Attachment B Summary of questions we are seeking your responses to

Questions on the scope of grocery products to be considered in the study

Q1 Do you agree with our preliminary view on the grocery products to be considered in the study, as described in paragraph 29 and Table 1? Why/why not?
Yes

Q2 Does Table 1 appropriately reflect how products are categorised in the grocery sector?
Yes

Q3 Are some product categories more competitive than others, either in terms of the acquisition of groceries from suppliers, or the supply of groceries to retail customers? If so, please explain.
The seasonality of Fruit & Vegetables and ease of being able to use supply shortages, growing conditions etc makes these extremely easy for potential price gouging or clouding of retailer margins

Q4 Are there any product categories we should consider in greater detail than others? If so, which ones and why?
Fruit & vegetable, for reasons above. I believe overall that the study should obtain access to retailer scan data information through IRI and Nielsen, and then compare categories where there have been discrepancies in price inflation (or deflation) vs overall consumer inflation metrics

Q5 If we do focus on certain product categories, are the factors set out in paragraph 34 appropriate to guide our focus? Are there any other factors we should also consider?
Yes. However, I challenge 34.3 calling out more profitable categories. Some categories will have higher front margins due to wastage or theft, or higher cost to maintain such as chilled and frozen. If there is only a focus on these, it dilutes that there are other areas of the store that make less profit, meaning blended margin overall should be focus

Questions on the importance of grocery products to New Zealanders

Q6 Would considering the supply of grocery products to commercial customers assist in our assessment of competition in the retail grocery sector? If so, how?
Current scope is fit for purpose. Food service has a different cost, packaging and service structure

Questions on New Zealand's major grocery retailers

Q7 Is our description of New Zealand's major grocery retailers accurate?
Description is correct, however On the Spot should definitely be excluded as it is a convenience store. Additionally, I also believe Raeward Fresh should be excluded from scope of this study as it is more heavily focused on meat and veges and doesn't stock grocery essentials such as toilet paper and personal care items. This is predominantly so if likes of Nosh and Asian supermarkets are excluded.
Q8 What are the key characteristics of a supermarket, compared to other retail grocery stores?
Predominantly prepackaged goods, with everyday staples. Also stock range of fresh produce, meat, and dairy. Alcohol where licensing laws permit

Questions on the role of other grocery retailers

Q9 How does our description of other grocery retailers in New Zealand fit with your understanding of the sector?
Appropriate
Q10 Are there any other grocery retailers or types of retailers we should have regard to in the study?
No

Questions on the supply chain in the New Zealand grocery sector

Q11 How does our high-level summary of the supply chain in the New Zealand grocery sector (as shown in Figure 3 above) fit with your understanding of the sector?
Appropriate, though Raeward Fresh should be under other grocery retailers
Q12 Are there any other key steps or participants in the supply chain which should be included?
No

Questions on the impact of changes in consumers' shopping habits

Q13 In your view, what impact (if any) have online shopping and meal kits had on the New Zealand grocery sector? What impact do you think these trends will have in the future?

Meal kits have muddied item pricing, and overall value. Online grocery is captured in retailer data and pricing is the same (excepting delivery fees)

Q14 Are there any other developments in how consumers purchase groceries which might impact competition? How should we take these into account in our study?

No

Q15 Do you agree that the study should primarily focus on traditional retail grocery stores?

Yes

Questions on the impact of COVID-19 on the New Zealand grocery sector

Q16 Are there any changes to the New Zealand grocery sector due to COVID-19 that we should consider in our study? If so, what are these changes and what effect, if any, are they likely to have in the future?

Most apparent was increase in foot traffic during lockdown, with consumers unable to dine out, or to shop at Other Grocery due to Government restrictions. Additionally, prices increased over lockdown as suppliers reduced price promotions to ensure continuity of supply during panic buying. The idea of this was to smooth demand, it may have led to retailer $ margin increase but not %, and increased supplier margins

Q17 Has COVID-19 changed the manner or frequency with which consumers shop? If so, do you think that these changes have persisted, or will continue to persist, following the COVID-19 lockdown period? What effect might this have on smaller retailers?

No

Q18 Has COVID-19 had any long-term impacts on other retailers (including specialist retailers) and their suppliers?

No, apart from economic downsides of being forced to close by Government

Questions on our high-level approach to the retail grocery market study

Q19 Do you have any comments on our proposed high-level approach to the study as discussed in paragraphs 66 to 70 above?

