessary proliferation of brands;

(iii) an excessive amount of advertising (which also misleads the consumer);

(iv) unduly high profits.

It is against this background that the Committee drew up its recommendations. The first two recommendations deal with reducing the level of advertising by the two major manufacturers. The Committee has asked the Attorney-General to inform the major manufacturers of the Committee's wish to see them enter into a voluntary agreement to reduce the amount of advertising so that the consumer could benefit from lower retail prices. The Committee is convinced that such an agreement would confer a specific and substantial benefit to the public which would not be available without that agreement (see Section 90(5) <u>Trade Practices Bill</u> 1974).

The Committee also asks the Australian Government to invite the Prices Justification Tribunal to examine the question of excessive advertising in this industry. This would be particularly appropriate if the major manufacturers are reluctant to enter into a voluntary agreement.

The other recommendations could be divided mainly into two sections. The first deals with the establishment of standards and the testing of products against these standards. These recommendations are made to the Minister for Science who is responsible for the Interim Commission on Consumer Standards. The second set of recommendations directly benefit the consumer. The Committee has recommended

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that some financial assistance be given to consumer organisations to assist them publicise the results of the tests. In another recommendation the Committee has asked the Minister for Science to assist consumers to draw up questionnaires that would ask manufacturers and others to substantiate the claims made in their advertising.

These recommendations could assist the consumer to make a more informed choice by reducing consumer exposure to meaningless messages such as 'whiter than white' and also by increasing consumer awareness of the quality of competing products. This in turn could lead to greater purchases of good quality, lower priced products and thereby hopefully permit price competition rather than competition based mostly on advertising and brands.

Finally, once again as a means of encouraging competition in the domestic market, the Committee has recommended that the question of the level of protection given to the industry be referred to the Industries Assistance Commission.

To sum up then, the view of the Committee is that the adoption of these various recommendations would have a twofold impact. First there would be a reduction in retail prices if the level of advertising were reduced. This would constitute visible benefits to the consumer. Secondly, the other recommendations could increase the efficiency of the industry by stimulating a more meaningful type of competition. This would result in prices being at a lower level than they would otherwise be and would accrue to the consumer in the longer term.

I commend the Report to the Senate.

August 1974

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

PRICES OF HOUSEHOLD SOAPS AND DETERGENTS

Report From The Joint Committee On Prices

THE GOVERNMENT PRINTER OF AUSTRALIA
Canberra: 1974

JOINT COMMITTEE ON PRICES

The Committee was appointed by resolution of the Senate on 23 July 1974 and the House of Representatives on 18 July 1974 to inquire into and, as appropriate, report upon -

(a) complaints arising from prices charged by private industry and by the public sector;

(b) movements in prices of goods and services in particular fields or sections of private industry and the public sector, for example, as measured by price indices;

(c) such other matters relating to prices as may be referred to the Committee by resolution of either House of the Parliament.

These terms of reference are identical with those of the Committee established by the Twenty-eighth Parliament. On 10 May 1973 that Committee resolved that two Sub-committees be formed to be known as Sub-committee 'A' and Sub-committee 'B' and on 19 June 1973 directed Sub-committee 'A' to inquire into prices charged for soaps and detergents.

At the dissolution of the Twenty-eighth Parliament Sub-committee 'A' had completed its Inquiry but was unable to report to the Committee. On 30 July 1974 the present Committee resolved that it resume the Inquiry into prices charged for household soaps and detergents commenced by its predecessor in the Twenty-eighth Parliament.

The conclusions and recommendations in the Report are those of the present Committee. References to Sub-committee 'A' (and to the Committee in Chapter 1 in the Report), however, are references to the previous Committee.

Personnel of the Committee

Chairman	Mr C.J. Hurford, M.P.
Members	Senator F.M. Chaney
	Senator R.N. Coleman
	Senator A.T. Gietzelt
	Senator D.B. Scott
	Mrs G.J.L. Child, M.P.
	Mr J.C. Hodges, M.P.
	Mr J.W. Howard, M.P.
	Hon. R.S. King, M.P.
	Mr R.B. Whan, M.P.
	Mr R. Willis, M.P.
Clerk to the Committee ..	Mr M.E. Aldons

Personnel of the Committee in the Twenty-eighth Parliament

Chairman	Mr C.J. Hurford, M.P. *
Deputy Chairman	Rt Hon. J.G. Gorton, C.H., M.P. *
Members	Senator A.T. Gietzelt
	Senator M.G.C. Guilfoyle *
	Senator J. O'Byrne *
	Senator E.W. Prowse [1]*
	Senator D.D. Reid [2]*
	Hon. R.V. Garland, M.P.
	Hon. P.J. Nixon, M.P.
	Mr R.B. Whan, M.P.
	Mr R. Willis, M.P. *
Clerk to the Committee ..	Mr M.E. Aldons

* Members of Sub-committee 'A'

1 Senator E.W. Prowse resigned his place in the Senate on 31 December 1973.

2 Senator D.D. Reid was appointed to the Committee on 7 March 1974 and was appointed to Sub-committee 'A' by resolution of the Committee on 14 March 1974.

The Adviser to the Committees was Mr W. Kimble, Lecturer in Economics, School of Economic and Financial Studies, Macquarie University. The Committees also engaged the services of Price Waterhouse & Co. as accounting adviser to analyse the financial information.

Professor L.R. Webb, Truby Williams Professor of Economics, University of Melbourne, general adviser to the Committee established in the Twenty-eighth Parliament and Professor J.McB. Grant, Professor of Applied Economics, University of Tasmania, Hobart, the general adviser to both Committees gave advice on the new investment test described in paragraphs 123 to 126 of this Report.

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List of Appendices

RECOMMENDATIONS

The Committee recommends that:

(i) the Attorney-General informs the major manufacturers of the proposal by the Committee for a voluntary agreement that limits advertising expenditure -

- the companies should reciprocate and reduce their selling prices accordingly

(paragraph 139)

(ii) the Australian Government invites the attention of the Prices Justification Tribunal to the need to examine the question of excessive advertising by the major manufacturers when the next application for a price increase for household soaps and detergents is made by them

(paragraph 140)

(iii) the Minister for Science, through the consumer protection authority for which he has responsibility, assists consumers and consumer organisations to draw up questionnaires which would ask companies to substantiate the advertising claims they make

(paragraph 142)

(iv) if the Trade Practices Bill 1974 becomes operative the Attorney-General brings to the attention of the Trade Practices Commission the comments made by the Committee on ambiguous advertising in the household soaps and detergents industry that misleads the consumer

(paragraph 144)

(v) the Minister for Science requests the Interim Commission on Consumer Standards to assist the Standards Association of Australia to develop standards for household soaps and detergents by making available staff time and equipment in Government controlled laboratories

(paragraph 147)

(vi) the Minister for Science requests the Interim Commission on Consumer Standards to contract with appropriate laboratories to test household soaps and detergents as soon as possible and to publish the results of these tests

(paragraph 148)

(vii) the Australian Government provides some financial assistance to consumer organisations which publicise these and similar tests

(paragraph 149)

(viii) the question of the level of protection on household soaps and detergents be referred to the *Industries Assistance Commission*.

(paragraph 151)

The Committee draws the attention of the Parliament to paragraphs 138 and 143 of the Report. These paragraphs deal with (a) the control of tallow prices; and (b) the way in which the regulation of advertising can be achieved.

REPORT ON PRICES OF HOUSEHOLD SOAPS
AND DETERGENTS

1. Introduction

The Reference

The Resolution of Appointment of the Committee allows it to inquire into and, as appropriate, report upon complaints arising from prices charged by private industry and the public sector. The Committee has received complaints on increases in retail prices of a number of commodities. One of these is household soaps and detergents.

2. In June 1973 the Committee resolved that Sub-committee 'A' inquire into prices charged for soaps and detergents. In selecting this reference the Committee was influenced by the level of profits in the soaps and detergents industry as reported in various Annual Reports of the Tariff Board (now the Industries Assistance Commission - I.A.C.[1]) and the level of advertising in the industry.

Public Hearings

3. In July 1973 the Committee advertised its reference, sent out questionnaires to manufacturers in the industry and asked other organisations such as G.J. Coles & Coy Limited (Coles) and Woolworths Limited (Woolworths) to submit evidence. The questionnaires asked for production, sales, cost, financial and other information.[2] A firm of chartered accountants, namely Price Waterhouse & Co. (Price Waterhouse) was engaged to analyse the financial information. The accounting consultants reported on the cost and financial submissions of Unilever Australia Proprietary Limited (Unilever), Preservene Proprietary Limited (Preservene), R.M. Gow & Co. Ltd (Gow) and Bronnley (Australia) Pty Limited (Bronnley).

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[1] The Committee will be using abbreviations rather than full titles in this Report. A list of these abbreviations and the corresponding full titles is given at Appendix I.

[2] Explanations of technical terms used in this Report are at Appendix II, Glossary of Terms.

4. Colgate-Palmolive Pty Ltd (Colgate-Palmolive) claimed a conflict of interests if Price Waterhouse had access to its cost and financial evidence. Scotts' Detergents (A/asia) Pty Ltd (Scotts) requested that its entire submission should not be made available to professional accounting firms. Although reluctant to do so the Committee nevertheless on this occasion acceded to the wishes of the two companies. Their evidence was analysed by the Committee Secretariat.

5. Public hearings were held in -

- Melbourne, on 30 and 31 October 1973; and
- Canberra, on 15 March 1974.

6. A list of witnesses who appeared before Sub-committee 'A' is given at Appendix III. The Appendix also contains the names of organisations that provided the Sub-committee with submissions but were not required to attend at the public hearings. Evidence given at the public hearings is available in Hansard form from Australian Government Publishing Service bookshops and is available for inspection at the Committee Office of the House of Representatives and at the National Library.

Committee's Approach in Inquiry

7. In inquiries such as this one into soaps and detergents the Committee proposes to conduct a detailed study of cost-price relationships for the commodities being investigated. Briefly, such studies may involve an examination of the efficiency of the industry, the level of profits, the extent of effective competition in the industry and whether cost increases are being absorbed or passed on in higher prices. The need to examine each of these facets depends, in part, on the nature of the industry being investigated. From the very outset Sub-committee 'A' made it known that it would be examining the level of advertising in the household soaps and detergents industry.

