

# Pricing biscuits: how much is too much?

You're a regular person who wants to buy a packet of biscuits. Do you head to the supermarket and pick up your favourite brand, or pop to the local convenience store and pay three times as much? Why is there such a difference between the price of goods in the local shop and in the major supermarkets? Should Australia be taking the UK's lead when it comes to pricing?

I've spent more than 15 years studying the habits of grocery shoppers around the world and have often seen similar trends in the habits of British and Australian shoppers.

However, on an AACs (Australasian Association of Convenience Stores) tour of UK and Irish outlets, I realised just how much the relative pricing between supermarkets and convenience stores differs from that of Aussie stores.

Let me explain: I'm not talking about a can of Coke being a few cents cheaper in the UK. I'm talking about the difference in price between the large retailers and the small local stores. Many small retailers in Australia are struggling with how to compete with the big boys, but in the UK, not so much.

## How does the cookie crumble?

Everyone loves a good biscuit, and even though the biscuit category lies at the extreme end of the 'poor value' spectrum, it's a great place to spot the marked differences in pricing.

Let's take a \$2 pack of biscuits: while the supermarket can buy in bulk and therefore sell at lower prices, the small shop owner has to deal with manufacturer and distributor margins as well as their own mark-up (often tripling the price).

The convenience stores, therefore, walk a fine line between making a profit and alienating potential customers with seemingly high prices.

If a shopper is comparing a \$6 pack of biscuits in their local shop with a \$2 pack in the supermarket, there's likely to be an additional negative knock-on effect.



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People begin to ask themselves, “If I'm paying more for this product, how much am I being overcharged for other items?”

At the retail conferences I've attended across Australia, the debate often boils down to obtaining an acceptable percentage margin, but surely percentage margin becomes moot if the product stays on the shelf gathering dust.

The harsh truth is that in Australia many shoppers simply refuse to buy from convenience stores due to the widespread belief that prices are too high.

A recent him! Australia study found the biggest P&C barrier was poor perception of price and value. When a similar study took place in the UK, price hardly registered as a factor in the UK shopper's decision-making process.

## Are we missing a trick?

So, how are smaller shops winning the battle in the UK?

Many of the convenience stores I visited had a 'wall' of biscuits, offering a huge variety of options. They had made the decision to service the 'top-up' shopper incredibly well.

In the UK, because the cost difference isn't so great, price isn't so much of an issue. The local shop prices are close enough to those of the supermarkets, and any extra cost is offset by the convenience angle.

## Taking the convenience opportunity

Of course, there are many shoppers in Australia for whom convenience rather than price is the main concern. As the downward pressure on prices continues, it's possible the grocery opportunity within convenience stores will grow.

I would argue that it isn't always about being the cheapest retailer, but rather that your prices must at least be in the right ballpark. Yes, your margins may have to decrease to get the sale, but your incremental sales should increase as shoppers begin to see P&C as a more cost-acceptable option.

Hopefully, acceptable price ranges are heading in the right direction, but only time will tell how this particular retail cookie will crumble. ●



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Chris is a market researcher with a deep understanding of how shoppers think. He has conducted hundreds of consumer research studies for the majors in the food and drink manufacturing industry.

PLAY offers cost-effective, high-quality research into customer and shopper decision-making. The company's expert team uses smart research methodologies for concept and product testing, new product development, customer segmentation, 3D virtual simulations and eye tracking.

