

Cross-promotional alcohol discounting in Australia's grocery sector: a barrier to initiatives to curb excessive alcohol consumption?

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Excessive alcohol consumption is a major public health issue internationally. Epidemiological modelling suggests that discounting restrictions, along with minimum unit pricing, appear to be the most effective way of reducing alcohol consumption in heavier drinkers.¹ In Australia, there are a number of laws designed to prevent practices that encourage excessive alcohol consumption, particularly around discounting and advertising of alcoholic products, but these usually focus around 'on-premises' sales of alcohol (bars, clubs and pubs). Point-of-sale and off-trade discounts and promotions are often 'unmeasured' and have few legislative or regulatory restrictions.² One example of these 'hidden' promotions is the use of 'shopper docket' bundling discounts by grocery retailers to offer discounts on alcohol purchases. This promotional strategy (the cross-promotion of purchases across retail sectors that otherwise appear unrelated – e.g. groceries and fuel) is also known as 'bundling'. In New South Wales, although bundling discounts of groceries and alcoholic purchases has been raised as potentially damaging by the alcohol regulator and Police Commissioner in that state,³ these offers were not included in tough new laws designed to curb excessive drinking and alcohol fuelled violence in that state, and there has been suggestion they were specifically excluded due to industry pressure.⁴

Bundling discounts are becoming increasingly common in the Australian retail grocery sector. In addition to their original

Abstract:

Objective: Excessive alcohol consumption is an increasing issue internationally. Pricing strategies, including discount restrictions, have been identified as one of the most effective policy means by which to reduce heavy alcohol consumption. In Australia, cross-promotional alcohol discounts are increasingly used by supermarket chains as a marketing tool. The purpose of the present study is to provide preliminary data on the nature and extent of cross-promotional alcohol discounting in the Australian grocery sector.

Methods: A purposive sample of 34 supermarkets in Australia's three largest cities was selected and minor grocery purchases made to uncover the prevalence and level of cross-promotional alcohol discounting.

Results: Cross-promotional 'bundled' discounts were very common with 33 of the 34 supermarkets offering a 'two for one' discount on bottles of wine. Even with minor purchases (mean purchase \$1.35), the mean value of discounts received was substantial (\$16.23).

Conclusions: These results appear to be consistent with claims that major supermarket chains are using alcohol discounts as loss leaders to entice new consumers.

Implications: These strategies are antithetical to public health strategies aimed at reducing excessive alcohol consumption. Further examination of the impact of major retailers on public health initiatives is warranted, particularly in light of increasing retailer concentration.

Key words: alcohol, bundled discounts, retail sales, alcohol promotion, public health

focus on food retailing, major supermarket chains are leveraging their market position to enter other business areas, most notably liquor and petrol retail sectors, and using this entry to offer various cross-promotional discounts (such as bundling discounts) across these markets to shore up their customer base.⁵ These relationships have been facilitated largely by the organisational structures of the corporate owners of major supermarket chains, which have combined their food, fuel and liquor divisions.⁵ Loss-leading cross-promotional strategies with the fuel sector ultimately led to the enactment

of court proceedings against the two major retailers by the Australian Competition and Consumer Commission.⁶ However, the two major grocery retailers are also exerting significant influence in the retail alcohol sector. In fact, expansion of the retail alcohol market outstrips growths in the pubs and clubs sector. It is mainly driven by the two major grocery chains, is largely facilitated by deregulation specifically aimed at reducing regulations on these chains, and has resulted in aggressive promotional campaigns as the two companies try to assert market dominance in the retail alcohol sector.⁷

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Submitted: May 2014; Revision requested: July 2014; Accepted: August 2014

The authors have stated they have no conflict of interest.

Claims of loss leading – selling products below wholesale prices in the hope that consumers will be attracted to the store to purchase non-discounted items – have also been levelled against a major supermarket retailer in relation to its alcohol promotions.⁸ It has been suggested that loss-leading strategies, enabled by market dominance, have also been used to soak up price increases related to public health policies designed to reduce excessive drinking, such as increases in excise or volumetric taxation.⁹ Such cross-subsidisation does not appear to be unique to the Australian setting, with a recent review of alcohol taxation in the United Kingdom suggesting that large supermarket chains also cross-subsidised alcohol with sales of groceries, using cheaper alcohol as a drawcard for shoppers.¹⁰ As there is considerable evidence that an increased availability of alcohol is associated with increased alcohol consumption, and that an inverse relationship exists between the price of alcohol and the level of alcohol consumption,^{11–13} it is likely that such strategies actively serve to reduce the effectiveness of price-based public interventions to reduce excessive drinking.

