



Monopoly Watch NZ (MWNZ) is a NZ evidence based public policy analysis group who want to comment on NZ's broken grocery supermarket industry in NZ. During the course of the market study enquiry substantial evidence has been submitted that the Current industry structure is not working for consumers, & suppliers.

Monopoly Watch seeks to highlight

- 1. Evidence which illustrates the problem & related issues**
- 2. Commentary on major league items subject to debate**
- 3. Ideas to uniquely fix the industry from where it is today**

We thank the commission for its leadership and its inclusive conference, with a broad range of participants and subjects canvassed. We applaud its 517-page report, which delivered high standards of analysis to kick off the debate.

We note the professionalism of the executive teams from Foodstuffs and Woolworths, who defended their boards' decisions with admirable loyalty and dignity

Monopoly Watch believes the primary focus must be how we fix this problem. That means examining we got here and what are the natural behaviours, because:

Market Structure = Market Conduct = Financial Performance & Outcomes for Stakeholders.

The industry has performed fabulously for investors, not so for consumers or suppliers. A new industry structure is needed to resolve bizarre historical behaviour issues. The question that needs to be asked is a vertically integrated co-operative model in the interests of the New Zealand? Or has it now morphed into a monopolistic gorilla?

Regulators globally have been watching the supermarket industry for more than 40 years with rising concern. In this part of the world there are tested academic frameworks which point to why intervention is warranted. In our appendix we reference the valuable work in this area by Professor Allan Fels, the foundation dean of the Australia and New Zealand School of Government and inaugural chair of the Australian Competition and Consumer Commission

Monopoly Watch is a New Zealand public policy group which studies and comments on competition issues in capital intensive utility and commodity industries in NZ. Monopoly Watch draws upon wide and varied experience from game theory economists and captains of industry to millennials, centennials or adjacent, workers, middle management, Māori, the LGBTQ community, consumers, and suppliers. For more than decades New Zealand has had one of the weakest competition legal frameworks in the OECD.

It is the goal of Monopoly Watch to provide evidence-based third-party commentary and policy solutions to market structures that need fixing to advance the public interests of all Kiwis .

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What is the relationship between Monopoly Watch and Northelia Ver 1.4 ?

Monopoly Watch is an evidence-based private public policy group. It is not a lobbyist. It doesn't hire lobbyists. It is has no skills in lobbying and no team members with personalities or skills suitable for lobbying.

MWENZ uses the mosaic theory of financial analysis to present evidence-based public policy ideas on how monopolies work and how they should be remedied for the public interest. Monopoly Watch benefits from a tidal wave of goodwill from public, staff members, academics, coffee drinkers, truck drivers, drainlayers and lawyers. Tex Edwards is a Monopoly Watch team member and helps with analysis.

Northelia is an established company vehicle suitable for entering a range of businesses. Its current focus is identifying what it would take to fix the market structure in supermarkets in NZ. Northelia could be part of that solution. It would also consider its efforts a success, if some other vehicle solves the competition problem in the NZ supermarket industry. Tex Edwards is a Northelia team member. The board, its advisors and other team members wish to remain confidential at this time because of the commercial sensitivity involved in any monopoly break-up.

How to spot a monopoly

Monopoly Watch has identified some common denominators of dominant duopolies or monopolies which are at odds with the public interest.

- 1) Low innovation
- 2) Over compensation in ESG, CSR , and charitable PR releases
- 3) Overcompensation with PR releases about investment in infrastructure
- 4) Distraction to consumers with use of multiple brands
- 5) Continued use of confusion to consumers
- 6) Continued blaming RMA and council regulations for any problem
- 7) Lots of brass plates on opening facilities by politicians
- 8) Well-paid lobbyists
- 9) Technical and complicated submissions
- 10) Requests for more and more analysis
- 11) Promises to do better with pretend solutions
- 12) Highlighting Kiwi ownership
- 13) Over-stating fringe and peripheral competition
- 14) Profitability considerably higher than international benchmarks for same asset class
- 15) Most expensive lawyers in town
- 16) Protestations of multiple stakeholder harm if market structure changes