8. The approach of the Committee in inquiries such as this is to look at industries rather than individual firms. This means that inquiries cannot be speedily concluded and reported on. There are many advantages in this approach. One is that the Committee gains a better appreciation of the companies in the industry because there could be problems which become more apparent when the industry rather than individual companies are studied. Another advantage is a fuller explanation to the community of the reasons for price increases. Finally, flowing from the above, the consumer and the community at large may benefit if the Report contains recommendations that could improve the efficiency of the industry or the existing competitive climate.

9. During the course of the Inquiry, Sub-committee 'A' was made aware of several studies of the soaps and detergents industry in the United Kingdom (U.K.). One of these was by the National Board for Prices and Incomes (N.B.P.I.)[3], another by *The Monopolies Commission*[4], while a third study[5] was a critique of the other studies. All three studies are summarised at Appendix IV.

Industry Co-operation

10. The work of the Committee in this Inquiry has been greatly facilitated by the co-operation it has received from manufacturers and other organisations involved. The Committee recognises that a substantial amount of the information requested was not readily available from company records and wishes to place on record its appreciation of the time spent by company executives and staff in producing the required information. The Committee was impressed by the quality of

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[3] National Board for Prices and Incomes, Report No. 4, Cmnd 2791, Prices of Household and Toilet Soaps, Soap Powders and Soap Flakes and Soapless Detergents, H.M.S.O., October 1965.

[4] The Monopolies Commission, Household Detergents - A Report on the Supply of Household Detergents, H.M.S.O., 3 August 1966.

[5] George Polanyi, Detergents: A Question of Monopoly?, Research Monograph No. 24, The Institute of Economic Affairs, 1970.

the submissions and of the answers given by executives who appeared before it at public hearings.

Confidential Information

11. Some information given to Sub-committee 'A', such as the cost and financial data, was supplied on a confidential basis. The Committee has decided that it will not disclose information that could damage the legitimate business interests of any person or company. For this reason discussion of these matters is set out in broad terms only.

Effect of the Double Dissolution on the Report

12. The Committee considers that were it not for the double dissolution of the Parliament this Report would have been tabled by its predecessor Committee before the Prices Justification Tribunal(P.J.T.) issued its Report on Lever & Kitchen Proprietary Limited (Unilever)[6]. The Committee considers, particularly in view of its recommendations, that its Report would have been of value to the P.J.T.

13. The period covered by the Report is mostly the calendar years 1970-72. While some of the financial information appears dated those parts of the Report are useful in that they analyse the price making mechanism, amongst other factors, in this industry before the establishment of the P.J.T.

14. The Committee's observations on the effectiveness of competition in this industry and the measures that can be taken to make competition more effective are, however, not reduced in quality or strength by the fact that the analysis was mostly in respect of the period 1970-72.

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6 Report by Prices Justification Tribunal, Lever & Kitchen Proprietary Limited, Matter No. N74/1766, 15 May 1974. The company which appeared before the Committee was Unilever Australia Proprietary Limited. The relationship of the companies in the Unilever Group is described at paragraph 24.

2. The Household Soaps and Detergents Industry

Definition of the Industry

15. The products covered by this Inquiry are household and toilet soaps, soap powders, soap flakes and soapless (or synthetic) detergents. These products are bought by the householder for personal use and in the washing of clothes, crockery, cutlery and cooking utensils.

16. Unilever has grouped these products by end-use into personal washing products (bar and toilet soaps), clothes washing detergents and dishwashing detergents. The company added that clothes washing detergents can be either soap based or soapless, i.e. synthetic detergents.

Description of Manufacturing Processes

17. The basic materials used for soap production are animal oils and fats (tallow) and coconut oil. Tallow is a by-product of meat processing in Australia while coconut oil is obtained from the Philippines and Papua-New Guinea. The basic raw materials used in laundry and liquid detergent production are by-products from oil refining in Australia.

18. Soap is manufactured by boiling tallow and coconut oil with caustic soda to produce a liquid base soap and lye which is a by-product used in producing glycerine. The liquid soap base is then converted to either toilet soap, laundry bar soap, soap flakes or soap powders.

19. Synthetic detergents (powder and liquid) are made in a chemical process where crude oil derivatives and sometimes fats or oils are sulphonated and then neutralised to give an 'active detergent' base.

20. The active detergent base is then mixed with other chemicals to give the surface active materials the essential properties of increasing the wetting power of water, emulsification of grease and suspension of dirt particles in

water so they do not resettle on the material being washed. At this stage the detergent is in a concentrated liquid form.

21. Powder (or laundry) detergents have brighteners, colours, sulphates and phosphates added to them before being converted to a granular powder by drying. Liquid (or dishwashing) detergents are produced by the dilution of the concentrated liquid base with water and the addition of colour and perfume.

Companies in the Industry

22. There are 20 companies in the industry. Unilever manufactures the entire range of household soaps and detergents described in paragraph 15. Colgate-Palmolive makes a similar range to Unilever's with the exception of bar soaps, soap flakes and powders. Preservene produces soaps, soap powders and flakes while other companies such as Bushland Products Pty Limited (Bushland), Scotts and Gow make clothes washing detergents and/or dishwashing detergents. Appendix V contains a list of the various brands in each product category and the name of the manufacturer.

23. Colgate-Palmolive was incorporated in Sydney in 1921. The parent of the Australian company is the Colgate-Palmolive Company of the United States of America (U.S.A.). The Australian company commenced production of toilet soaps in 1923, laundry detergents in 1960 and dishwashing detergents in 1962. Its plants are located at Balmain and Villawood in New South Wales (N.S.W.).

24. Unilever is a subsidiary of Unilever Australia (Holdings) Proprietary Limited whose parent company is Unilever Limited of the U.K. Unilever manufactures the goods the subject of inquiry which are marketed by Lever & Kitchen Proprietary Limited, Rexona Proprietary Limited and Unilever Export Proprietary Limited, all subsidiaries of Unilever Australia (Holdings) Proprietary Limited. Unilever commenced manufacture in Australia over 70 years ago and makes household soaps and detergents at Balmain, N.S.W.

25. Unilever said it has taken a leading role in development in the industry with the introduction in 1934 of the first spray cooled soap powder in Australia and the first spray dried non-soapy detergent powder in 1956. In 1960, in conjunction with the Commonwealth Scientific and Industrial Research Organisation, Unilever produced the first specialist powder for washing woollens. More recently, after two years of development in Australia, the company produced the first highly concentrated dishwashing liquid - Kit.

26. Preservene is a wholly owned subsidiary of Parbury Henty and Co. Pty Ltd which in turn is the wholly owned subsidiary of Parbury Henty Holdings Limited which is a wholly owned Australian company. Preservene makes laundry and toilet soaps at Richmond in Victoria, some under sub-contract for Procter and Gamble of the U.S.A.

Market and Market Shares

27. The total value of manufacturers' sales for household soaps and detergents in 1971-72 was about $80 million. Clothes washing detergents account for approximately 50 per cent, personal washing products 30 per cent and dishwashing detergents 20 per cent of total sales. In recent years these sales have increased by about 2 per cent a year and are expected to increase by the same amount over the next five years. Consumers buy these products according to their requirements and do not increase their consumption if prices are reduced. In other words, the demand for these products is inelastic.

28. Table 1 shows the market shares expressed in terms of sales revenue.

TABLE 1

Market Shares for Household Soaps and Detergents [1]

	Personal washing	Laundry detergents[2]	Dishwashing detergents	All products
Colgate-Palmolive and Unilever	80 +	90 +	45 -	80 +
Others	20 -	10 -	55 +	20 -
Total	100	100	100	100

+ denotes greater than

- denotes less than

[1] Based on value of sales in 1972

[2] Includes soap powders and flakes.

Sources: Confidential sales information and Australian Bureau of Statistics.

29. Table 1 shows that Colgate-Palmolive and Unilever dominate the industry accounting for over 80 per cent of the market while the other manufacturers account for the remainder. Unilever has the larger market share of the two companies. This statement on market domination does not apply to dishwashing detergents where the market share of the two major manufacturers is less than half. In this section of the market the major manufacturers face significant competition from a number of smaller manufacturers. This factor is of relevance to price increases in the industry and the relationship of cost increases to price increases.

30. Imports of household soaps and detergents constitute less than one per cent of total domestic supply. When imported they attract protective rates of duty ranging from 30 per cent *ad valorem* to free of duty. Details of these duties are given at Appendix VI.

3. The Rise in Prices

Increase in Manufacturers' Selling Prices

31. Manufacturers sell household soaps and detergents to wholesalers, such as Davids Holdings Pty Limited, or directly to large retailers such as Coles and Woolworths. Unilever told Sub-committee 'A' that prices have been increased usually once a year but that there have been two price increases in 1973. The company submitted an index of the net sales proceeds per tonne for household soaps and detergents which is given in Table 2.

TABLE 2

Unilever: Net Sales Proceeds per Tonne[1]
(1970 = 100)

	1970	1971	1972	1973[2]
Household soaps and detergents	100	102	105	112

[1] Sales proceeds are what the company is paid by the retail and wholesale trade.

[2] Estimated.

Source: Evidence of Unilever.

32. Similar information to that shown in Table 2 was given by other manufacturers. The information in this Table corresponds to actual price increases of the goods the subject of inquiry as shown in Table 5. An examination of price increases in Table 5 shows that the prices of toilet soaps have increased rapidly in 1973 while price increases for laundry and dishwashing detergents have been modest. Table 2 shows that Unilever's average realisations per tonne have increased at an increasing rate between 1970 and 1973.

33. Both major manufacturers compared the rate of increase in their prices with the rate of increase in the Consumer Price Index and observed that the rise in their selling prices was not commensurate with that of the Index. Colgate-Palmolive stated that there was negligible movement in retail prices and the company's revenue per tonne because of its ability to produce larger packet sizes which have a lower price per gram and the use of promotional allowances and co-operative advertising which ensured adequate promotion in retail stores.

34. There were two price increases by the major manufacturers in 1973. On 15 May 1974 the P.J.T. concluded that a weighted average increase of 3.8 per cent was justified for household soaps and detergents produced by Unilever. The P.J.T. also allowed price increases of similar magnitudes for Preservene and Colgate-Palmolive.

35. A further price increase of 9.4 per cent, which applied from 15 July 1974, was granted by the P.J.T. to Unilever without the need to go to public hearing. Applications for both price increases were based mainly on increases in raw material costs of tallow and coconut oil.

Increase in Retail Prices

36. Increases in manufacturers' prices have been reflected at the retail level. This can be seen from Table 3.

TABLE 3

Index of Retail Price
(1970 to 1973)

	1970	1971	1972	1973
Household soaps and detergents	100	101	104	111

Source: Derived from information supplied by the Australian Bureau of Statistics.