No

Q20 Would international comparisons of grocery prices and profitability of retailers provide insights into the level of competition in the retail grocery sector? If so, how should we undertake these comparisons? For example, which measures of profitability are relevant in this context?

For this to be understood you would also need to investigate supplier margins, as overall consumer pricing is a combination of cost of goods, freight, and both supplier and retailer margin. It would also need to exclude external factors such as sales tax rates or exclusions, and take into account that NZ is a small isolated market meaning economies of scale are harder to achieve

Questions on national and regional retail competition

Q21 How do major grocery retailers set their service offerings (such as price, quality, product range and opening hours)? For example, are prices set centrally, regionally, and/or on a store-by-store basis?

Generally pricing is set at a head office level, with some instore pricing occurring (though the level of this pricing is generally in line with head office) I do not know about store hours, byut have assumed it is set locally based on foot traffic potential. There is an increased move toward head office ranging. From a larger supplier community this would be welcomes as standardisation is easier to plan for from a forecasting perspective

Q22 How closely do smaller grocery retailers compete with the major grocery retailers? What are the main similarities and differences between them? Does this vary regionally and/or locally? Does it vary by product category?

There is always a price for convenience & small scale operations. I would expect a small supermarket such as 4 Square or Supervalue to be 10% more expensive than its larger equivalent New World or Countdown. Smaller supermarkets may use a few key items to price match large supermarkets but it is limited

Q23 To what extent do grocery service offerings (such as price, quality, product range and opening hours) differ across the country? What are the causes of differences?
As above

Q24 What factors do consumers consider most important when deciding which grocery retailers to shop at, and which brands to purchase? How far will consumers travel to purchase groceries? Does this depend on where the consumer lives? Have any changes in consumers' purchasing behaviour affected the distance or time they are prepared to travel or take in order to shop?
Convenience is still key, along with pricing, and experience. Driving half an hour to save $10 is unlikley
Q25 Should we compare grocery prices across regions within New Zealand? If so, how should we undertake these comparisons?
I think the study should focus on North Island vs South Island, mainly because this is how Foodstuffs is split, and Woolworths NZ tailor their offering to match
Q26 Do you have any other views on competition in New Zealand's retail grocery sector which you would like to share?
Apart from some margin creep over the years as costs have escalated, in NZ retailers work to a category margin % for perpackaged goods. Price at shelf is directly related to the price they are paying suppliers, there is some gouging of margin but this is from a few rogue operators. Fresh is where there is more opportunity for retailers to ride a margin wave, making most of low prices and resisting price increases as costs go up

Questions on accommodating behaviour
Q27 To what extent do you think there is accommodating behaviour between retailers in the New Zealand grocery sector? Please explain.
I have seen little accommodating behaviour between retailers (and even between their banners). Pak 'N Save aim to never get undercut, even by their sister New World brand. Countdown will aim for best price perception against all banners, and will challenge suppliers if one is seen to be getting a better deal then them
Q28 Which, if any, aspects of grocery retailers' offerings may be subject to accommodating behaviour (for example, location of store openings, prices, promotional schedules)?
I don't believe this occurs
Q29 To what extent do grocery retailers monitor or respond to one another's behaviour? Which specific factors are monitored and how often are comparisons made?
Retailers will monitor competitor price advertising as a key measure. They will also monitor their price index on key lines using scan data ie frequency of activity and depth. This occurs weekly, and all discussions are about prices needing to be lower, not that they are too cheap!

Questions on conditions of entry and expansion
Q30 What factors affect entry and expansion in the New Zealand retail grocery sector? How significant are these factors in affecting entry and expansion from retailers?
Most successful retailers around the world at the moment such as Walmart, Aldi and Lidl rely on a hub and spoke distribution model, and with NZ's fragmented population it is difficult to achieve economy of scale. For example Aldi in Australia has two distribution centres servicing $7.5m people, or over $3m people per DC. One distribution centre in the North Island would struggle to be viable in first five years as a brand builds. Additionally, the ability to obtain a suitable site with our transport network is an additional challenge
Q31 To what extent does the size and geography of New Zealand affect the possibility of entry and expansion?
As above. This is a major issue
Q32 Are there recent examples of actual or potential entry or expansion in the sector that we should aware of? What are these?
Costco's business model will be interesting, their focus on very large packs will be a challenge for most NZ households either due to pricepoint or ability to store

Questions on competition at the wholesale level

Q33 Are there existing wholesalers who are willing and able to supply new entrants to the retail market? Which product categories do these wholesalers supply?