Evidence proving the case for market intervention

Evidence	Comment
Excessive profitability of incumbents	There has been substantial 3 rd party verification of this profitability – notably by the Investment banking & stockbroking community, who have given valuations to the existing supermarkets which endorse and prove these excessive profits. FoodStuffs mixes a property company with a supermarket to shrink its profit number. No CFA charter holder is available to endorse this mischievous departure from normal accounting
There is no competition in the top up shop	Shopping patterns have changed and more shopping missions are top ups from the main shop. However, there is no meaningful churn, price competition or general location competition in these top up shops
Store locations look like geographic monopolisation	More work should be done on suburban monopolization, some of which is a legacy from previous M&A and some as a consequence of intentional no go zones. The Wairua Rd debacle of the early 2000s, in which RMA challenges were used to block competition, is instructive. More work on HHI ratios will reveal to the Commission the extent of suburban 3km & 5km monopolies – which is the underlying physical expression of the problem
Squashing of suppliers	Over the past 50 years there have been challenging relationships between supermarkets and suppliers. The advantage is now squarely with supermarkets, now there are only two rather than five or more buyers. A reset of the industry will double the amount of scalable buyers and should turbo charge innovation in the food industry
Low innovation	Innovation is not needed in a communist-style supply system. Without a reset, New Zealand could get a food distribution system to match that of Soviet Russia in the late 1970s and early 80s. A poor range of choice for Internet shopping, with one major chain having no offer, illustrates the problem. Pak'nSave told the conference it lack of internet delivery was because of its focus on being the lowest cost. That ignored the productivity dividend available to consumers through online shopping “
Segmentation	The lack of segmentation in NZ needs to be examined as this will assist in analysing the difference between where we are today and where the industry will move to with more competition
International price comparisons	Monopoly Watch agrees with the Commission - groceries are expensive in NZ. Data proves this and citizens feel it.
International pass through on currency	During the conference there was some discussion on whether the PPP rate or actual currency should be used. A study of luxury wine purchases, ie champagne sales, shows price pass through with supermarket volumes moving with currency movements
Big big box retailers have a different beta coefficient	During the cost of capital comparisons and the profitability review, the supermarkets compared their profitability with other NZX companies, many of whom have a different cost of capital because of their beta coefficient. UK supermarkets have a beta of 0.6. (Woolworths Au has a beta of 0.55). Most comparable companies on the NZX have much higher betas which means much lower leverage and lower return on equity. The supermarkets were not comparing apples with apples.
Costco, Aldi and other minor players are not competition	Unless there is documented evidence of a national roll out, the notion that Aldi is coming, or Costco will go national, is not a creditable competition discussion matter

Property covenants	Use of restrictive property covenants is very much an after the fact matter. A big issue is being made of a 1999-style problem which is now entrenched into the market, making it substantially different. Even Aussie is a 4-player market.
Countdown was unable to explain how its parent company operates in Tasmania	In Tasmania, Woolworths runs a wholesale business. Here is a please explain for the Countdown team: I know it's Covid but calling Bella Vista +612 88850000 and asking to be put through to Wholesale will be helpful in explaining how Wholesale will work Woolworths ramps up B2B operations 16 years after exiting wholesale (afr.com)
Confusion in data capture cards	This misguided data trap from the incumbent monopolists needs serious focus from the Commission and the Privacy regulator, if NZ is serious about competition. Being able to get a transferable, printable data feed showing consumer behaviour to an internet operator or a competitive supermarket operator is a key initiative These data capture systems are here to assist with numerous objectives from improving carbon footprint and healthy eating as well as bespoke internet delivery
Definition of new entrant & competition	There is some bespoke, fringe competition, all sub \$150m groups. There needs to be a definition of a realistic challenger. This could be done by MBIE, Productivity Commission, ComCom, MSD, or a combination. Low margin, high capital expenditure, highly leveraged businesses needs big blocks of capital to start. Northelia has proposed that a new entrant could be defined as an organisation which commences operation at 15% market share with approximately \$3.2bn of first year sales in seven NZ major cities, and which initiates operations with wholesale access from an independently owned distribution centre on equivalent terms to the incumbents. The operator commits to building out or acquiring a further 100 stores, and building its own distribution centres and internet ordering capability. The organisation starts with capital of \$500m to \$1bn.