37. The retail price index was influenced by price increases for toilet soaps to a similar extent to which this group has influenced manufacturers' prices. Information given to the Committee on retail prices of individual brands by the market research organisation A.C. Nielsen Pty Limited shows a similar pattern to that of the index.

38. Two aspects of retail prices require comment. One is the substantial difference in prices between the more popular brands and other brands. This is a matter the Committee will comment on later in this Report. The other is the large differences in retail prices of particular brands as between stores or in the same store at different points of time. This point was made by the manufacturers and the consumer group Campaign Against Rising Prices (CARP).

39. A reason for these differences in retail prices would be the promotional discounts and co-operative advertising (see paragraphs 71 and 72 for a description of these terms) which the manufacturers offer from time to time. These discounts are passed on to the consumer and are thereby used as a competitive device by retailers to attract customers. While the Committee sympathises with the point of view of CARP it can see no practical way, short of encouraging resale price maintenance, of reducing these price differentials. The introduction of resale price maintenance could increase retail prices.

40. Both Coles and Woolworths said that retail competition is very intense. Figures supplied by Woolworths showed that the net profit that company is earning for every dollar of sales (net profit/sales ratio) has been falling in the period 1969-73. Both Coles and Woolworths said that because of competition they were not able to pass on the full extent of the manufacturers' price increase. Confidential information supplied by both companies confirms this statement. It may appear therefore that part of the increase in retail prices is explained by price increases in stores other than Coles and Woolworths.

41. The reason given for increases in prices at the manufacturers' level is cost increases. In the succeeding chapter the Committee examines the relationship of price increases to cost increases.

4. Relationship of Cost Increases to Price Increases

Summary of Chapter

42. In this Chapter the Committee looks at rising prices in the context of cost increases. It attributes the lower rate of price increases in dishwashing detergents to greater competition in this section of the market. The Committee finds that manufacturers' prices have risen to a greater extent than their costs for Inquiry products as a whole from 1970 to 1972.

43. One explanation for this is the ability of the major manufacturers to anticipate cost increases. This matter is related to competition in this industry which is discussed in Chapter 5.

Background

44. The manufacturers supplied unit costs to make and sell particular brands of household soaps and detergents and total sales (volumes and values) for 1970 to 1972 and the first six months of 1973.

45. The ability of companies to absorb cost increases, to recover cost increases or even to pass on more than cost increases depends on factors such as productivity and market power. Fluctuating raw material prices also affect cost-price relationships. In this and succeeding chapters the Committee examines the relationship of cost increases to price increases and relates them to the factors described above. This is done in product groupings and then by looking at the Inquiry products as a whole.

46. The Committee is unable to comment on the cost and financial information provided by Preservene. Price Waterhouse advised the Committee that some of the assumptions used by Preservene in the allocation of fixed costs made it difficult to come to meaningful conclusions. The company acknowledged this, and referred to the difficulty in converting information contained in its records to the Committee's questionnaire format.

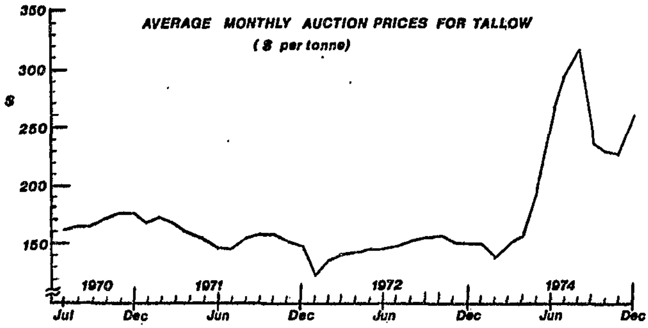
47. Similarly, the Committee was unable to use cost and financial information furnished by Scotts, Gow, Bushland and Bronnley. The evidence received from these companies was not very satisfactory for the Committee's purpose. Further, because of the varying levels of dilution that apply to dishwashing detergents manufactured by these companies, it was not possible to make meaningful comparisons. Colgate-Palmolive told Sub-committee 'A' that the amount of water that goes into liquid detergents is purely a matter of the profit the manufacturer wants to make.

48. The examination of cost and price information is thus restricted to Colgate-Palmolive and Unilever, which together supply about four-fifth's of the total market. Price Waterhouse advised that information provided by Unilever is not comparable with the company's audited accounts. The Committee's accounting consultants said they had discussed with Unilever executives the methods used in extracting the cost and financial information and were satisfied that a reasoned assessment had been made of the various items. The consultants advised against interpreting the information with undue precision.

Increase in Tallow Prices

49. Unilever said that about 75 per cent of its output contains tallow. Unit cost information shows that tallow and coconut oil constitute approximately 25 per cent of the cost to make and sell toilet soaps.

50. The dramatic rise in tallow prices since April 1973 is graphically presented as follows -



Source: Preservene

Movements in tallow prices on a monthly basis (July 1970 to December 1973) are recorded at Appendix VII. The Committee will comment on tallow price increases in the Conclusions.

Cost/Price Increases by Product Groupings

51. Colgate-Palmolive supplied, for toilet soaps, laundry and dishwashing detergents, a percentage breakdown of the various cost and profit elements. This information is shown at Appendix VIII.

52. In analysing cost/price information Price Waterhouse compared sales revenue per tonne with factory costs per tonne for each product group. Overhead costs for all Inquiry products were then considered and the conclusion drawn as to whether or not sales revenue per tonne was increasing at a faster rate than average costs to make and sell per tonne.

53. From 1970 to 1972 for both Colgate-Palmolive and Unilever, sales revenue per tonne for laundry detergents and toilet soaps has increased at a faster rate than costs to make and sell per tonne. Increases in sales revenue for soap flakes and dishwashing detergents made by Unilever have offset cost increases. On the other hand, increases in sales revenue of laundry bar soap made by Unilever and dishwashing detergents of Colgate-Palmolive have not compensated for cost increases.

54. Both companies have absorbed some cost increases in the latter half of 1973 particularly in the soap products group.

55. The pattern of cost increases and price increases for dishwashing detergents is somewhat different from that of other product groups. For the major manufacturers, selling and distribution expenses have occupied a continuing higher proportion of the cost to make and sell, and Colgate-Palmolive has continued to incur losses in the production and sale of this group of products. Prices of dishwashing detergents sold by the two companies have not increased between November 1972 and May 1974, whereas prices of soaps have been increased twice and laundry detergents once in this period.

56. Table 1 and paragraph 29 show that the major manufacturers hold less than 45 per cent of the market for dishwashing detergents. They face greater competition from a number of small companies such as Scotts who can more readily undertake production of liquid detergents than other Inquiry products. Ease of entry into the market and the consequence of greater competition explain why price increases have been less frequent in this product group.

<u>Cost/Price Increases for all Inquiry Products</u>

57. Table 4 shows cost, sales and profit information for the two major manufacturers combined for all Inquiry products for 1970 to 1972.

TABLE 4

Cost, Sales and Profit Index
(1970 to 1972)[1]

	1970	1971	1972
Total costs	100	103	105
Total sales revenue	100	106	109
Total profits	100	123	135
Total sales volume	100	102	103

[1] The base year (1970) is not one of low profitability - see Table 4, Tariff Board, Report for the Year 1971-72.

Source: Derived from confidential information supplied by Colgate-Palmolive and Unilever.

58. The Table shows that while costs have been rising, sales revenue has risen faster than costs, and profits more rapidly than sales revenue which has been achieved from an increased volume of sales. For profits to increase at these rates in these circumstances it must follow that prices have increased faster than costs in the period 1970 to 1972.

59. Unilever said the rising profit trend in the period 1970 to 1972 resulted mainly from lower buying prices for tallow and coconut oil. The company added that cost increases in 1973 had not been fully recovered in selling prices. Unilever contended that unless it constantly makes price changes to reflect the price of tallow it has to accept a 'swings and roundabouts' situation which means that profits have fluctuated up and down over a period longer than that for which the Committee required information.

60. The Committee appreciates that since it is not practical for companies to change product prices each time raw material prices change, some variations in profits must take place from year to year if for this reason alone. This does not mean that the Committee accepts the company's argument.

61. Unilever provided confidential information on profits and profitability (net profit/sales ratio) for the period 1960 to 1973 in support of the argument on cyclical fluctuations in profits. The Committee was unable to use this information. The figures appear to cover products in addition to the goods the subject of Inquiry. Further, the changes in the level of profits and the ratio could occur for other reasons. For example, a significant decrease in the ratio in 1961 was due to the entry of Colgate-Palmolive into the laundry detergent market.

62. Taking all the factors into consideration the Committee has reached the conclusion that the 'swings and roundabouts' argument is of doubtful validity. Profitability ratios for soaps and detergents for the five-year period 1967-68 to 1971-72 contained in various annual reports of the Tariff Board do not show the fluctuations the company claims have taken place. The ability of the major manufacturers to anticipate cost increases, barriers to entry of new competitors and the associated market domination by the major manufacturers, when taken together, are a more plausible explanation for the rising profit trend in the period 1970 to 1972. These factors are discussed in greater detail in the chapter on the levels of profits and prices.

63. The position in 1973 requires comment. Unilever increased soap prices in January and May 1973 following rises in costs. Yet the company did not increase these prices between June and December 1973 when tallow prices were significantly higher and when it is estimated close to $1 million of profit was foregone. In these circumstances the Committee finds it hard to accept the company's 'swings and roundabouts' argument and suggests that price increases were possibly restrained in 1973 because of the establishment of price surveillance organisations.

64. The way in which prices are determined also explains why prices rose at a faster rate than costs. Both major manufacturers review prices regularly, in Unilever's case quarterly and Colgate's monthly. Cost increases that have occurred, or are anticipated in the immediate future, are taken into consideration in determining future price levels. There is a relationship between anticipatory price increases and the inflationary process. Suffice it to say here that the N.B.P.I. did not accept anticipated cost increases as a justification for an increase in price.[7]

65. The ability of the industry to anticipate cost increases and the way in which prices have responded to cost increases can be explained in terms of the structure of the industry and the nature of competition that exist in it. It is to this aspect of the industry that the Committee now turns its attention.

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[7] Allan Fels, The British Prices and Incomes Board, Cambridge University Press, 1972: p 204.

