REPORT OF THE

JOINT SUBCOMMITTEE STUDYING ITEM PRICING

TO

THE GOVERNOR

AND

THE GENERAL ASSEMBLY OF VIRGINIA

HOUSE DOCUMENT NO. 6

COMMONWEALTH OF VIRGINIA
RICHMOND
1982

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TABLE OF CONTENTS

Background 4

Advantages of Scanning 4

Disadvantages of Scanning 5

General Observation 5

Recommendation 6

Appendices

I Stores Utilizing UPC Scanning in Virginia 7

II Sample UPC Printout 14

III Sample UPC Consumer Guide 15

IV House Joint Resolution No. 301 18

Report of the
Joint Subcommittee Studying Item Pricing
To
The Governor and the General Assembly of Virginia
Richmond, Virginia
January, 1982

To: The Honorable Charles S. Robb, Governor of Virginia
and
The General Assembly of Virginia

Background

In the 1981 Session of the Virginia General Assembly, several consumer issues dealing with retail grocery stores were requested to be studied. One of these, considered in House Joint Resolution No. 301, dealt specifically with the study of the removal of the prices on individual items as opposed to the sole use of the Universal Product Code (UPC) - a set of black lines and numbers that now appear on ninety-five percent of all packaged grocery items. The code allows optical scanners set in check-out counters to identify each item by product and cost to potentially reduce the chance for human error and shorten check-out time. The UPC scanner system was not the issue of this study and all members of the joint subcommittee favored the concept, which is seen by the supermarket industry as the "greatest advance in retailing since the tin can." The heart of the study centered on a by-product of this innovation, the removal of the familiar hand-stamped or paper label on each item which indicated the exact cost of that item. At the present time, at least six states have enacted legislation to mandate item pricing and others have various controls over such until further studies on scanning techniques can be accomplished and evaluated.

The UPC scanning system was first introduced in 1974, but only one in ten food stores has abandoned traditional cash registers in favor of the scanner. Technology is slow in catching on, but one prohibition to conversion by many is the initial cost. In 1981, installation costs in a four-lane supermarket could run as high as $125,000. The National Association of Retail Grocers has predicted that within five years most of the nation's food sales will go through scanners. (Appendix I contains a listing of all stores in Virginia which have switched to the scanner system.)

During the process of the three hearings held by the joint subcommittee, testimony was presented by both consumers and representatives of the food industry. These two groups were also represented on the membership of the joint subcommittee. Most testimony centered on the relative value of UPC scanning which, although an important issue, was not the focus of the study. Advantages as well as disadvantages of the system might well be mentioned here in order to provide a total picture.

Advantages of UPC Scanning

Most grocery items are now marked with the Universal Product Code (UPC)—an arrangement of bars and spaces that identifies the manufacturer and the individual product. A pair of five-digit sets of numbers appears at the bottom of each bar code. The left-hand set identifies the manufacturer, and right-hand set identifies the product. The UPC does *not* contain the price of the item. The price is determined by bringing the UPC in contact with a laser scanner which sends the information to a computer which looks up the price and flashes it on a screen and records it on a register tape. This entire process is instantaneous.

1. Benefits of Scanning to the Customer

Retailers claim that the time a shopper spends in a checkout lane is less when stores use scanners rather than conventional cash registers—coupon handling, food stamp handling and figuring out bottle deposits can all be handled much faster with a scanner than with a register. Accuracy is also far greater with a scanner. There are no mistakes due to smudged prices, over-rings and under-rings, and price checks are eliminated. On multiple-priced items, such as those priced three for twenty-nine cents, the computer would charge ten cents for the first two and nine cents for the third, even if the three items were separated from each other and were not rung up together. Also the addition and amount of sales tax are not left up to the discretion of the checker. Sales tax can be programmed into the computer and automatically totalled for each transaction, and prices for sales items can be easily programmed into the computer system. Another major consumer benefit is the detailed register tape provided by the scanner. The tape contains specific product identification, including brand name, as well as price, total, amount presented for payment, change, date and time. The new receipt provides a permanent record of purchases which can be used for budgeting, preparing new shopping lists and even for comparison shopping. The detailed tape also provides records for tax purposes.

An additional benefit to both consumer and retailer is the greater control over inventory, an asset which reduces the chance of stock shortage and aids in providing fresher produce.