Monopoly Watch NZ commentary on conference and last submission round

- 1.1 There is no proof of real competition either in the main shop or the top up shop. During the Market Study conference the supermarkets failed to present any evidence. So-called competition is fringe noise. There is no like for like competition anywhere. None of the examples presented to the market study - restaurants, food kits, pizza stores - had revenue over \$200m in a \$20bn duopoly
- 1.2 The incumbents say new stores fill in areas where they don't have foot print. MWNA contends stores are erected to preserve suburban dominance or to exclusively claim new growth areas.
- 1.3 The incumbents want to use a PPP exchange rate. MWNZ explains pass through exists and the current rate should be used. The premium imported champagne market is working proof of how the market moves up and down with the currency
- 1.4 Loyalty programs are confusing and are misleading. They are a barrier to entry and reinforce market power. Ironically, they also do little to reward genuine consumer loyalty and seem more about collecting data to tailor further marketing. Should the commission decide to open the market, it must make customer data portable.
- 1.5 Supermarkets provide convenience for both suppliers and consumers. They are bottleneck infrastructure. Because of historical consolidation they have pricing power. Much of their new investment is to reinforce barriers to entry. The commission's published list of

supermarket locations shows no substantial locations of competition anywhere in the country.

- 1.6 Private labels have more impact in a two-player market than in a more competitive market. Aggressive private labels restrict investment and innovation in products, brands, packaging, utility. Self-preferencing private label and increasing shelf space at the detriment of manufacturers also reduces choice for consumers and can maintain higher prices when private label prices becomes a floor price.
- 1.7 MWNZ analysts struggled to understand the incumbent's notion of unit pricing. A more effective approach would be to apply international price best practice to some essential products, which would quantify how some products in NZ are outrageously out of sync with international markets.
- 1.8 International prices matter. International price benchmarks are relevant, particularly in a small range of FMCG products where big rebates can keep prices high and competition out. MWNZ believes rebates commonly paid in NZ are illegal in other jurisdictions.
- 1.9 MWNZ supports a mandatory code of conduct for supermarkets supervised by a supermarket commissioner who can manage competition outcomes and disputes.
- 1.10 Innovation is low in NZ as resources are invested in barriers to entry and dividends to owners rather than new technology. The slow rollout of online sales and homedelivery by Foodstuffs long after these services are available in other markets is a prime example. During the conference the CEO of FSNZ NI tried to justify this lack of innovation by arguing Pak'nSave's quest to be lowest cost operator prevented investment in an internet proposition. *This lack of innovation denies consumers a productivity dividend* - the NPV of time shopping which could be turned into more time at sports, gym, work, leisure, spiritual groups or nightclubs.
- 1.11 From other markets, MWNZ suggests potential areas for innovation include but are not limited to:
 - Robotic AI driven automated internet delivery e.g. Ocado
 - Product ranges
 - Pre packaged health food products
 - Wholesaling
 - Service
 - Freshness
 - Drinks range
 - Store layout
 - Smaller convenience stores
 - Top up shop innovation products
 - Data management on carbon footprint, nutrition, health outcomes and healthy living options
- 1.12 Profitability analysis was a critical area for MWNZ. It endorses the commission's position that goodwill be removed in calculating economic return so as not to perpetuate monopoly rent (as acknowledged by Woolworths' economist).

- MWNZ endorses removing the property company from the Foodstuffs results when assessing profitability. IFRS16 has been used to try and hoodwink the commission into thinking Foodstuffs is less profitable. It's silly not to use the leverage benefit of the low beta asset class. As a supermarket benefits from high operating leverage, this leverage must be expressed in the results. It's wrong to stuff a supermarket with lots of unleveraged property assets, particularly when much of the business may go online and a format to smaller stores would occur if competition came.
- Any monopoly or dominant player has to share monopoly rents – usually with owners, senior management and stakeholders. In NZ supermarket property owners share some of that “juice“. MWNZ believes big and dominant suppliers also want a share of juice.
- The smoking gun on profitability is share price valuation for Woolworths and Sum of Parts GS valuations.
- Analysis of store break out numbers for Pak'nSave franchises should not be treated as some wealth anxiety disorder but an indication of market dysfunction. MWNZ's position is profitability was achieved through:
 - 3:2 merger
 - Shareholding in Warehouse to stop third entrant
 - Supplier intimidation
 - Restrictive covenants
 - No wholesaling facilities
 - Moat-building store location strategy
 - The continuing effect of the Wairua Road style RMA battles, although now resolved at a legislative base, their legacy lives on and the industry is now at a different stage.