5. Competition in the Household Soaps and Detergents Industry

Summary of Chapter

66. In this Chapter the Committee examines the nature of competition in this industry. It finds that competition that prevails is for market shares through inter-related brand competition and advertising rather than price. While the consumer has benefited from the introduction of new products there has been an unnecessary proliferation of brands which has increased costs and prices.

67. In the Conclusions the Committee discusses how price competition can be developed by encouraging the consumer to purchase quality lower priced products (compared with nationally advertised brands) such as house brands.

Background

68. To the businessman competition is a process which covers all activities designed to increase sales or to avoid a loss of sales to other firms. Competition is essentially competition for market shares. Introduction of new products, advertising campaigns to promote sales of these and existing brands and, where possible, prices lower than those of competitors, are all part of the strategy for increasing or retaining market shares.

69. But competition is something more than rivalry for market shares between competing companies. The Committee was concerned to ascertain the existence of price competition in this industry because non-price competition in a highly concentrated industry (i.e. where few companies dominate the market - see Table 1 and paragraph 29) may be detrimental to the consumer interest. Non-price competition could raise costs and prices if there is excessive advertising or too many brands. And this in turn raises the question of the level of profits and prices.

Parallel Pricing

70. Both Colgate-Palmolive and Woolworths stated that since the manufacturers have similar manufacturing facilities and cost structures, price increases occur at about the same time. The fact that sellers' prices change at about the same time and by about the same amount could be because of a highly competitive situation. Or it could be indicative of inter-dependence between sellers which in turn is related to their market power.

71. That the major manufacturers change their prices in almost identical terms and at about the same time can be seen from Table 5 on page 27. The Table does not allow for certain discounts of an intermittent nature. One of these is the promotional discount or allowance which is given for short periods to encourage retailers to purchase additional stocks. Promotional discounts given by the major manufacturers are usually identical for competing brands. For two competing brands of toilet soap the identical promotional allowance was given within two weeks of one another and withdrawn within a day of one another.

72. There are further allowances the manufacturers give not allowed for in the Table. One of these is deferred discounts, which sometimes include trade and prompt settlement discounts and payments in lieu of co-operative advertising. This is the advertising of 'specials' in mid-week newspapers, paid for by the manufacturer. Co-operative advertising is thus a selling cost incurred by the manufacturer and is different from discounts that reduce list price.

73. In its Report on Parallel Pricing the British Monopolies Commission[8] stated that parallel pricing is a feature of industries where a major share of the industry's market is concentrated in the hands of a few sellers. This is the case

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8 The Monopolies Commission, Cmnd 5330, Parallel Pricing - A Report on the General Effect on the Public Interest of the Practice of Parallel Pricing, H.M.S.O., July 1973.

with the Australian household soaps and detergents industry. The Report gave additional conditions which seem likely to contribute to parallel pricing. These are absence of marked differences in individual sellers' products, stable demand that is not responsive to changes in price, absence of frequent periods of excessive production capacity, similarity of sellers' costs and regular and specific reviews of prices. To these the Committee would add the absence of competition from imports. All these factors are present in this industry. Colgate-Palmolive captured a share of the market for laundry detergents from Unilever by offering good products backed by a certain level of advertising. Prices of competing brands were the same.

74. In these circumstances the Committee concludes that there is an absence of effective price competition in the industry other than the dishwashing detergents section.

Product Differentiation

75. Several witnesses referred to the unnecessary proliferation of brands. Reference was also made to identical products being marketed by the same company under different brand names and to the fact that extra costs were incurred for which the consumer paid.

76. In response the manufacturers said additions to their product range are costly and not undertaken without considerable market research into consumer needs. If need is defined a product is developed to meet that need. The Committee's views on product differentiation are contained in paragraphs 80 to 84.

77. The companies also maintained that there were 'demonstrable differences' in the product range of each company. Unilever said Drive is a premium product with a special stain removing agent, Omo has a new fluorescer that prevents yellowing and gives brightness to the cloth. Colgate-Palmolive stated that Ajax is used for heavily soiled clothes while Cold Power is a cold water washing specialist. In toilet soaps Unilever

sells Lux at a standard price and its personal toilet soaps at a lower price. In the dishwashing detergents Lux and Sunlight liquid are sold at premium prices and Kit concentrate at a lower price.

78. The Committee asked the Australian Government Analyst to test representative products in each manufacturer's range of products to ascertain whether demonstrable differences do exist. The report from the Australian Government Analyst is at Appendix IX. The report said that although all ". . . the detergents examined . . . are broadly comparable . . . (the) major determinants of 'demonstrable differences' are the optical bleaches (fluorescing agents) and sodium perborate". This does not answer the more important question of whether there is a consumer need for each manufacturer's range of products.

79. Both major manufacturers justified the need for the existing number of brands by reference to laundry detergents. They said their arguments also applied to toilet soaps and dishwashing detergents in that each brand in these areas also had a particular appeal. Therefore, examination of the industry case will be mainly in respect of laundry detergents.

80. There is no set of criteria which can be applied to test the 'correct' number of brands in an industry. But a number of factors point to the existence of an unnecessary multiplicity of brands.

81. The most important factor is that competition for market shares manifests itself in brand competition. Colgate-Palmolive referred to the need to have an equal number of brands to that of its competitor to have a chance of getting an equal share of the business. Unilever has converted Rinso from a soap powder to a detergent, once again to retain market share. According to that company the introduction of Surf in 1971 was followed by a similarly low priced Colgate-Palmolive brand - Spree - and once again one must assume that market share had to be protected. This brand competition produces what is called 'internal' competition within firms. Colgate-Palmolive

acknowledged that each brand competes against other brands of the same firm and also against brands of competitors. But as long as there is an overall increase in company sales then that is good business.

82. Another factor is that demonstrable differences are not always brought out in media advertising. This is the case with Rinso and Drive and Punch. Also, advertising does not differentiate between blue and white Cold Power. A comparison between the company claim and the media message appears at Appendix X.

83. There is also the similarity of performance of several brands made by the same manufacturer in dishwashing detergents. The September 1973 issue of Canberra Consumer[9] commented on the close results obtained for the popular lines produced by the major manufacturers. The dishwashing detergents referred to were Lux, Sunlight, Velvet (made by Unilever) and Palmolive. The test measured the ability of the detergents to remove grease and cooking oil from utensils.

84. The conclusion the Committee draws is that the absence of price competition has resulted in an intensification of brand competition as the main method of preserving or capturing market share from rivals. Some of these brands made by each manufacturer are unnecessary and have added to costs and prices which the consumer has to pay. In their evidence both Unilever and Coles admitted that the multiplicity of brands added to manufacturers' and retailers' costs respectively.

85. Brand competition could be affected in the future by two factors, namely the establishment of industry standards, and competition from both house brands (sold by major retailers such as Coles and Woolworths) and other lower-priced less advertised products.

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9 "Detergents come clean!" in Canberra Consumer, No. 43, Sept.1973, Canberra Consumers Incorporated: pp 6 to 8.

Standards

86. Preparation of Australian standards for household soaps and detergents is of recent origin. The first standard set this year is for household synthetic laundry detergent powders. The Committee was told that there was a need for standards because the consumer found it difficult to identify the detergent that had more active ingredients. The Standards Association of Australia (S.A.A.) has produced as an interim measure a standard based on composition of the product. This standard sets out the minimum quantity of active agents and the levels and kinds of other materials required.

87. Unlike standards based on composition, performance standards do not inhibit technological development. The S.A.A. expects the performance standards for household synthetic laundry detergent powders to be prepared during 1975. The S.A.A. also proposes to establish standards for dishwashing detergents.

House Brands

88. House brands are products manufactured for retailers such as Coles and Woolworths under their own private label. Sub-committee 'A' was informed that Colgate-Palmolive does not make any house brands and that Unilever would be supplying the Embassy toilet soap brand early in 1974 because Coles' current supplier cannot supply all the retailer's requirements. It does appear, therefore, that at present house brands hold a small share of the market for household soaps and detergents.

89. It is the policy of Coles to offer quality house brands, not merely a product the cost of which is low. Woolworths stated specifications for all its brand products which are priced to provide a competitive edge over nationally advertised brands.

90. Confidential information supplied by Coles shows that the cost to Coles for house brands is significantly below that of nationally advertised brands. The retail price is about 20 per cent lower. Coles told Sub-committee 'A' they sell their own brands to give the consumer better value for money. If quality is comparable, then the consumer is certainly receiving better value when he or she buys house brands.

TABLE 5

MANUFACTURERS' SELLING PRICES FOR SELECTED BRANDS OF HOUSEHOLD SOAPS AND DETERGENTS [a]
(1970 to 1973)

UNILEVER				COLGATE-PALMOLIVE			
Brand	Unit	Date price changed	Price to retailer (including sales tax) cents/unit	Price to retailer (including sales tax) cents/unit	Date price changed	Unit	Brand
Clothes Washing Detergents							Clothes Washing Detergents
1. Omo, Rinso, Torrent	Pack of 750 grams	March 1970 [b]	54.10	54.10	July 1970 [b]	Pack of 750 grams	Fab, Ajax, Punch Cold Power 1.
		Jan. 1972 [b]	55.30	55.30	Jan. 1972 [b]		
		July 1972 [b]	56.48	56.48	July 1972 [b]		
		May 1973	55.82	55.82	May 1973		
		July 1973	57.71	57.71	July 1973		
Toilet Soaps							Toilet Soaps
2. Lux, Lifebuoy, Revel, Breeze	Cake	May 1970	14.23	14.23	May 1970	Cake	Palmolive, Cashmere, Bouquet, Fresh 2.
		Jan. 1972	15.05	15.05	Jan. 1972		
		Jan. 1973	15.90	15.82	Jan. 1973		
		May 1973	16.78	16.76	May 1973		
3. Personal Sunlight	Cake	May 1970	9.14	9.13	May 1970	Cake	Protex 3.
		Oct. 1971	9.13	9.13	-		
		Jan. 1972	9.98	9.98	Jan. 1972		
		Jan. 1973	10.89	10.89	Jan. 1973		
		May 1973	11.81	11.73	May 1973		
Dishwashing Detergents							Dishwashing Detergents
4. Sunlight	20 oz. container	May 1970	35.58	35.58	May 1970	20 oz. container	Palmolive 4.
		-	35.58	34.40	Jan. 1971		
		-	35.58	36.72	May 1971		
		Oct. 1971	34.39	36.00	Nov. 1971		
		Nov. 1972	37.21	37.21	Nov. 1972		

[a] The prices are based on the maximum discounts in the manufacturers' trading terms for retailers in N.S.W., Victoria and Queensland and exclude freight costs to country centres.

