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# A STUDY OF RETAIL FOOD PRICING PRACTICES

by

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The major retail chain store food prices in the Commonwealth of Massachusetts were monitored for a six week period from June 17 to July 27, 1974. Store shoppers working out of the State Attorney General's ten branch offices monitored the food prices in over 100 retail stores in major cities and towns across the state. The field investigators used a forty item standardized market basket for a family of four which is a modified version of the basket used by ABC and Media and Consumer Magazine. Along with repeat shopping of the market basket each week the investigators also looked for unit pricing violations in these stores. The market basket was shopped as listed (primarily national brand names), and it was also shopped using unit pricing to determine the best price available for those products in that store. Thus each shopping produced a regular selling price and a best buy price for each store.

The key findings of the study are summarized below:

1. Unit pricing violations were frequent and were found in almost all shopping visits. Compliance with changed unit pricing regulations creates problems for the retailers. Since the study there has been cooperative efforts between the Attorney General and the food chains to improve the level of store compliance across the state with the new unit pricing regulations.

2. The market basket price averages across the various retail chain stores

represented in any one local market area are very small (average difference less than 7%). This suggests not as much price competition as one might suspect from observing all the retail chain price advertising.

3. Price averages for the market basket do differ across the different geographic areas of the state. In general, the market basket averages decline as you move away from the two major population areas of the state. The price averages also were observed to breakdown into various geographic zones. Across these pricing zones the pricing policies of the chains also vary. Each chain appeared to charge its highest prices in the market area where it holds a relative position of strength (when considering the number of retail units or the chains share of markets).

4. In most product categories price fluctuations were minor and held little in the way of any defined patterns. Two exceptions to this were dairy products (milk, cheese, and butter) and selected staples (coffee, flour and sugar). Dairy products increased directly moving from a low in the eastern part of the state to a high in the west. Selected staple products showed the reverse pattern with their highest prices in the eastern part of the state with the prices declining directly.

5. The comparisons of the national brand market basket and the unit pricing best buy market basket demonstrated that an average of 13% savings could be

realized on the consumers weekly food bill if they choose to do so with the aid of unit pricing. The averages across all stores fell between the range of a 10% - 17% difference. This holds important prospects for consumers to improve their buying power during an inflationary period. It also suggests the need for greater compliance with the unit pricing regulations and for more public education on how to use it. Such efforts could have an important effect on the consumption patterns between private brands and packer brands as opposed to the national brands.

6. One possible explanation for the rigidities that were observed was suggested when looking at the market structure. The most recent market share figure from The Griffin Report showed that in each of the five defined market areas of the state the top three retail chains accounted for at least a 50% share of the market. The FTC is currently investigating the possibility of a relationship between market concentration and retail price patterns in several other parts of the country.