These regulatory gaps are particularly pertinent in Australia, considering that Australia has one of the highest market concentrations of grocery retailers in the world with Wesfarmers (currently trading primarily as Coles and Bi-Lo) and Woolworths retaining more than 80% of the total Australian grocery retail market and half of the fresh produce market.¹⁴ Additionally, via a series of ‘creeping acquisitions’ over the course of the last decade, the major supermarket chains have sought to increasing their presence in the liquor retail sector,⁸ and now account for 70% of retail liquor sales in Australia.¹⁵ However, although claims of loss-leading bundling discounting strategies used by supermarket retailers in the fuel sector have been the focus of in-depth attention in relation to cross-promotional fuel discounts,⁵ including drawing the ire of the Commonwealth competition regulator, alcohol discounting has received relatively scant attention – despite its clear and obvious potential ramifications for public health initiatives to curb excessive alcohol consumption.

In Australia, the sale and promotion of alcohol for on-premise consumption is covered by rules that prevent the encouragement of excessive consumption, however this

oversight is not extended to the same level – if at all – to off-premises sales in the retail sector. Given the relative lack of regulation in this area, the broader relevant and established literature on the harms associated with packaged liquor, advertising and pricing of alcohol and the effectiveness of regulation in reducing associated harms, and the absence of literature to inform whether there is a need for such regulation in the Australian setting, this article provides the first exploratory formal examination of the nature and extent of alcohol discounting cross-promotions in the Australian grocery retail sector.

Methods

To explore the nature and extent of alcohol bundling discounts in the Australian retail sector, a purposive survey of every retail outlet in a pre-determined geographical area of Australia’s two major supermarket chains (Coles/Bi-Lo and Woolworths) was conducted. All stores of the major grocery chains in the central business districts and immediate contiguous suburbs – as determined by postcode areas – in Australia’s three largest cities (Sydney, Melbourne and Brisbane) were visited over a one-week period in March 2014. Thirty-four outlets (17 Woolworths, 16 Coles and 1 Bi-Lo) were found in these areas using company websites. The search was limited to Coles/Bi-Lo and Woolworths outlets in these areas, due to the unique dominance of these two players in the Australian retail grocery and liquor markets, controlling more than 80% of the Australian grocery market.¹⁴

A nationally representative grocery list, based on items traditionally found in Australian food basket surveys used in studies of food cost, was developed.¹⁶ As the focus of the study was on the bundled discount offered for minimum foreseeable purchases, a maximum dollar value for each purchase of \$2.00 was imposed. This value was chosen to explore the hypothesis that supermarkets were using alcohol as a loss-leading tool, as it was deemed unlikely that small purchases would negate financial losses due to alcohol discounts. This value was also chosen as it was considered the minimum dollar value for which a reasonable variety of grocery items for all food categories was available. At each grocery outlet, a random item from the grocery list was selected. If no item under \$2.00 could be found for that food item group, another item was randomly selected

until a food item could be purchased. Although the type of food item was randomly selected, the items purchased from the list were chosen to include a range of private label, name brand and promotional items. In each city, larger purchases (\$10, \$30) were made at the first supermarket location of each chain to evaluate whether larger purchases resulted in larger discounts or multiple discounts. However, the same discounts were provided for each value of purchase.

A receipt was requested after each purchase, and it was noted whether or not an alcohol discount offer was on the receipt. If no receipt was offered (for example, due to mechanical failure of registers), additional purchases were made until a receipt was garnered. Immediately after receipt of an alcohol discount offer, researchers visited the nearest eligible liquor outlet to evaluate the dollar value of the offer. These liquor outlets were usually separately branded and not obviously owned by major supermarkets chains (e.g. BWS, Liquorland), but were part of the Coles (Wesfarmers) and Woolworths companies, and were either co-located in the same shopping centre complex or within 500 metres of the supermarket in stand-alone locations. All receipts were collected and stored by researchers, with the value of the liquor discount recorded on the original receipt after it had been determined. Information was recorded into an Excel spreadsheet after data collection had been completed.

Ethics approval was sought, but deemed not required, as the study utilised publicly accessible information.

Results

The study area included 34 unique retail outlets of the major grocery retailers (17 Woolworths, 16 Coles and 1 Bi-Lo). The mean cost for the minor purchases in this study was \$1.35 ((SD=\$0.49; range \$0.53–2.00), and the individual items and categories of items purchased are listed in Table 1. Of the 34 stores, 33 offered unprompted alcohol discounts on receipts for a free bottle of wine (see Figure 1 for examples). For the 16 Woolworths stores that offered discounts, the value of the discount was \$19.99 and for the 17 Coles stores it was \$14. The only store not offering an immediate two-for-one discount (a Woolworths store in the Melbourne CBD), was instead offering a separate promotion based on collectible items for a children’s

animated movie. As the receipt offers for alcohol discount were almost universal, no analysis of predictive factors could be performed.