2. Benefits of Scanner to the Retailer

Scanners can collect information about item movement and aid in tracing product flow, recording response to advertisements and tracking consumer shopping patterns. Stores with scanners can stock more of the products most in demand and display products so that they are more easily found. Checkers can help more customers in less time, and that means the store can serve customers better without increasing its labor investment.

The major benefit of scanning for retailers though is the benefit gained from not having to use employees to stamp prices on individual items. Labor costs for supermarkets are the single largest operating expense item, accounting for over two-thirds of all food retailing expenses. Since the grocery and supermarket industry operate on a such low-profit margin–generally an after-tax profit of less than one percent–any savings gained from removal of prices may be passed on to the consumers.

A U.S. General Accounting Office report to Congress in 1978 indicated that to continue to price mark each item would decrease a scanning system's savings by almost 25 percent.

Disadvantages of UPC Scanning

Most of the testimony dealing with the disadvantages of UPC Scanning focused on the topic of this study, the removal of item prices. UPC Scanning employs shelf "unit pricing" rather than item pricing and this technique raises several situations which could be viewed by consumers as being detrimental.

1. Removing item prices limits the amount of information which a consumer needs to shop wisely and comparatively

2. Computers are acknowledged by all to be only as accurate as the knowledge which is programmed into them.

3. The consumer is hampered in the store by the low visibility of the shelf unit price, the "shelf drift" of the product away from the price label, and the discrepancies in language on shelf labels or language which is unintelligible to the average customer.

4. The consumer is frustrated in his attempt to remember the shelf price and compare it to the sales ticket price at the checkout without the use of a grease pencil or some other device with which the customer marks the prices on his own goods.

5. In general, due to the large portion of the average budget which goes to food, consumers who reject the elimination of item prices do so because it is seen to be a forfeiture of any input into food prices, which thereby virtually eliminates competition.

6. In order to compare costs of identical items, the consumer must maintain a cumbersome file of past price tapes.

7. One of the problems most frequently mentioned revolved around the general distrust of the accuracy of the prices in the computer. In all informal tests done in this area, inaccurate prices were found, but all mistakes did not favor the store. In an attempt to solve or monitor this problem, food retailers described what is perceived to be an elaborate, expensive system of checks in order to reduce the chance of inaccurate prices and they include:

A. the employment of highly trained computer personnel;

B. tapes as well as "hard copies" of their prices which the stores receive from their headquarters and which the stores check randomly during closed hours; and

C. "mystery shoppers" employed and paid by some stores to run test orders and check for any discrepancies.

General Observations

Information on several vital areas was unavailable or not useful due to the many discrepancies. An exact price of what the cost is to continue to put prices on items was elusive and varied from 16¢ per minute, 5¢ per case of food, or $1.19 per customer per year to a low of about 1¢ per customer per week. This wide variance was due basically to the varying research methods used and types of information employed. In most industry publications, it is acknowledged that stores can retain 60-75% of the savings realized by UPC Scanning and still item price, but is felt that further cost study would be advisable.

Recommendation

The difficulty of accurately measuring the cost benefit as well as the disadvantages/advantages presented to the consumer prompted the joint subcommittee to refrain from requesting or offering any legislation at the present time. During the course of the hearings, the food industry has been attentive to some of the problems posed and has taken various corrective actions which were being implemented at the conclusion of the study. The joint subcommittee did agree to refrain from recommending any type of legislation at the present time to be conditioned on the ability of the industry to innovate rather than to be regulated. Members of the subcommittee have agreed to work with the food industry to provide additional consumer information to the industry with the hope that solutions need not be mandated.

In an attempt to further coordinate the activities of the food industry with those of the consumer groups in this particular area, Delegate Gladys B. Keating and Ms. Barbara Bitters were invited to sit on the Virginia Food Dealers Association Retail Computer Committee.