[b] Converted from imperial measures to 750 gram equivalents.

Source: Based on list prices and trading terms given in evidence to the Committee by the manufacturers.

6. Advertising

Summary

91. In this Chapter the Committee examines the claims made by consumer organisations, namely that advertising in this industry is misleading and excessive. It finds substance in both claims. The ways in which excessive advertising and advertising which misleads can be reduced are discussed in this Chapter.

Purpose of Advertising

92. Advertising is a well known and accepted form of competition used by firms in the soaps and detergents industry and other industries. It is considered to be the most effective and efficient way of selling goods to the consumer in some industries.

93. Advertising has two main functions from the sellers' point of view. The first is to inform consumers and persuade them to sample new products. This is more relevant in industries where there is a lot of product innovation. The second major purpose of advertising is to protect or strengthen the competitive position of manufacturers. In industries where price competition is absent advertising, when coupled with product innovation, becomes a powerful means for maintaining or increasing the market shares of individual manufacturers.

94. There were two main criticisms levelled by consumer organisations against advertising in this industry. One was that it was misleading and the other was that the level of advertising was too high.

Advertising Which Misleads

95. The difficulties the consumer is faced with by the constant attempts of the manufacturers to persuade him or her to buy their products is illustrated in Table 6.

TABLE 6

Ambiguous Statements and Conflicting Claims in Advertising

Advertising Claim	*Committee Comment*
Drive is the nearest yet to total clean (Unilever).	. Not capable of verification. . Inconsistent with claim that Ajax gives the cleanest whitest wash (Colgate-Palmolive).
All temperature Punch is the pick of the bunch (Colgate-Palmolive).	. Does not say why the product is superior. . Inconsistent with claim that Spree gives optimum washing results in all temperatures (Colgate-Palmolive).
Rinso gets things whiter (Unilever).	. Does not say what product or situation Rinso is being compared with.
Only Cold Power offers cleanness without damage - hot water damages clothes (Colgate-Palmolive).	. Manufacturer advertises other products for use in hot or cold water.
Fab is lemon charged to whiten . . . naturally.[1]	. The impression that Fab contains a significant amount of lemon is incorrect - the lemon in the preparation is present only as a perfume "in an extremely small proportion" (based on evidence of the Australian Government Analyst). . Neither natural nor synthetic oil has any practical use as a whitening or bleaching agent (evidence of the Australian Government Analyst).

[1] The following quotation on page 7 of the Third Annual Report (for the year ended 30 June 1973) of the Queensland Commissioner for Consumer Affairs is relevant:

> ". . . while no-one would seriously expect several dozen lemons to spring from a packet of washing powder, the moral for consumers to learn from that particular promotion is that advertisements often do not mean what they say - or depict".

Sources: Evidence given by Colgate-Palmolive and Unilever and advertisements on detergent packets.

96. Not only is some of this advertising ambiguous and vague but some of it is indeed inconsistent. The consumer is expected to base his or her judgement on what the media claims and the packet states. Ambiguous and inconsistent advertising and advertising that does not show the differences in brands leaves the consumer the task of wading through a welter of words and phrases of similar meaning such as 'whiter than white', 'cleanest', 'nearest yet to total clean', 'brighter' and 'fresher' in order to make a choice.

97. Such advertising has two detrimental effects. It prejudices effective competition and leads the consumer to buy products that do not match his or her wants.

98. The Committee notes that Section 52 of the Trade Practices Bill 1974 prohibits a company from engaging in misleading or deceptive conduct. It intends to recommend that the Attorney-General brings its comments on advertising which misleads the consumer to the attention of the Trade Practices Commission if the Trade Practices Bill 1974 becomes operative.

The Level of Advertising

99. In 1971-72 Colgate-Palmolive and Unilever spent well over $5 million in advertising. Virtually all Unilever's advertising is in television. Most of the expenditure by both companies was in advertising toilet soaps and laundry detergents. The information given shows that total expenditure on advertising has increased steadily in the period 1970 to 1972 but the amount of expenditure per unit of sales has been decreasing for both manufacturers. The amount of advertising in relation to the consumer price ranges from 6 per cent for Unilever products to 13 per cent for Colgate-Palmolive detergents. For a 750 gram pack of Omo the advertising and promotional expenses together represent 6 cents of the retail price of 62 cents.

100. Several arguments were advanced in support of the present level of advertising in the industry. One is that there is no 'correct' level of advertising for the industry. Another is that advertising maintains demand and consumer awareness because the manufacturers sell a large number of small individual units at frequent intervals. Because of brand switching and low consumer loyalty for particular brands it was suggested by the industry that intensive advertising campaigns are necessary.

101. The Committee does not dispute the need for advertising. In this sense it concedes industry arguments that relate more to the need than to the level of advertising. The Committee is grateful to Unilever who supplied information on monies spent on national advertising in other industries but it is unable to make much use of this information partly because industry classifications such as food stuffs, building materials and household equipment are too broad for its purposes. The Committee also acknowledges that there is no set of criteria that would enable it to establish a 'correct' level of advertising. Nevertheless, certain facts are pertinent.

102. One is the existence of too many brands. This has been discussed in paragraphs 75 to 85 where the Committee had concluded that some of the brand competition is unnecessary and wasteful of resources except as a means of retaining or improving a market share in the existing marketing environment. Since this brand competition finds its expression through advertising and promotion of these brands, it therefore follows that some of the advertising itself cannot be justified.

103. It is the Committee's belief, supported by the evidence, that a portion of the advertising is a self-cancelling exercise in aggression and defence by the two manufacturers for market share. Both Colgate-Palmolive and Unilever stated that advertising was one of the weapons to capture market share. If one company were to reduce its level of advertising it would lose market share if that reduction were unilateral. Success of advertising thus depends on its

ability to increase or retain market share even if this were achieved at the expense of other advertised products of the same firm. In short, once again, as long as there is an overall increase in company sales then that is good business.

104. It is clear that a reduction in the level of advertising in this industry could reduce the price paid by the consumer without affecting the state of competition in the industry or of restricting the manufacturer from informing the consumer of new products. Colgate-Palmolive did say that if the level of advertising on all brands was reduced then there would be no adverse reduction in market shares. The consumer would be in a position to benefit from reductions in advertising if such reductions are reflected in retail prices.

Reducing the Level of Advertising

105. There are several ways in which a reduction in the level of advertising can be achieved. One is by means of a tax. Thus a specified proportion of all advertising expenditure, including all sales promotions, could be disallowed as a deductible expense for tax purposes or advertising outlays could be subjected to sales tax. There are a number of difficulties associated with the introduction of this measure including the advisability of proceeding on a product by product basis. The Committee has decided therefore to defer consideration of this matter.

106. It was brought to the attention of Sub-committee 'A' that in 1961 the major manufacturers in the U.K., namely Lever Brothers and Procter & Gamble agreed to a voluntary limitation on advertising because of signs of public concern on the apparently wasteful element in their selling efforts.

107. The reaction of Unilever to such a similar agreement in Australia was that it would reduce competition and that they would not be granted an authorisation for it by the Trade Practices Commission under the new Trade Practices Legislation.

One possible reason for this opinion could be that the mere acknowledgment of the desirability of an agreement could add force to the view already accepted by the Committee that the companies' advertising costs are in part retaliatory rather than informative. The Committee does not envisage any difficulties in so far as the proposed Trade Practices Commission is concerned because it is convinced that such an agreement would confer a specific and substantial benefit to the public which would not be available without the agreement (S.90(5), Trade Practices Bill 1974). The problem, however, is that since competition is in terms of brands backed by heavy advertising, marked changes in market shares could be a constant incentive for either party to break the agreement.

108. Be that as it may the Committee considers that the industry should move towards a new competitive situation. The Australian Government, through the Attorney-General, should inform the major manufacturers of the Committee's proposal for a voluntary agreement that limits advertising expenditure. One of the clauses of this agreement should be that the manufacturers pass on to the wholesaler and retailer the reductions in their costs that result from the limitation of their advertising expenditures. Since retailing is competitive the consumer should benefit by reductions in the price of household soaps and detergents.

109. If these companies are not prepared to enter into a voluntary agreement, the Committee considers that the P.J.T. should examine the question of excessive advertising by the major manufacturers of household soaps and detergents.

110. The Committee has examined the report by the P.J.T. on proposed higher prices for household soaps and detergents made by Unilever. The P.J.T. said that advertising costs were not specifically one of the reasons for cost increases. The Committee was not able to ascertain from the final section of

the P.J.T.'s report as to whethor the price increase of 3.8 per cent proposed by the P.J.T. took into account reductions in advertising expenditure.

7. The Level of Profits and Prices

Summary

111. In this chapter two tests are applied to measure the level of profitability in the industry. The first indicates that unduly high profits have been earned in the period 1970-72. The second indicates that profits are likely to continue to be high in the future.

112. The first test is that of comparative profit analysis. This shows profitability ratios for household soaps and detergents significantly higher than industry averages.

113. The second test asked a different question, namely, whether or not the existing level of costs and product prices, if maintained, would be high enough to encourage future investment in the industry to meet forecasted demand. The result reinforces the earlier conclusion that there is market power which enables excessive profits to be earned in this industry.

114. Since there are also unnecessary costs the further conclusion is that prices have been higher than they should have been in the period 1970-72.

Background

115. Before examining and commenting on the profitability of the household soaps and detergents industry in relation to other industries there are some background comments that have to be made. One is a general observation that although there is debate as to the most appropriate way of measuring profit levels there is little reasoning behind the requirement for a particular level. This has been the case in this Inquiry.

116. The Committee thus has to face up to the difficulty of commenting on whether profit levels are 'reasonable' or not. For many years in Australia the I.A.C. has been, in a sense, a prices justification authority whose recommendations, when accepted by Government, in effect set maximum prices for particular commodities. In arriving at its recommendations the I.A.C. calculates a notional price for the Australian industry based on a reasonable rate of return on funds employed.

117. Overseas institutions such as the Monopolies Commission and the former N.B.P.I. of the U.K., have also compared profit rates in an industry with other industries or the rates for the manufacturing sector as a whole, in passing judgment on whether profits reflect monopoly power or whether an increase in price is warranted for a particular industry.

The Comparative Profit Test

118. The I.A.C., in its Annual Reports, publishes various measures of profitability of the Australian manufacturing sector as a whole and for particular industry groups. To test the past profitability of the major manufacturers in the household soaps and detergents industry the Committee applied the profitability measures used by the I.A.C. Table 7 gives relevant comparisons.