Excessive profitability exists because of fortress-style monopolistic behaviour by the incumbents. MWNZ notes the Commerce Commission has not closed the door on potential litigation. MWNZ estimates Warehouse Customers were some \$8bn worse off over the decade that they were harassed out of providing competition in this important category. Should the Commission consider litigation is required, MWNZ notes the Commerce Act could mean payments of several billion dollars from Foodstuffs and Woolworths to Warehouse Shareholders, Warehouse Customers or the Govt.

1.13 Foodstuffs & Woolworths subsidiary Countdown suggested intervention in the monopoly market structure will lead to NZ being downgraded. Third party experts consulted by MWNZ say it is more likely to be downgraded if there isn't intervention. We will summarise the position of Bagrie Economics and others below. What is also more likely is that the agencies which conduct ESG ratings of Woolworths Australia will revisit the organisation if it becomes obvious it performs anti-competitive behaviour in NZ is banned in Australia.

1.14 We urge the ESG ratings agencies to try and behave like adults and consider the impact on the NZ supermarkets Social Contract in NZ, given their 2 decades of outrageous anti-competitive behaviours.

1.15 We urge the commission to quantify excess profitability and determine an efficiency margin for competition. This should remove concern that prices will rise if a third distribution centre ecosystem is built and connected to infrastructure. MWNZ contends prices will not rise but in fact fall as a consequence of:

- Competition on infrastructure provision
- Requirements to invest in productivity rather than barriers to entry
- New technology being invested in the infrastructure
- The incentives on the new player to win.
- The capital costs of building new infrastructure such as distribution centres, depreciated in an appropriate manner, are a fraction of the current excess profitability, as determined by third party consultant economists.

1.16 MWNZ notes the contradiction in the conference discussion between *"scale is not a barrier to entry"* and *"interference in our business model is highly sensitive to scale"*

1.17 MWNZ notes when an incumbent says *"at worst we are a fiercely competitive duopoly"*, the actual competition has been to create exclusive suburban geographic operating areas.

1.18 MWNZ believes Section 36 of the Commerce Act 1986 needs to be tightened, which a specific break out clause for market power and asymmetric behaviours such as pocket pricing .

1.19 MWNZ notes the comment to the conference by experienced & respected telecommunications legislator Hon David Cunliffe that *"the fishing industry was only good while it was being supervised and a voluntary code was of no consequence when no one was looking."*

1.20 Deny, Delay, Assert

- 1 The incumbents would have us believe there is no excessive profitability and no competition problem.
- 2 They ask for full industry consultation on a code and time to readjust to industry reform.
- 3 They tell us not to judge them on their behaviour of yesterday and today, but all will be fixed tomorrow

1.21 MWNZ wants a comprehensive review of vertical and horizontal business interests, including examination of market power issues in some suppliers and industries. (meat, fishing and fresh produce vertical integration) This detailed scrutiny will help configure the environment for a new challenger to enter the market. Without something resembling like-for-like competition, any new challenger will fail and we face another 20 years of monopoly rents transferring wealth from consumers and suppliers to the incumbents.

1.22 We believe Attachment F can help the commission develop a divestment process for sale of the distribution centres and individual supermarkets. HHI ratios in 3km & 6km circumferences can be used to identify which supermarkets need to be divested.

1.23 Vigorous signals and measures must be taken to introduce competition and disgraceful conduct perpetuated by NZ's 2nd largest organisation on the community requires a higher level of proactive regulation and divestment by the Commission.

1.24 MWNZ respects wealth creation and those community members who save their money, invest wisely, and create innovative products and services for the community, country and the world.

- However, some of the characteristics of supermarket ownership in NZ have the same characteristics and privileged position as import licenses in NZ in the 1960s and 1970s and early 80s. A lucky few in the then business community had a license to import essential or much wanted items and were able to earn monopoly rents on those licenses.
- In the supermarket industry weak competition law pertaining to 3:2 merger, historic RMA laws and the ability to blow a challenger out of the water with market power abuse has facilitated a 2020s style of a 1970s import license - it's now called a supermarket!