Respectfully submitted,

Gladys B. Keating

Warren E. Barry

Barbara Bitters

Charles J. Colgan

John DeMoss

Ray L. Garland

William T. Wilson

APPENDIX 1

SCANNING & INDIVIDUAL ITEM PRICING ACTIVITIES

VIRGINIA

Retail Store	Location	Manufacturer	Date Operational
Giant Food Inc.	Richmond	IBM	November, 1975
Giant Food Inc.	Alexandria	IBM	January, 1976
U. S. Navy Commissary	Norfolk	NCR	May, 1976
Giant Food Inc.	McLean	IBM	June, 1976
Giant Food Inc.	Sterling Park	IBM	August, 1976
Giant Food Inc.	Reston	IBM	August, 1976
Giant Food Inc.	Bailey's Cross Roads	IBM	February, 1977
Giant Food Inc.	Springfield	IBM	May, 1977
Giant Food Inc.	Fairfax	IBM	May, 1977
Giant Food Inc.	Woodbridge	IBM	August, 1977
Giant Food Inc.	Fredericksburg	IBM	August, 1977
Giant Food Inc.	Springfield	IBM	November, 1977
Farm Fresh Supermarkets	Norfolk	NCR	December, 1977
Giant Food Inc.	Reston	IBM	February, 1978
Farm Fresh Supermarkets	Norfolk	NCR	February, 1978
Farm Fresh Supermarkets	Norfolk	NCR	March, 1978
Farm Fresh Supermarkets	Norfolk	NCR	April, 1978

Retail Store	Location	Manufacturer	Date Operational
Giant Food Inc.	Dale City	IBM	May, 1978
Giant Food Inc.	Springfield	IBM	June, 1978
Giant Food Inc.	Mannasas	IBM	June, 1978
Giant Food Inc.	Springfield	IBM	July, 1978
Giant Food Inc.	Annandale	IBM	August, 1978
Giant Food Inc.	Groveton	IBM	August, 1978
Giant Food Inc.	Dale City	IBM	August, 1978
Giant Food Inc.	Arlington	IBM	August, 1978
Giant Food Inc.	Leesburg	IBM	September, 1978
Giant Food Inc.	Oakton	IBM	September, 1978
Farm Fresh Supermarkets	Richmond	NCR	September, 1978
Giant Food Inc.	Falls Church	IBM	October, 1978
Farm Fresh	Hampton	NCR	October, 1978
Giant Food Inc.	Arlington	IBM	November, 1978
Mitchell's Supers	Richmond	NCR	November, 1978
Farm Fresh	Arrowhead	NCR	November, 1978
Farm Fresh	Great Neck	NCR	November, 1978
Winn-Dixie Stores, Inc.	Lynchburg	NCR	November, 1978
Winn-Dixie Stores, Inc.	Virginia Beach	NCR	November, 1978

Retail Store	Location	Manufacturer	Date Operational
Safeway Stores	Fairfax	IBM	January, 1979
Giant Food Stores	Fairfax	IBM	January, 1979
Giant Food Stores	Fairfax	IBM	January, 1979
Piggly Wiggly	Bristol	Sweda	February, 1979
Giant Foods Inc.	Alexandria	IBM	February, 1979
Giant Foods Inc.	Vienna	IBM	February, 1979
Giant Foods Inc.	Richmond	IBM	February, 1979
Giant Foods Inc.	Richmond	IBM	February, 1979
Giant Foods Inc.	Arlington	IBM	April, 1979
Giant Foods Inc.	Alexandria	IBM	April, 1979
Giant Foods Inc.	Centreville	IBM	April, 1979
Farm Fresh	Richmond	NCR	April, 1979
Farm Fresh	Constitution	NCR	April, 1979
Winn-Dixie	Virginia Beach	NCR	April, 1979
Giant Foods Inc.	Alexandria	IBM	May, 1979
Giant Foods Inc.	Alexandria	IBM	May, 1979
Giant Foods Inc.	Fairfax	IBM	May, 1979
Giant Foods Inc.	Falls Church	IBM	May, 1979
Food World	Danville	NCR	June, 1979

Retail Store	Location	Manufacturer	Date Operational
Giant Food Inc.	Falls Church	IBM	June, 1979
Giant Food Inc.	Annandale	IBM	June, 1979
Farm Fresh	Hampton	NCR	July, 1979
Giant Food Inc.	Alexandria	IBM	August, 1979
Giant Food Inc.	McLean	IBM	August, 1979
Farm Fresh	Churchland	NCR	September, 1979
The Kroger Co.	Roanoke	IBM	September, 1979
U. S. Navy Commissary	Oceana	NCR	September, 1979
A & P	Arlington	NCR	October, 1979
A & P	Arlington	NCR	November, 1979
Winn-Dixie	Chesterfield City	NCR	November, 1979
Winn-Dixie	Virginia Beach	NCR	November, 1979
Giant Food Inc.	Stafford	IBM	December, 1979
Winn-Dixie	Roanoke	NCR	January, 1980
Piggly Wiggly	S. Williamson	Sweda	January, 1980
Food World	Roanoke	NCR	February, 1980
Safeway	Annandale	IBM	February, 1980
A & P	Arlington	NCR	March, 1980
Winn-Dixie	Newport News	NCR	March, 1980
Winn-Dixie	Virginia Beach	NCR	March, 1980