TABLE 7

Profitability Ratios

Companies & Products \ Ratios & Years	Operating profit/ funds employed			Operating profit/ sales		
	1970	1971	1972	1970	1971	1972
	%	%	%	%	%	%
Australian manufacturing sector	13.0	12.1	11.5	8.4	7.8	7.5
Soaps and detergents	22.0	25.1	30.1	8.4	8.6	9.0
Goods the subject of inquiry [1]						
- Colgate-Palmolive	Conf.	Conf.	34.4	Conf.	Conf.	13.0
- Unilever	Conf.	34.7	35.7	11.4	12.5	13.4

[1] Goods the subject of inquiry profit to sales percentages vary marginally from the I.A.C. results as interest has been included in costs.

Sources: Tariff Board (I.A.C.) Annual Report 1972-73, evidence given by Colgate-Palmolive and Unilever, evidence of Unilever to P.J.T. (page 84 of transcript).

119. This Table should be read in conjunction with Table 4 on page 17 which shows a rising profit trend between 1970 and 1972 for the two major manufacturers combined. Both Tables taken together indicate that these manufacturers have enjoyed a rate of profits greater than the average in their own industry or of the average for the Australian manufacturing sector as a whole.

120. The Committee acknowledges that this rate of profits could be a reward for greater efficiency, for high risk or for innovation. In part it reflects the high degree of capital utilisation in this industry. Both Colgate-Palmolive and Unilever referred to initial losses incurred in launching new products and the failure of some brands to achieve market acceptance. There are, however, a number of reasons why the

industry is, in the opinion of the Committee, a low risk industry. These include absence of import competition and price competition, the high degree of concentration and so forth. They have been detailed in paragraph 73 of this Report.

121. Preservene referred to the difficulty of capturing further market share without substantial advertising campaigns. That company also referred to the need for expensive capital equipment costing millions of dollars if it were to make synthetic detergent powders. It is also obvious to the Committee that there is a need for a certain amount of know-how if other companies are to move into this area. These factors restrict the entry of competitors into the industry.

122. Thus these barriers to entry, the associated market domination by the major manufacturers, illustrated in their ability to exercise control over prices which have increased at a faster rate than costs in the period 1970-72, when taken together, explain why profits in this industry are unduly high.

The New Investment Test

123. The comparative profit test is tied to past results. It is sometimes more advantageous to look at the return on new investment which answers a different question of whether current prices enable further investment to be undertaken. This approach was suggested to the Committee by its specialist advisers.

124. The new investment test of a pricing structure is designed to compare the discounted cash flow rate of return which would be earned on new investment, given the present price and cost structure. This can thus be compared with the company's cost of capital. The calculation involves finding the rate of interest at which the present or discounted value of the stream of net revenue is equal to the total cost of acquiring and installing a 'best-practice' new plant.

125. The information provided was limited in that it related to one product group, laundry detergent powder, and was provided by one major manufacturer. Application of the test showed that the present price of this product is above that which would suffice to cover the firm's cost of capital. This reinforces the Committee's conclusion that unduly high profits are being earned in this industry.

126. A further discussion of profitability measurements and the new investment test is contained at Appendix XI.

The Level of Prices

127. Because profits are unduly high and some costs unnecessary, the Committee concludes that manufacturers' prices and consequently retail selling prices have been higher than what they should have been in the period 1970-72.

128. The Committee further considers this conclusion applies to 1973 as well on the basis of profitability estimates for 1973.

8. Conclusions

129. In this Chapter the Committee brings together the salient features of the preceding chapters. It finds that there is an absence of real or effective competition in the industry and proposes a variety of measures designed to improve the performance of the industry and thereby benefit the consumer.

130. The starting point is market domination by the major manufacturers. Between them Unilever and Colgate-Palmolive control over 80 per cent of the market. This does not apply to the dishwashing detergents section where they hold less than 45 per cent of the market, face competition from a number of small manufacturers and consequently the rate of price increase is not as great as in the other sections of the market. Dominance by a few sellers along with other factors mentioned in paragraph 73 has resulted in parallel pricing and the absence of price competition. This in turn explains why prices have risen faster than costs in the period 1970 to 1972.

131. The absence of price competition has intensified competition for market share by brand competition and advertising thereby leading to a proliferation of brands and a level of advertising which misleads the consumer and is also excessive. The level of advertising, other barriers to entry and market domination explain why profits have been unduly high and why consumer prices for household soaps and detergents have been higher than necessary in the period 1970 to 1972.

132. Where cheaper products are available in competition with more expensive advertised products it appears that the advertised products have a competitive advantage. There is no way at present for consumers to find out whether the cheaper products are of comparable quality. This must reduce the effect of price competition.

133. In short the Committee finds that there is a lack of real or effective competition in this industry.

134. The Committee does not see its function as one of establishing a level of price for this industry. That is the function of the Prices Justification Tribunal. However, because the Committee has looked at the industry rather than individual firms, there are a number of ways in which the performance of the industry can be improved which would make competition more effective and benefit the consumer both in the short and long term.

135. Before the Committee discusses the matters raised in the preceding paragraph it proposes to comment on the manufacturers' price increases in June and July 1974. These increases have been justified by the P.J.T. mainly because of increases in raw material prices. The major raw material used in soap manufacture is tallow which constitutes a significant proportion of costs. As shown in the graph on page 15 tallow prices rose rapidly in 1973 and, the Committee understands, continued to rise in 1974.

136. The manufacturers advanced conflicting views on the control of tallow prices. Unilever said it could not suggest a satisfactory alternative to the price control mechanism in the tallow market. Preservene, on the other hand, told the P.J.T. that government control over prices for domestic tallow requirements would be a major step in reducing soap prices.

137. The Committee has studied briefly the question of control over tallow prices. It can be argued that control of tallow prices will provide some, albeit small, relief to those most disadvantaged by inflation and indeed help fight inflation. A contrary view is that price control is fraught with difficulties particularly since tallow is a perishable commodity. Control raises the possibility of longer-term compensation for the tallow industry and there is also no apparent alternative to the present price mechanism for tallow.

138. These different and conflicting views are held by different Committee members. The Committee therefore finds it is unable to agree on the desirability of the Australian Government controlling tallow prices.

139. The Committee is of the opinion that the most important way the efficiency of the industry can be improved with visible benefits to the consumer is through a reduction in the level of advertising. This cannot be achieved by the unilateral decision of one manufacturer. It can be achieved by voluntary agreement between both manufacturers. The Committee therefore recommends that the Attorney-General informs the major manufacturers of the proposal by the Committee for a voluntary agreement that limits advertising expenditure. The reductions in costs that result from the limitation of such expenditures should be passed on to the wholesaler and retailer. Since there is competition at the retailer level the Committee expects the consumer to benefit by lower retail prices.

140. The Committee recommends that the Australian Government invites the attention of the Prices Justification Tribunal to the need to examine the question of excessive advertising by the major manufacturers when the next application for a price increase for household soaps and detergents is made by them. This would particularly apply if the major manufacturers are not prepared to enter into an acceptable voluntary agreement.

141. Action should also be taken to eliminate advertising which misleads the consumer. This is necessary because the Committee sees such advertising as reducing the potential for effective competition in the industry. Elimination of this advertising thus becomes part of competition policy. The Committee is aware of the fact that misleading advertising is covered by State legislation. However, examination of recent annual reports by State consumer bureaux indicates that the action taken is mostly in response to complaints. While this

is important, programmes that rely on complaints particularly fail to deal with large scale and national advertising. This is probably why the advertising in the soaps and detergents industry has not been scrutinised. A comment from an article written by Ralph Nader and Aileen Cowan helps to focus on the twin deficiencies of advertising the Committee has observed:

> "At the very least, *manufacturers do not provide* facts needed for the consumer to make informed market choices. Instead, many buyers are ingeniously induced by misleading claims to buy an inferior product or a similar product at a higher price. Competition in the market-place is rapidly being reduced to competition in advertising as businessmen spend more and more money on inflated or deceptive advertising claims rather than improving products or lowering prices. The result is both the exploitation of the consumer and the undermining of serious, meaningful competition."[10]

142. There are two ways in which advertising which misleads in this industry, and indeed in other industries, can be reduced if not eliminated. The first is action by the consumers themselves. <u>The Committee recommends that the Minister for Science, through the consumer protection authority for which he has responsibility, assists consumers and consumer organisations to draw up questionnaires which would ask companies to substantiate the advertising claims they make</u>. This would serve to increase consumer vigilance.

143. The second relates to the Committee's belief that there should be effective legislation to enable investigation of misleading or deceptive conduct and false representations. The majority of the Committee considers that the Parliament should approve of legislation that would enable the Trade Practices Commission proposed in the <u>Trade Practices Bill</u> 1974

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[10] Ralph Nader and Aileen Cowan, 'Claims Without Substance', <u>The Consumer and Corporate Accountability</u>, edited by Ralph Nader, Harcourt Brace Jovanovich, Inc, 1973: p 97.

to do this. Other members of the Committee believe that this could be best achieved through State legislation.

144. However, <u>if the Trade Practices Bill 1974 becomes operative the Committee recommends that the Attorney-General brings to the attention of the Trade Practices Commission the comments made by the Committee on advertising in the household soaps and detergents industry that misleads the consumer</u>.

145. There are other ways by which competition in this industry can be made more effective. Elimination of advertising which misleads would be one important, though negative, step in this direction. A positive step would be to improve the quality and increase the quantity of information available to the consumer on these products. This can be done by the establishment of industry standards, the testing of products against these standards and the publishing of the results of these tests which should also contain a rating of the products tested according to their price.

146. Not only would all this help the consumer to make a more informed choice but it could also help to promote sales of lower priced quality products referred to in paragraphs 38, 67 and 90.

147. The establishment of performance standards for laundry detergents was discussed in paragraphs 86 and 87. The Committee notes that one of the terms of reference of the Interim Commission on Consumer Standards (I.C.C.S.) is: 'To identify areas of need, and encourage appropriate laboratories to undertake research and development work necessary for the formulation of improved consumer standards'. <u>The Committee accordingly recommends that the Minister for Science requests the Interim Commission on Consumer Standards to assist the Standards Association of Australia to develop standards for household soaps and detergents by making available staff time and equipment in Government controlled laboratories</u>.