Discussion

To the author's knowledge, this is the first empirical study of alcohol cross-promotion in the Australian grocery retail sector, and demonstrates that significant promotional discounting of alcohol appears to be pervasive in the Australian supermarket sector, at least based on the purposive sample used in this study. While some international studies have explored alcohol discount promotions in the grocery retail sector,¹⁷⁻¹⁹ these tend to have focused on overt discounting activities such as multi-buy promotional activities within stores rather than bundling discounts, which are a covert loss-leading cross-promotional strategy designed to encourage the purchasing of non-discounted items. Although the individual mark-ups on products sold at the major grocery retailers is not known, it is difficult to see how the major supermarkets would be able to profit from the discounts offered on such minor purchases. As such, it can be reasonably assumed that the major retailers are loss leading to ensure dominance in the alcohol marketing sector.⁹ Bundled discounts in any concentrated markets are generally thought to result in no beneficiaries beyond those firms profiting from bundling,²⁰ and the findings from this study suggest that the level of discounting and loss leading in alcohol may be as prevalent as it has been in the fuel sector, which has been deemed as unacceptable and uncompetitive behaviour by the Australian competition regulator.⁶ However, unlike bundling in many other sectors (such as groceries and fuel), the bundling of alcohol discounts to grocery sales affects public health initiatives in addition to its effect on economic competition. Discounting initiatives, such as the ones used by major supermarket retailers, seem antithetical to these endeavours, and such heavy discounting is likely to increase consumption among heavy drinkers than light or moderate drinkers. Price signals, most often discounting restrictions and minimum unit pricing, are one of the most effective ways to reduce alcohol consumption.¹ Given that governments seem reluctant to address loss-leading or bundling discounting

Table 1: Individual items purchased and value of alcohol discounts offered with that purchase at major supermarket retail outlets in Brisbane, Melbourne and Sydney. Key B = Bi-Lo; C = Coles; W = Woolworths.

Location	Store	Item purchased – Category (specific)	Price of purchased item (AUD)	Value of unprompted wine discount (AUD)
Brisbane				
1	W	Fruit (banana, fresh)	1.00	19.99
2	W	Dairy (cheese)	1.58	19.99
3	W	Vegetable (cabbage, fresh)	1.99	19.99
4	C	Cereal (puffed rice)	1.85	14.00
5	C	Vegetable (corn, canned)	1.55	14.00
6	C	Snacks (rice crackers)	2.00	14.00
7	C	Vegetable (cucumber, fresh)	1.00	14.00
8	C	Baked items (cake)	2.00	14.00
9	C	Baked items (crumpets)	2.00	14.00
10	W	Snacks (chocolate)	0.50	19.99
Melbourne				
11	C	Fruit (banana, fresh)	0.72	14.00
12	W	Snacks (biscuit)	1.90	19.99
13	W	Grocery (baked beans, canned)	1.30	19.99
14	W	Grocery (pasta)	1.32	19.99
15	W	Vegetable (tomatoes, canned)	1.49	19.99
16	W	Fruit (lime, fresh)	0.56	None offered
17	C	Meat (fish, canned)	1.00	14.00
18	W	Dairy (milk)	0.76	19.99
19	C	Fruit (pineapple, canned)	1.70	14.00
20	W	Grocery (baby food [custard], jar)	1.35	19.99
21	W	Beverage (orange juice, tetra pack)	1.40	14.00
22	C	Baked items (bread)	0.80	14.00
Sydney				
23	C	Beverage (water, bottle)	1.40	14.00
24	C	Grocery (lentils, canned)	0.80	14.00
25	C	Dairy (yoghourt)	1.79	14.00
26	W	Fruit (mandarin, fresh)	1.15	19.99
27	W	Vegetable (onion, fresh)	0.53	19.99
28	C	Fruit (banana, fresh)	0.83	14.00
29	W	Dairy (yoghourt)	2.00	19.99
30	B	Cereal (oats)	2.00	14.00
31	W	Grocery (gelatine dessert)	0.99	19.99
32	W	Snacks (potato crisps)	1.50	19.99
33	C	Vegetable (celery, fresh)	1.40	14.00
34	C	Fruit (peaches, canned)	1.89	14.00
Mean			1.35	16.23

Figure 1: Examples of unprompted discount offers on Woolworths (left) and Coles (right) grocery receipts.