Retail Store	Location	Manufacturer	Date Operational
The Kroger Co.	Roanoke	IBM	March, 1980
Safeway	Annandale	IBM	March, 1980
Safeway	Alexandria	IBM	March, 1980
Safeway	Annandale	IBM	April, 1980
Consumer's Market	Springfield	NCR	April, 1980
U. S. Navy Commissary	Little Creek	NCR	April, 1980
Ukrops	Richmond	IBM	June, 1980
Ukrops	Richmond	IBM	June, 1980
Ukrops	Oxbridge	IBM	July, 1980
Wade Supermarket	Christianburg	DTS	July, 1980
Piggly Wiggly	Marion	SWEDA	July, 1980
Acme	Richland	NCR	October, 1980
Farm Fresh	Poquoson	NCR	November, 1980
The Kroger Co.	Charlotteville	IBM	November, 1980
Acme	Bluefield	NCR	January, 1981

Retail Store	Location	Manufacturer	Date Operational
The Kroger Co.	Blacksburg	IBM	March, 1981
Safeway	Richmond	NSC	April, 1981
Mick or Mack	Vinton	NCR	May, 1981
Acme	Tazewell	NCR	May, 1981
Farm Fresh	Norfolk	NCR	June, 1981
Safeway	Williamsburg	NSC	June, 1981

VIRGINIA

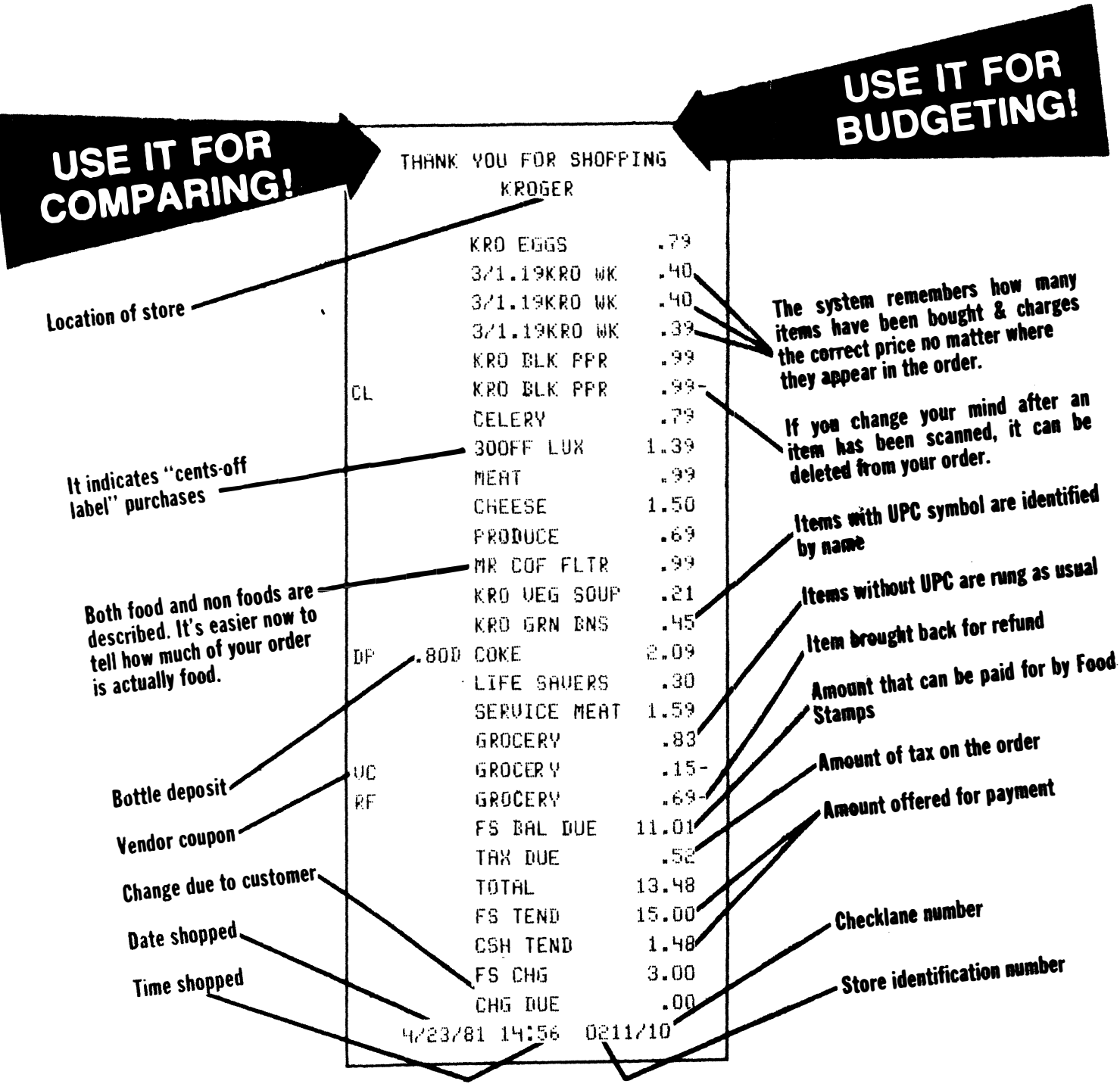
Giant Food Inc. has removed individual item prices in every store.