148. By itself the establishment of standards is insufficient. Another term of reference of the I.C.C.S. is: 'To encourage, and where necessary, to contract with, appropriate laboratories to test consumer products and to publish the results'. The Committee is of the opinion that these results should also contain, if possible, ratings of products according to price (best buy products). The Committee therefore recommends that the Minister for Science requests the Interim Commission on Consumer Standards to contract with appropriate laboratories to test household soaps and detergents as soon as possible and to publish the results of these tests.

149. The Committee further recommends that the Australian Government provides some financial assistance to consumer organisations which publicise these and similar tests.

150. This could assist consumers to base their decisions to purchase products on more rational grounds rather than those of the repetitive message of advertising which sometimes misleads. The Committee would like to encourage consumers to purchase good quality, lower priced brands when compared with nationally advertised brands.

151. As a further measure to increase competition in the domestic market the Committee recommends that the question of the level of protection on household soaps and detergents be referred to the Industries Assistance Commission. The insignificance of imports and the level of profits earned in this industry indicate that it is over-protected. The removal of import duties may not have an immediate effect on competition in the domestic market because the major manufacturers are corporations who have manufacturing plants in countries such as New Zealand. However, the removal of duties increases the potential for import competition from countries such as Japan and could have the effect of restraining price increases on the domestic market.

152. The adoption of these various recommendations would have a twofold impact. Firstly, there would be an immediate reduction in retail prices if the level of advertising were to be reduced. This would constitute visible benefits to the consumer. Secondly, the series of other recommendations would serve to increase the efficiency of the industry through increased competition. This would result in prices being at a level lower than they would otherwise be and would accrue to the consumer in the longer term.

August 1974

C.J. HURFORD
Chairman

APPENDIX I

ABBREVIATIONS USED IN REPORT

The following abbreviations are used in this Report:

Abbreviation	Full Title
Bronnley	Bronnley (Australia) Pty Limited
Bushland	Bushland Products Pty Limited
CARP	Campaign Against Rising Prices
Coles	G.J. Coles & Coy Limited
Colgate-Palmolive	Colgate-Palmolive Pty Ltd
Gow	R.M. Gow & Co. Ltd
I.A.C.	Industries Assistance Commission
I.C.C.S.	Interim Commission on Consumer Standards
N.B.P.I.	National Board for Prices and Incomes
N.S.W.	New South Wales
Preservene	Preservene Proprietary Limited
Price Waterhouse	Price Waterhouse & Co.
P.J.T.	Prices Justification Tribunal
Scotts	Scotts' Detergents (A/asia) Pty Ltd
S.A.A.	Standards Association of Australia
Unilever	Unilever Australia Proprietary Limited
U.K.	United Kingdom
U.S.A.	United States of America
Woolworths	Woolworths Limited

APPENDIX II

GLOSSARY OF TERMS

" Costs to Make and Sell per tonne "	The unit factory, administrative selling and distribution costs per tonne of a product category during a given period.
" Factory Costs per tonne "	Include material, labour, depreciation and factory expense per tonne. Factory costs exclude administrative, selling and distribution expenses.
" Fixed Costs "	Those costs that do not change in total over wide ranges of production volume.
" Funds Employed "	The sum of - (a) working capital comprising predominantly stock, debtors and prepayments less trade creditors and accruals; and (b) the value of fixed assets based on historical cost less accumulated depreciation.
" Historic Cost "	The cost in terms of costs involved at the time of incidence of transactions.
" Operating Profit "	I.A.C. definition - Net profit before tax plus interest paid on borrowed money less income from outside investments and less profit derived from other than manufacturing activities.
" Overhead Costs per tonne "	The total of administrative, selling and distribution expenses per tonne. (i.e. Cost to make and sell per tonne less factory costs per tonne.)
" Profits "	The residue remaining after deducting all the costs of a period, including depreciation, from the revenue earned in the same period.
" Restatement of Asset Values "	Restatement of asset values in financial statements by means of an index.
" Sales Revenue per tonne "	The average revenue per tonne arrived at by dividing actual sales revenue for a period by the actual number of tonnes sold in the same period.
" Selling and Distribution Expenses "	Include cost elements such as selling, marketing, market research, advertising, co-operative advertising, samples, promotional expenses, warehousing and distribution.
" Turnover "	Sales made during a period.

APPENDIX III

LIST OF WITNESSES
AND
SUBMISSIONS RECEIVED

ASTRIDGE, Mr W.O.A., Director and Secretary, Unilever Australia Proprietary Limited.

JAMES, Mr G.C.J., Finance Manager, Preservene Proprietary Limited.

JOHNSON, Mrs P.S., Secretary, Campaign Against Rising Prices.

LENTHEN, Mr P.M., Managing Director, Scotts' Detergents (A/asia) Pty Ltd.

LEVITT, Mr B.A., Controller Food Buying, Woolworths Limited.

MEACOCK, Mr A.A., Managing Director, Lever and Kitchen Proprietary Limited.

MONRO, Mr M.J., Executive Chairman, Scotts' Detergents (A/asia) Pty Ltd.

ROBERTS, Mr B.J., General Manager-Director, Preservene Proprietary Limited.

SEABROOK, Mr G., Commonwealth Merchandise Manager, Supermarket Grocery Operations, G.J. Coles & Coy Limited.

SKIOTIS, Mr D., Private Citizen.

SYMINGTON, Mr W.J., Commercial Director, Lever and Kitchen Proprietary Limited.

YEOMANS, Mr L.W., Director and Secretary, Colgate-Palmolive Pty Ltd.

The following also presented submissions which were incorporated in the transcript of evidence.

Australian Consumers' Association.

BURRY, Dr J.N., Dermatologist.

Canberra Consumers Incorporated.

Pricewatchers.

Standards Association of Australia.

APPENDIX IV

SUMMARIES OF STUDIES ON THE U.K. SOAPS AND DETERGENTS INDUSTRY

The first is by the N.B.P.I. which covered the years 1964 and 1965. The Report found that prices of soap products had increased at a slower rate than costs while the reverse was the case for synthetic powders. The recommendations were that prices of both product groups should not be increased before the end of 1966.

The N.B.P.I. Report found the industry highly competitive but stated that the consumer would benefit if the area of price competition could be increased at the expense, if need be, of either outlays on advertising and promotion of profit.

The second report was that of the Monopolies Commission on Household Detergents. The Monopolies Commission found the central issue in its inquiry to be the ways in which the two major manufacturers (Unilever Ltd and Procter & Gamble Ltd) competed with one another. This competition was in advertising and promotion. It noted that advertising is one of the factors that determine prices, the other being efficiency and profits. The Monopolies Commission came to the conclusion that the level of advertising in the British household detergents industry was exceptionally high and that one effect of this was to keep new entrants out of the industry. The other effect of the absence of effective price competition was that profits were unduly high with the consequence that the public was charged unnecessarily high prices.

A contrary view of the British industry has been taken in an article entitled Detergents: A Question of Monopoly (G. Polanyi, London Institute of Economic Affairs, Research Monograph No. 24). The writer states that in industries such as soaps and detergents where there are only a few sellers the competition that exists is through innovation and advertising rather than price competition. The writer sees advertising as aggressive and competitive and associated with launching major product innovation and lesser innovation as well. He states that the positive and the negative effects of advertising are inextricably mixed. The higher than average profits are related to innovation and the special opportunities for profit earnings in conditions of market growth that innovation allows.

PRODUCT BRANDS AND MANUFACTURERS

LAUNDRY DETERGENTS

Laundry detergents are made by Unilever; Colgate-Palmolive; Preservene; M.L. Dale & Co. Pty Ltd; Bushland; Steric Pty Ltd; Unisolvent Chemical Co. Pty Ltd; Campbell and Talent Cosmetics Pty Ltd.

The companies that make two or more brands of laundry detergents and the brand names of their products are as follows:

Unilever	Colgate	Preservene	M.L. Dale
1. Omo	1. Fab	1. Advance	1. Castle
2. Rinso	2. Ajax	2. Early Morn	2. White Joy
3. Torrent	3. Punch	3. Sno	
4. Surf	4. Cold Power	4. Preservene	
5. Drive	5. Spree		
6. Omomatic	6. Ajax Deter. bar		
7. Lux			
8. Velvet			
9. Persil			
10. Sunlight			

TOILET SOAPS

Toilet soaps are made by Unilever; Colgate-Palmolive; Preservene; Johnson & Johnson Pty Ltd and Purex Aust. Pty Ltd.

The companies that make two or more brands of toilet soaps and the brand names of the products are as follows:

Unilever	Colgate	Preservene
1. Lux	1. Breeze	1. Christys
2. Lifebuoy	2. Cashmere-Bouquet	2. 7777
3. Revel	3. Fresh	3. Camay
4. Sunlight	4. Palmolive	
5. Rexona	5. Protex	
6. Pears	6. Tact	
7. Solvol		
8. Solyptol		

DISHWASHING DETERGENTS

Dishwashing detergents are made by Unilever; Colgate-Palmolive; Scotts; Bushland; Steric Pty Ltd; Unisolvent Chemical Co. Pty Ltd; Reckitt & Colman Pty Ltd; Economics Laboratory Pty Ltd; Velvalene Products Pty Ltd; W.K. King Pty Ltd; Leedon Distributors; Wolseley Chemicals Pty Ltd and International Home Products (Aust.) Pty Ltd.

The companies that make two or more brands of dishwashing detergents and the brand names of their products are as follows:

Unilever	Colgate	Scotts
1. Sunlight	1. Palmolive	1. Scotts
2. Kit	2. Add	2. Dux
3. Lux	3. Ajax	3. Kwit
4. Velvet	4. Swerl	4. Supa-Valu
5. Sun		

COMPANY OWNERSHIP

Ownership details for Colgate-Palmolive, Unilever and Preservene are shown in paragraphs 20, 21 and 23 of the Report.

The following are either partly or wholly foreign owned companies:

Name of company	Ownership
Reckitt & Colman Pty Ltd	Majority owned ultimately by Reckitt and Colman Ltd, Hull, Yorkshire, U.K.
Economics Laboratory Pty Ltd	Wholly owned by Economics Laboratory International Ltd, St Paul, Minnesota, U.S.A.
Velvalene Products Pty Ltd	Ultimately 50% owned overseas, 22% by Berk Ltd, London, 22% Lankro Chemicals Ltd, Manchester, U.K. and 6% Diamond Shamrock Chemical Co., Newark, New Jersey, U.S.A.
International Home Products (Aust.) Pty Ltd	Wholly owned by American Home Products Corp., New York, N.Y., U.S.A.
Johnson & Johnson Pty Ltd	Wholly owned by Johnson and Johnson, New Brunswick, New Jersey, U.S.A.
Purex Aust. Pty Ltd	Wholly owned by Purex Corporation Ltd, Lakewood, California, U.S.A.