1.25 MWNZ asks where is the incentive for Pak n Save to invest and to invent? It's 20 years of handpicked owners, monopoly locations and entrenched property assets mean this bottleneck infrastructure will be an economic dead weight to its host community. The industry will look like the Soviet Union in the late 1970s or Zimbabwe in the early 2000s.

A regulatory prescription to fix a failed market

Item	Issue	Solution
Unbundle retail	Geographic monopolies in areas with no new sites available for supermarkets	Gives a challenger a pathway to like-for-like scale and foot print. It slightly quarantines the market power of incumbents and makes anti-competitive property covenants invalid
Force divestment of wholesale	Market power at distribution centers means no wholesale market for Kiwi business other than supermarkets. It is outrageous retail businesses buy stock at Pak'nSave	Starts the pathway with retail divestment for like-for-like competition
Force portability of data	Data will be weaponised when competition comes -	Making data portable means a challenger can start business on an open footing and ensures like-for-like customers are contestable
Introduce a commissioner	Suppliers need a fairer deal. There also needs to be a timely check on anti-competitive behaviour.	A code must be written and a commissioner must supervise it as well as the entire industry reset. A New Zealand code must also have regard to Treaty principles and indigenous business.
Introduce a cinding code of conduct	The fishing industry is an example how not to do it	
Brand incumbents SMP	Without an SMP designation by the Supermarkets their commercial power will continue to abuse the communities at both ends of the bottleneck	Gives challengers an ability to compete with Scale on a more even footing
Introduce SMP regime with upgraded Sect 36	Anti-competitive tools like pocket pricing, bundling, loss leaders need to be specifically outlawed (see list _	Without addressing some of the weaker parts of sect 36 , competition won't work

14. What is the impact on NZ Capital markets of a forced divestment regime in NZ?

Monopoly Watch asked Bagrie Economics to comment on the impact an intervention into the supermarket industry may have on NZ ratings (see attached report)

A summary of comments:

- 1) *" is difficult to comprehend how promoting competition between supermarkets will impact the New Zealand government's ability and willingness to service its financial obligations."*
- 2) *" , World Bank Governance Indicators – one set of variables that could impact the sovereign rating – have tended to remain stable, despite what can seem as lots of change within industries. However, industry changes do not change the aggregate governance picture. Changing the competitive environment for supermarkets does not alter the broad institutional framework for New Zealand. "*
- 3) *"the Commerce Commission is responsible for enforcing laws relating to competition, fair trading and consumer credit contracts, along with regulating various industries. Its overarching goal is to make New Zealanders better off. Driving competition and fair business practices is a critical component of that. I consider a failure of the Commerce Commission to fulfil these objectives and standing idly by as being more likely to influence the rating than pursuing its responsibilities. "*

- 4) , divestment of assets or separation are not unusual outcomes when it comes to enforcing competition or approving takeovers. The goal is greater competition, which should be rating positive not negative. As a common-sense test, consider the reciprocal, and policies that drive less competition and the extraction of duopoly rents. Would New Zealand be likely to receive a credit rating upgrade? No.

We urge the commission to check with Treasury and formally engage with the ratings event desks at S&P, Moody's and Fitch. It can also do a sense check with BlackRock, Templeton, Capital and Fidelity as well as Fisher Funds and Milford Asset Management . An initial review by MWNZ suggests a rating downgrade is unlikely

What will equity investors think of NZ?

International Fund Managers own anywhere between 40% to 60% of the NZ stockmarket. These ratios have changed like the weather over the past 20 years. The flow is also altered by KiwiSaver funds and index funds.

Splitting the supermarkets will create more "meetings" in investment bank offices as they take competition and ROIC > WACC issues seriously, particularly in regulated bottleneck industries where there will be nervousness there will be more OECD-style benchmarked competition.

This will push returns down in some unregulated or lightly regulated businesses. Monopolies on the NZX that work against the public interest may suffer .

There may be little impact on Woolworths' share price as NZ accounts for only 10% of revenue and 13% of free cashflow. However, ESG, CSR and GRI agencies which rate Woolworths' governance may downgrade them as Woolworths Australia does stuff in NZ which is banned by the ACCC in Australia and also contrary to the Australian Code of Conduct. It has also owned a stake in The Warehouse for more than a decade to block it competing, which is very very naughty for a corporate who prides itself on a decent ESG rating.