BWS RECEIPT REWARDS

BUY 1 GET 1 FREE
 On CAPE CAMPBELL MARLBOROUGH SAUVIGNON BLANC 750ml bottle

Present this receipt at any BWS Store
 Valid until 25th March 2014

available to under 18's. Limit of 1 redemption per receipt. No further discounts apply. For store locations & Terms and Conditions visit bws.com.au




LIQUORLAND

Buy one get one free on Wahu Marlborough Sauvignon Blanc 750mL in one transaction. Valid until 1 April, 2014

9 300601 933174

Not available under 18s. Excludes Coles online. Liquorland online. Liquorland Kooragang, 5th Hedland or AYN North term. For BWS stores. Limit of 3 free bottles per customer, while stock lasts. Docket cannot be used in conjunction with other offers and is not transferable. Surrender this docket at the time of purchase.

strategies relating to alcohol sales by major retailers in Australia, despite their apparent ubiquity, other pricing strategies may aimed at reducing excessive alcohol consumption may need to be explored. Minimum unit pricing, based on the limited evidence available, seems to be the most cost-effective and least restrictive way of reducing alcohol consumption, and appear to offer particular benefit as they have greatest effect on heavy drinkers.²¹ Minimum pricing is also thought to be the only mechanism through which strategies such as loss leading by major supermarket chain can be effectively managed, as well as addressing competition concerns by smaller retail operators.⁹

Given that – if the results of this study are representative – loss leading on alcohol sales through discounts maybe ubiquitous in the Australian supermarket sector, minimum unit pricing of alcohol may be a more effective way of reducing excessive alcohol consumption by supermarket consumers.

Further attention to the public health consequences of increased concentration in the retail grocery sector, or increased concentration of ownership of liquor outlets, may also be warranted. In addition to being the largest alcohol retailers in the country, the two dominant retail chains are also the largest suppliers of tobacco (both via supermarkets and liquor stores)²² and take an active role in promoting unhealthy 'junk food' items to the Australian public, particularly children.²³ Additionally, a review of point-of-sale promotions in alcohol outlets in Perth and Sydney found that alcohol outlets that were part of supermarket chains had a higher number of promotions, more price-based promotions, and required a greater quantity of alcohol to be purchased to participate in the promotion.²⁴ Analysis of Australian television commercials also indicates that the major grocery retailers focus on low cost and the purchase of multiple items when advertising alcohol on this medium.²⁵ These concerns are additional to the impact of supermarket chains on issues of food access, choice, composition and affordability which have previously been raised as having potentially negative public health impacts.²⁶

As noted in the introduction, research into alcohol discounts in the grocery sector in Australia is virtually absent. Therefore, an obvious limitation of our study is that, although it suggests the ubiquitous nature of bundled alcohol discounts in the Australian grocery store – even on the most minor of

purchases, it does not adequately explore the impact such discounts have on consumer behaviour. Nonetheless, some parallels may be able to be drawn on the impact of other pricing and promotional strategies and policies on alcohol consumption patterns, which would appear to indicate that such discounts may undermine public health goals related to alcohol consumption. Additionally, while this study explores one aspect of promotional activity in the alcohol retail sales sector, other factors such as high outlet density, in-store promotions and advertising regulations should also be considered in a whole-systems approach to alcohol promotion.

A further limitation of our work is that, as a purposive study of 34 supermarket outlets in 3 major cities, the findings will not be necessarily generalisable to all Australian major supermarket chain outlets (of which there are 1,613 across Australia). As this is a pilot study and, although attempts were made to be representative, the purpose was to highlight this important issue. However, the ubiquity and similarity of discounts offered across all outlets in this study would suggest that these findings were not unique to these study sites. Therefore, the data collected this study provides a starting point for developing an understanding of this type of promotion in Australia, and poses important questions for further research in this area. Again, it should be noted that the impact that bundled discounts specifically have on influencing alcohol purchases has not yet been formally explored in the scientific literature, and as such this too presents a fertile area for further public health and policy exploration.

The dominance of major retailers in Australia appears not only to be the result of market competition, but is increasingly the result of loss of consumer choice and public and private subsidies. More than three-quarters of respondents in Australia state that they do not shop at the major retailers by active choice, but because they feel as though no other options are available to them.²⁷ Additionally, the major retailers are the beneficiaries of numerous private subsidies (e.g. reduced rental as 'anchor tenants' in major retail developments and the ability to charge suppliers for access to shelf space) and public subsidies (e.g. re-orienting transit infrastructure around retail outlets, which often exist outside the main commercial areas).²⁶ The co-location of liquor stores

owned by major grocery retailers with supermarket stores may also mean that these subsidies are directly or indirectly benefiting liquor retail outlets as well. Even in public health circles, large supermarket chains are broadly supported – often used as a proxy measure of healthy food accessibility and often suggested as a means to improve community access to good nutrition.²⁸ However, it appears that major retailers do little to make positive use – from a public health perspective – of their dominant role in Australian consumer society, and in some cases even appear to actively act counter to specific public health interests.

This study identifies a regulatory gap and barrier to public health initiatives to curb excessive alcohol consumption in the retail grocery sector, but it also highlights further the potential negative effect increasing vertical integration, reduced competition and cross-promotion in the retail grocery sector can have. As such, in addition to the effects of specific policies around specific public health issues (such as alcohol), the broader influence of major retailers on public health in Australia may warrant further, more detailed examination.

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