APPENDIX VI

TARIFFS - SOAPS AND DETERGENTS

	Toilet & laundry soap - bar & powder	Laundry & dishwashing detergent - liquid and powder	
	ITEM 34.01.000	ITEM 34.02.100	ITEM 34.02.900
General rate	17% or if higher $0.08 per kg	30%	19%
Preferential rate	7.5% or if higher $0.055 per kg	22.5%	11%
New Zealand rate	2% or if higher $0.08 per kg less 15% of value	Goods derived wholly or in part from propylene oxide . . . Free Remainder 15%	Goods derived wholly or in part from propylene oxide . . . Free Remainder 4%
Lesser developed countries rate	Free	Free	Free

Source: Customs Tariff pp 299, 300 and 1515.

APPENDIX VII

AVERAGE MONTHLY AUCTION PRICES FOR PRIME TALLOW

($ per tonne)

	1970	1971	1972	1973
January	-	168	127	151
February	-	171	134	142
March	-	166	137	153
April	-	160	143	164
May	-	155	146	205
June	-	149	146	272
July	162	147	150	296
August	165	155	155	323
September	166	157	157	236
October	172	157	160	229
November	176	152	152	227
December	176	149	151	263

Source: Preservene.

APPENDIX VIII

COLGATE-PALMOLIVE

COST AND PROFIT ELEMENTS - 1972

	Toilet Soaps	Packaged Detergents	Liquid Detergents
	%	%	%
Manufacturing cost	38.0	40.2	47.6
Distribution cost	3.0	5.6	6.2
Selling and marketing cost	3.9	4.2	4.0
Administrative cost	3.1	3.3	3.2
Advertising cost	7.3	12.3	10.8
Manufacturers' profit (loss)	7.4	4.6	(0.7)
Manufacturers' percentage of retail price	62.7	70.2	71.1
Retailer/wholesaler gross margin	21.6	15.0	18.2
Income/sales tax	15.7	14.8	10.7
Consumer selling price	100.0	100.0	100.0

Source: Colgate-Palmolive 1972 Cost Elements.

APPENDIX IX

REPORT FROM AUSTRALIAN GOVERNMENT ANALYST

Analysis of Commercial Laundry Powder
Australian Government Analytical Laboratories

Six commercial laundry powders have now been analysed. The results are set out in the table below:

	Unilever			Colgate-Palmolive		
	OMO	RINSO	SURF**	AJAX	FAB**	SPREE
	%	%	%	%	%	%
Alkylaryl sulphonate	16.4	15.4	14.0	14.9	14.8	13.3
Anhydrous soap	2.0	3.4	2.8	none	none	none
Sodium tripolyphosphate	28.2	31.2	27.2	26.1	30.0	23.2
Sodium silicate	16.0*	14.0*	13.0*	5.0	6.0	6.0
Sodium carbonate	8.6	11.1	8.6	none	none	none
Sodium sulphate	19.0	18.0	26.0	40.0	41.0	48.0
Fluorescing agents	present	present	present	present	present	present
Perfume	"	"	"	"	"	"
Sodium perborate	none	none	none	2.0	none	none
Pigments	present	present	present	present	present	present
Sodium carboxmethylcellulose	"	"	"	"	"	"
Moisture	9.9	7.8	9.5	10.0	7.7	6.8

* Calculated as $Na_2O:SiO_2$. Since some of the silicates will have a higher ratio of $SiO_2:Na_2O$ these results are probably high.

** Analysis indicates that some lemon oil could be present.

All six products analysed contain a similar amount of detergent (alkyl aryl sulphonate). In addition the Unilever products contain a small percentage of powdered soap. These are the active 'washing' constituents.

All the detergents examined contain varying amounts of builders (sodium carbonate, sodium silicate or both), water softeners and builder (sodium tripolyphosphate) and diluent or filler (sodium sulphate). In this respect they are broadly comparable even though the Colgate-Palmolive products contain no sodium carbonate and approximately twice as much sodium sulphate as the Unilever products.

The major determinants of 'demonstrable differences' are the optical bleaches (fluorescing agents) and sodium perborate. The two 'lower quality' products Surf and Spree as well as containing more diluent, and, less sodium tripolyphosphate than other products from Unilever and Colgate-Palmolive respectively, contain only one optical bleach each compared with the two or three in other products. The advantage of having more than one optical bleach is that such products are generally 'specific' for different fibres, e.g. one may be much more effective with synthetics such as nylon while another may be most effective with cotton or rayon. The major difference between Omo and Rinso is in the type and number of optical bleaches present. Sodium perborate is a strong oxidising agent, and is presumably the basis of the advertised claim of the presence of a 'Non-Chlorine safety bleach'. Ajax differs from Fab by containing 2% of sodium perborate.

Fab and Surf are claimed to be 'Lemon Fresh' and 'Lemon Charged' respectively. Analysis indicates that <u>some</u> lemon oil <u>could</u> be present as part of their perfume. This matter is being further investigated.

APPENDIX X

SUPPORT FOR DEMONSTRABLE DIFFERENCES ARGUMENT IN ADVERTISING MESSAGE

Demonstrable Differences Claimed by Company	Message in Media Advertising	Are Demonstrable Differences Shown in Media Advertising?
UNILEVER		
Differences in Rinso admittedly slighter than other detergents but it is a long established brand	Rinso gets things whiter and it shows	NO
Drive is a premium brand which has a stain removing agent - a perborate	Drive is the only powder that takes most stains out in the wash; Drive is the nearest yet to total clean	NO; there is no reference to the stain removing agent which would differentiate Drive from the others
COLGATE-PALMOLIVE		
Punch uses a non-ionic ingredient formulated to be effective in varying temperatures and appeals to the woman who likes to wash her whites in hot water and her coloureds and special fabrics in cold water	Gets clothes clean clear because it is non-ionic and rinses out dirt. All temperature Punch is the pick of the bunch	NO; no reference to the effectiveness of Punch in varying temperatures or to its appeal for washing white and coloureds in hot and cold water respectively
Cold Power uses a non-ionic ingredient to take out in cold water grease which ordinary detergents cannot remove in cold water (Blue Cold Power and White Cold Power are different products.)	Only Cold Power, the cold water specialist, offers cleanness without damage - hot water damages clothes	There is no differentiation between Blue and White Cold Power

Source: Evidence given by Colgate-Palmolive and Unilever.

APPENDIX XI

PROFIT MEASURING TECHNIQUES

Problems of Obtaining Comparable Data

Price Waterhouse drew attention to the need for careful evaluation when comparing margins between individual companies because of the number of variables that influence the maintenance of margins. The Committee requested overall profit and cost information on the I.A.C. basis which eliminates many of these problems. The achievement of very precise comparative figures is extremely difficult. However, the Committee considers that the results achieved by use of the I.A.C. basis are accurate enough to enable broad conclusions to be drawn on past profit performance by comparing results with those of other industries.

Equity of Industry Comparisons

The Committee formed a similar opinion to that of the Trade Practices Tribunal when reporting on the Australian Fibre Board Containers Manufacturers that, despite some variations in company results, the only way to reach a conclusion on past profit levels was to compare results for the soaps and detergents industry with other industries and because of the type of comparable data available this could only be done on the historic cost basis.

While the Committee acknowledges that there are some deficiencies in using the historic cost basis (particularly in the light of recent thinking within the accounting profession regarding the restatement of asset values in financial reports) the usage of historic cost permits inter and intra industry comparisons of past results.

Profit as a Percentage of Funds Employed

This technique has been widely used by expressing annual profit as a percentage of the funds employed in producing the profit. Criticisms of the method include -

- conjecture on the most appropriate basis of valuing fixed assets;
- the problem of varying age of different items of plant making inter-firm or industry comparisons inequitable;
- an absolute increase in profits being incorrectly interpreted because of the inflationary component in each year's profit.

Conversely, arguments have been advanced that -

- historic cost valuation of fixed assets is the only practical basis that permits industry comparisons;
- rarely would a firm have all old or all new plant; it would have a mix of old, new and reconditioned plant;
- many more indicators than one single ratio would need consideration to cater for any inflationary component in profits.

Profit as a Percentage of Sales Revenue

This technique is also widely used to judge profit levels. Both Colgate-Palmolive and Unilever favour this technique. Criticism of this method is that the type of activity being examined is overlooked and in particular the extent of financial investment in the activity and the associated risk factor. An example of this criticism is that of a retailer who has achieved a high annual rate of stock turnover having a very low profit to sales ratio but satisfactory absolute profits and return on investment compared with a manufacturer with a similar profit to sales ratio who is in a precarious financial position because of inadequate profits. The question always arises of what a particular profit to sales ratio means when viewed in isolation.

Conversely it can be argued that the use of this ratio eliminates such problems as the age of individual assets and the most appropriate basis for valuing assets and allows the matching of current money costs and current money prices which enables true comparisons to be made between companies.

Use of Ratios to Measure Past Profitability

The Committee has concluded that past performance cannot be gauged by one ratio only but must take into consideration the level of investment, the nature and volume of activity generated by the investment and the resultant periodic profits. The Committee considered both profit to sales and profit to funds ratios in reaching conclusions on past profits.

The New Investment Test

Comparisons, such as the ratio analysis of past results, are of little value in any attempt to appraise a firm's contribution to the efficiency of resource allocation. A discounted cash flow approach to new investment proposals provides a basis for such a test.

The Committee designed its questionnaires, with the intention, among others, of facilitating applications of the new investment test to compare an actual price proposal with the 'notional' price structure (or structures) which would yield, over the expected life of the plant, a stream of net revenues with a present (discounted) value equal to the total cost of acquiring and installing the plant. The calculation is based on given data about installation and operating costs (at current prices) of a unit of best-practice plant.

In the discounting calculation referred to above the discount rate itself (i.e. the 'cost of capital') expressed as a percentage per annum is derived from information furnished by firms.

If the <u>actual price structure is higher than the notional price structure</u> there is prima facie evidence of market power over prices in the sense that if entry into an industry were unrestricted by barriers of any kind, competition would lead to the establishment of a price closer to the notional price..

The Committee will endeavour to broaden the application of this test where practicable in future inquiries.