Winn-Dixie Stores, Inc. is moving toward 100% removal of individual item prices.

The Kroger Co. has begun to remove individual item prices in scanning stores.

APPENDIX II

SAMPLE COMPUTER TAPE



APPENDIX III

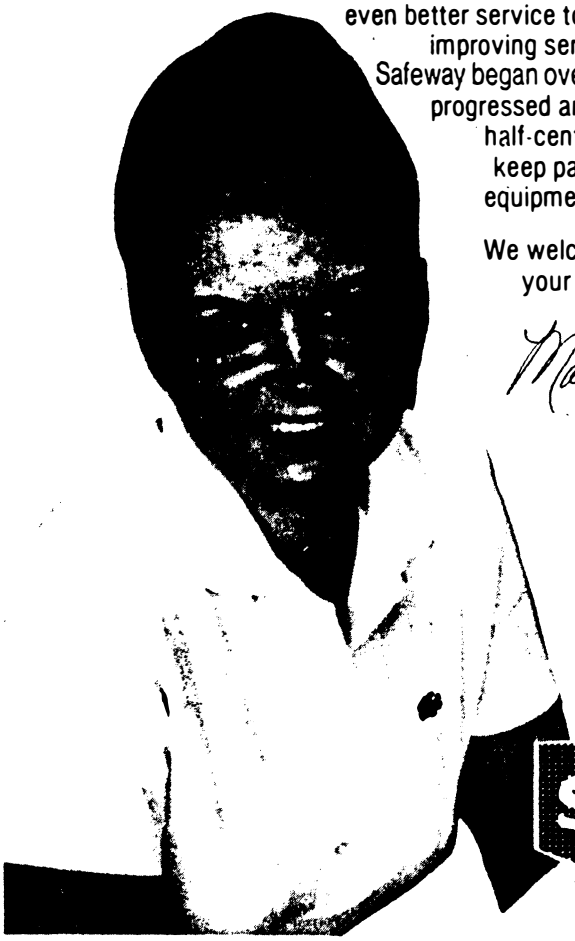
SAMPLE CONSUMER GUIDE
TO UPC SCANNING
AND STORE POLICY

Here are some facts about SAFEWAY'S NEW COMPUTER - SCANNER SYSTEM

We know folks have many questions about the electronic computer-scanner system. Understandably, the most frequently asked are "How does it work" and "What are its benefits?" This leaflet explains many points you'll find of interest. After you've had the chance to become aquainted with this system, you may have more questions. Please feel free to ask . . . I'll always be glad to discuss them with you. Others of our staff will be equally happy to do the same.

Safeway's new system has been installed to aid in providing even better service to our customers. Continually improving service has been our aim since Safeway began over 50 years ago. Mankind has progressed an impressive distance in this half-century. We're doing our best to keep pace with the finest electronic equipment such as this new system.

We welcome your interest and invite your comments and suggestions.



Madge M. Bush

CONSUMER CONSULTANT

SAFEWAY STORES

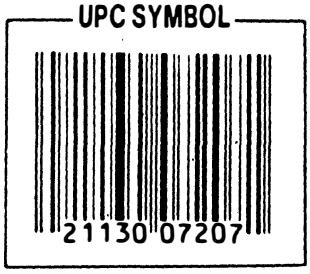
RICHMOND DIVISION

SAFEWAY

Some answers to your questions:

Scanners!