What could impact the stock is if the commission decides to prosecute anti-competitive behaviour, resulting in fines or the forced write down of goodwill on the balance sheet. Also the forced divestment of supermarkets at the non-monopoly rent valuation will inevitably lead to their auditors forcing them to write off \$2.3bn of goodwill.

Will some of these remedies impact the Investment ratings of NZ ?

Equity investment ratings are a subject of a great many of variables - interest rates, growth, currency outlook, industry outlook, carbon footprint, politics, regulators, new technology, etc.

It's difficult to predict what investors will do or think, and many can't release an official comment to any media outlet or research group without going through compliance and checking their CFA charterholder responsibilities. MWNZ respects confidentiality.

MWNZ can share contact details of institutional investors' asset allocators to test the hypothesis so that the Commerce Commission can make its own enquires when executing its obligations to enforce competition will not harm NZ investment markets

Blackrock
 Templeton
 Fidelity
 Sun Alliance
 Capital Group
 Allan Gray
 Investec
 Wells Fargo Asset Management
 CALPERS
 Ontario Teachers Pension Plan
 Milwaukee Based North-western Teachers State Pension Fund
 Legal and General
 Schroders Asset Management
 Prudential PLC
 Standard life
 Newton Investment Management
 Morgan Stanley Asset Management
 Vanguard group (**biggest owner of the Countdown parent company Woolworths as an index fund**)
 J P Morgan
 PIMCO
 Northern Trust
 Loomis Sayles
 Carlyle Group

Favourite comments:

*“There is no way institutional investors or private equity investors are going to stop looking at the NZX or NZ private equity because the Commerce Commission look at competition and they execute their constitutional duty to maintain competition in important industries.” **RJP, New Kings Road Investors***

*“Woolworths has a privileged market position – that’s why we have it in the portfolio, one day it will get busted up , but it’s stable cashflow at the moment . It trades at a 10x premium to Europeans where there is lower margins “ the Country will never get downgraded for improved competition regulation, at worst its neutral at best its an upgrade “ **CFA charter holder 30 years of US Equity Market Experience San Francisco** based owner of Countdown’s parent company Woolworths .*

What would the NZ industry look like over the next decade without like-for-like competition?

The duopoly would continue to raise prices to consumers, expand their own brands and share monopoly rents with property owners, senior executives, and some large brands. Innovation would shrink and the sector would look like the NZ car assembly industry in the 1960s - a lot of Falcons, Cortinas and a few Holden Kingswoods and Vauxhall Vivas. Low innovation would lead NZ to the bottom of the charts for internet shopping – despite a world class rural broad band network being built. There will be no convenience store start-ups, current convenient stores will continue to struggle for survival due to failure to secure stock, and overall food prices go higher.

The impact of non-competing monopolies and duopolies can be seen in the New Zealand Telecommunications industry before the aforementioned Hon David Cunliffe helped crack the door to competition. An analogue mobile phone network designed in the 1980s continued into the 2000s, and there was no texting between rival networks as late as 2007.

New Zealand needs more vigorous competition than most countries. As a food exporting nation, we need vigorous domestic competition to test marketing, branding, packaging, placement, nutrition, delivery, labelling and more. We also need to maintain manufacturing capability and capacity to ensure food security.

What might a supermarket look like in 2030 in the rest of the OECD?

We refer the commission to notes from international consulting firm Oliver Wyman:

Ref :

***In 2030, how will consumers shop?** Consumers are demanding greater transparency and personalization from their grocers so they can make informed choices that support their dietary needs, health goals, and values. These rapidly shifting consumer demands, paired with emerging technologies, will lead to a “smart” supermarket with a massively improved omni-channel experience and more efficient operating model. Smart merchandising solutions will make the shelf more attractive for customers while reducing labor hours and waste.*

Consumer Shopping Habits Are Shifting

Shifting consumer preferences, macro trends, and emerging innovations are reshaping the retail sector. The future supermarket needs to respond to these trends if it is to attract the consumer of tomorrow:

- **Smaller households.** *There was a 34 percent increase in single-person households in the US from 2000 to 2018. Because cooking for one can be challenging, those in single-person households are less inclined to stock up and cook meals from scratch.*
- **Aging population.** *By 2030, 25 percent of the US population will be 65 years or older. This aging population will be marked by specific shopping habits and dietary needs, along with a reduced capability to drive to stores.*
- **Digital revolution.** *Double the number of US shoppers use online-only retailers to shop for groceries today as did in 2015. Online is becoming a powerful grocery channel that can also be leveraged as an avenue for marketing and sales.*
- **Speed/convenience.** *Americans spend an average of 37 minutes a day on food preparation, serving, and cleanup: indicative of how little time Americans allocate in preparing meals.*
- **Omnichannel mindset.** *US grocery shoppers use an average of 3.1 channels frequently. Americans are willing to use all channels available to get the best quality, price, and convenience.*
- **Freedom to customize.** *Shoppers are willing to share their data to enable personalization of their products and services: Some 46 percent of US shoppers would provide their store with personal information for a better shopping experience.*
- **Hassle free.** *US shoppers are looking for solutions that maximize convenience: 56 percent say that a long wait time at checkout is unacceptable.*
- **Sustainable, naturally functional.** *Food inherently resembles medicine, with consumers seeking out pure, organic, and healthy foods. It is estimated that revenue generated by the functional food market worldwide will grow at a compounded annual rate of 8 percent from 2017 to 2022.*
- **Food consciousness.** *Seventy percent of US shoppers say that product information displayed at the shelf or with the product is very important. They want to know more about their product beyond what's on the label, seeking transparency on ingredients and ingredients' origins, additives, and production chains.*

- **Global discovery.** *Some 77 percent of millennials have a high interest in experimenting with new foods, indicative of a growing appetite for perceived to be new, innovative, and exotic.*

New Technologies Will Reinvent the Shopping Experience And Store Operating Model

In addition to shifting demand, disruptive technologies and innovations will reinvent the shopping experience and the operating model. Robotics, Internet of Things (IoT), artificial intelligence (AI), virtual reality, blockchain technology, drones, and 3D printing are just a few examples of disruptive technologies that are changing the way we shop and how supermarkets will operate in years to come.

- **Robotics are used in supermarkets** already to serve meals, assist customers, or scan aisles for misplaced products and out-of-stock items.
- **Machine learning and AI have proven themselves capable** of supporting demand forecasting and are being used increasingly for recommending products and customizing pricing and promotional decisions.
- **Drones and 3D printing are more distant solutions**, but we have already seen tests around 3D printing in the nonfood area, drones used for deliveries, or drones used for out-of-stock scanning.
- **Monopoly Watch acknowledges** : <https://www.oliverwyman.com/our-expertise/insights/2018/feb/retail-consumer-journal-vol-6/the-future-supermarket.html>

SUMMARY

Market Structure = Market Conduct = Outcomes.

That's basic management textbook stuff with help from the folks at McKinsey.

The market study by the Commerce Commission has seen evidence that the market structure of two vertically-integrated supermarket chains is not serving consumers, suppliers and other stakeholders (such as the environment) well.

The structure is the problem. It's not a fringe issue, it's not a tinkering issue, it's not a code of conduct issue. It's market structure. There used to be more than five players. Now there are two.

To paraphrase Australian competition guru Alan Fels, for decades from the 1960s to the 1990s the supermarket revolution created consumer benefits and often supplier benefits. Although there was some pain, the consumer received a price and time benefit of a cheaper, one-stop shop.

This changed in New Zealand with the emergence of a duopoly (or more correctly a collection of suburban monopolies), creating consumer, supplier and environmental harm.

Maintaining the current structure and the current level of profitability means perpetuating damaging conduct and behaviour.

The commission must recommend Cabinet fix the structure of the industry.

MWNZ favourite contradiction: Commissioners being told by the majors: *“Scale is not a barrier to entry”* (page 8 Gluckman transcript conference day 5) and *“Our business model is highly sensitive to scale and you would certainly want to present the benefits of scale,”* (Gluckman transcript conference day 5).