Q. What are they doing for you?



A. We haven't heard enough about what scanning can do for customers. Changes in familiar places like your grocery store can be unsettling — especially when new technology is involved. But scanning is a very appealing innovation — designed to make shopping quicker, easier and more pleasant.

Scanning aids the consumer by:

- Speeding up the checkout process;
- providing more accurate checkouts;
- providing a detailed record of purchases;
- helping stores to keep in stock the products customers want.

The first scanners were introduced in Safeway in 1976. By the end of 1980, more than 100 Safeway stores nationwide had converted to this system. The number of scanner stores is increasing rapidly as many retailers and consumers alike realize the advantages.

Q. What benefits does scanning offer you?

A. There is much less chance of human error at the checkout counter. Mistakes due to smudged prices are eliminated, and the computer can't miscalculate multiple priced items. On items priced 3 for 89 cents, for instance, the computer charges 30 cents for the first two and 29 cents for the third even if the three items are separated.

Quicker checkout

Orders can be processed more rapidly with scanning. The computer automatically figures food stamps, bottle deposits, and tax. Even if the store is crowded, computer assisted checkout could shorten the wait.

Easier coupon credit

The system can distinguish between different types of coupons. It can credit the customer with the value of a coupon and records the credit on the receipt. There is a clear record of the transaction and little chance of error.

Detailed sales receipt

Usually product name as well as price are recorded on the customer's receipt. No more guessing when you get home and try to match prices and unidentified items. The new receipt provides a permanent record of purchases in an easy to read format which can be used for budgeting, preparing new lists, and even for comparison shopping.

Q. How will scanning affect pricing policies?

A. Installation of scanners has no effect on the way products are priced. The grocer still prices products in response to costs and competition. The only change is that he now records those prices in the computer.

The UPC symbol identifies the individual product, not the price. It provides product indentification which is used to look up the price listed in the computer.

Q. How does scanning benefit the supermarket?

A. Scanning helps both management and employees run a better store. Checkers can help more customers in less time, and that means the store can serve customers better without increasing its labor investment. Employees tend to like it once they learn the system. There is less need for clerks to memorize details or to make judgements about food stamps or what items are taxed. The computer can store all this information!

Scanners collect vast amounts of information about item movement. Supermarkets are able to trace product flow, record response to advertisements and track consumer shopping patterns.

The new information will allow stores to provide more help during heavier shopping hours, to stock more of the products most in demand, and to display products so they are more easily found.

Q. Will prices still be marked on the items in scanner stores?

A. One of the greatest areas of savings with scanners comes from not having to price-mark items individually. Of course, the unit and item price of each item in the store will be maintained on the shelf tags just as before.

In a Safeway store, when the prices are not marked on each item, we offer you a guarantee. We guarantee the price shown on the shelf tag is the price that will appear on your sales receipt.

Scanning means faster, more accurate service and a supermarket more responsive to consumer needs.

APPENDIX IV

HOUSE JOINT RESOLUTION NO. 301

Requesting a joint subcommittee to study item pricing

Agreed to by the House of Delegates, February 21, 1981
Agreed to by the Senate, February 21, 1981

WHEREAS, a great number of food and other retail stores are installing electronic scanning equipment which relay the price of individual items directly to the cash register; and

WHEREAS, the installation of such electronic scanning equipment prohibits and forestalls the individual product or item pricing in supermarkets; and

WHEREAS, consumers within the Commonwealth have come to rely on individual unit or item pricing on a day-to-day basis in purchasing and the decisions related thereto; and

WHEREAS, the installation of electronic scanning devices and the removal of item pricing may have a substantial impact on numerous persons within the Commonwealth; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That there is hereby established a joint subcommittee to study the overall issue surrounding the removal of item pricing and its potential detriment to the consumers of the Commonwealth. The joint subcommittee shall be composed of three members to be appointed by the Chairman of the House Committee on General Laws, two of whom shall be members of that Committee, and two members appointed by the Chairman of the Senate General Laws Committee. In addition there shall be one citizen member from the industry appointed by the Chairman of the Senate Committee on General Laws and one citizen member from a consumer organization appointed by the Chairman of the House Committee on General Laws. The joint subcommittee shall make such findings and recommendations as it deems appropriate.

The cost of this study shall not exceed $1,700 dollars.