MWNZ says scale can be preserved by dismantling the distribution centre monopolies. Any distribution centres built by a third operator may be different locations to the incumbents. Scale benefits are preserved in cost terms but leveraged to give benefits to consumers and suppliers by a challenger on a like for like basis

MWNZ favourite conference quote: Sarah Balle from Supie: *“We don’t have time to wait and see what may happen in the next 5 or 10 years. We know today that meaningful and effective competition does not exist in all parts of the country or in all shopping missions, in particular the main shop. So, we need change, we need a full reset, and the industry needs support. We need to ensure that the reset facilitates and delivers rapid innovation in a sector that has been starved of this for decades. I mean, only in July this year did Foodstuffs introduce online delivery in the South Island. It’s 2021! And Woolworths closed its Grey Lynn store to create a dark store for online order fulfilment. This isn’t innovation, it’s not even close”*

MWNZ most powerful evidence: Mathew Lang from Night and Day: *“We are a \$130m business, they are two times \$9bn business – and they did that to us “*

MWNZ favourite comment: *“It’s the social contract that is broken.”*

MWNZ – resolution comment recommendations of the Market Study

- 1) **Proceed** to have ownership separation of the 2 distribution centres in a formal divestment process, which meets Attachment F style process . With open access on an equivalence basis to all competitors who meet criteria.
- 2) **Proceed** to forced divestment of 150 to 175 supermarkets, approx 15% of sales of today’s market from incumbents to a *qualified institutional supermarket operator* buyer, who must build an open access 3rd distribution center system thorough the entire country.
- 3) **Proceed** to secure a supermarket commissioner to meet a specified mandate and who supervises a mandatory code of conduct which not only covers suppliers but also acceptable competitive behaviours, distribution centre system and meets criteria similar to Attachment F style process
- 4) **Proceed** to use the commission submission to the Climate Change Commission of 26 March 2021. This has direct relevance to the Market Study. A challenger operator could use the carbon footprint metric to force behaviour changes from incumbents, who currently provide no “unit of value” carbon footprint metrics other than unbacked assertions.

Conclusion of Paper for Australian and New Zealand School of Government

– Copyright 2011 – Allan Fels

Professor Allan Fels : paper the supermarket revolution in food , the good bad or ugly

“Supermarkets pose policy challenges that the worlds biggest emerging markets are only just starting to grapple with. Developed countries such as Australia have been dealing with these challenges for decades and many lessons can be learned from their experiences.

Australia has for the mast part managed the retail sector with soft regulatory hands. Market forces have shaped the size and structure of the retail sector over time creating an environment conducive to all the benefits of modern retail. Consumers and society more generally have indisputably benefited from practises as well as the lower prices and greater product choices that flow from economies of scale.

However Australia provides evidence that there comes a tipping point when these retailers reach a position of dominance, Anticompetitive behaviour has been aired in Australian court rooms and various policies have been implemented with limited success

A possible generalisation from these experiences is that retailing can be thought of as developing through 2 stages, In the first stage modern retailing is necessary to achieve major efficiencies in distribution. The Dilemma is that when this happens it inevitably moves to stage two, a situation where an oligopoly and quite possible a duopoly emerges. In turn this implies substantial seller and buyer power – which may operate against the public interest.

The Lesson for developing economies is that effective competition policy needs to be in place well before the second stage is reached, both to deter anticompetitive behaviour and to evaluate the extent to which retail power is being used to unfairly disadvantage smaller retailers and their customers. The sources of retail power need to be understood to ensure that abuses of power are curbed before they occur and weighed against the benefits brought by modern retailers which much not be unduly hindered “

Thank you Allan Fels ,

MONOPOLY WATCH TERMINOLOGY

- 1 Consumer productivity Dividend
- 2 HHI ration
- 3 Like for Like Competition
- 4 Innovation cost
- 5 Suburban Monopolisation
- 6 Communist Russia in the 70s
- 7 Holden Kingswood's and Falcons
- 8 The Rag Trade
- 9 J Curve -Start up Hell Zone
- 10 Distribution center
- 11 Logistics systems
- 12 Section 36
- 13 Social Contract

Monopoly Watch thanks the following helpers

- 1) The Orange Squashing Machine at Faro Grocers Grey Lynn – Wow, you're innovation in action at a supermarket, everyone likes you, you're inspirational!
- 2) The Monopoly Watch team's neighbours who help with childcare during the weekends when the work is being done
- 3) Allan Botica
- 4) The Learning Centre (day-care for under 5s in Ponsonby)