Bidfoods would probably welcome the opportunity to expand their network

Q34 Are there any barriers to entry and expansion at the wholesale level of the New Zealand grocery sector we should be aware of? If so, how significant are they?

Infrastructure cost, fragmented population, time taken to build new retail brand

Q35 Do you have any other views on competition at the wholesale level of the New Zealand grocery sector which you would like to share?

No

Questions on competition at the supplier level

Q36 Are there any factors affecting competition at the supplier level we should be aware of and consider during our study?

No, we have seen the emergence of smaller companies doing extremely well in the NZ market as global and local supply chains improve

Q37 What impact, if any, do private label products have on competition at the supplier level?

Retailer attitudes toward private label in NZ vary. When sourced locally it can be a profitable business for suppliers, and an opportunity to supply Private Label into other markets (NZ suppliers have large business with Aldi in particular) Where retailers bring in Private Label manufactured overseas, that could have been produced here, it is detrimental to suppliers, particularly if global pricing is less than here. It is a positive for consumers though as it would bring lower prices

Q38 Do you have any other views on competition at the supplier level of the New Zealand grocery sector which you would like to share?

No

Questions on the grocery procurement practices of the major grocery retailers

Q39 What are your views on the relative bargaining power of retailers and suppliers in the New Zealand grocery sector? How, if at all, does the relative bargaining power differ based on the specific retailers and suppliers involved?

I believe that practices in NZ retail are no worse than overseas, and in some cases may be more respectful. There is supplier bullying but I think this is on a small scale and more likely to be seen at an individual store level rather than on large scale at head offices. NZ suppliers are generally consistent in approach

Q40 Is the relative bargaining power between retailers and suppliers impacting competition in the New Zealand grocery sector? If so, how?

If anything lack of competition means suppliers have to take it or leave for a deal, and retailers pass all of this discount on. This is a benefit for consumers

Q41 Is there any specific behaviour or conduct between retailers and suppliers we should consider in our study?

Pak N Save buyers pressure on lower level sales people such as reps. Foodstuffs distribution centre charges. Do suppliers get what they pay for in terms to promotional pricing, or display charges

Questions on factors which may affect consumers' ability to make well-informed decisions

Q42 How relevant do you consider consumers' access to information is to our study?

I believe only if information is presented in context. The industry is complex and without understanding the general public may make incorrect conclusions. Same goes for media on this, click bait headlines do not help understanding

Q43 How do consumers compare offerings across grocery retailers? Where do consumers access the information they need to make these comparisons (for example, advertising by grocery retailers, price comparison websites)?

As above, I have found though that perception plays a big part in what pricing is expected

Q44 How easy is it for consumers to compare product offerings once in store? What factors influence this?

Websites can be browsed from a mobile device, but it is finicky to do

Questions on retailers' pricing practices

Q45 What strategies do New Zealand grocery retailers use when setting prices for their products, including promotional prices? What are the benefits and potential harms to consumers of these strategies?

NZ consumers are conditioned to high-low pricing, and it is difficult to break this behaviour. They simply wait til something is on special and buy up then, or brand switch to a cheaper option. This leads to perception of higher prices in a retailer if they are only in store when not promoted

Q46 Why is the percentage of grocery products sold on promotion high in New Zealand relative to other countries? Does this benefit or harm New Zealand consumers?

This is historical, and if anything the likes of Countdown have tried to reduce it through their Dropped campaign. It was originally driven as that was how promotional plans were built up, and is risky from a supplier and retailer position to move away from as there is uncertainty on outcomes

Q47 How are pricing promotions funded? Do these typically result in lower margins to retailers or suppliers?

For branded goods suppliers will always provide at least some of funding. Retailers may cut their margin further and drop price below the deal offered, very rarely will the full amount of discount not pass onto consumers. Suppliers % margin will reduce but overall revenue and $ profit should increase if they are analysing results. Retailers will aim for total category margin % so will work against this rather than individual promotions. Note in Australia this is more developed than here

Questions on loyalty programmes

Q48 How important are loyalty programmes in New Zealand's retail grocery sector? What impact, if any, are grocery retailers' loyalty programmes having on the sector?

I think little, if you have a card you use it but the benefits are small. If you don't have a card, stores will always swipe their own to ensure you get the promotional discount (if not the points)

Q49 To what extent do consumers base their purchasing decisions on the benefits associated with loyalty programmes? Do consumers typically participate in more than one loyalty programme?

I believe so

Q50 Are there any other specific features of loyalty programmes offered by grocery retailers we should consider in our study?

Amount of price activity available only to cardholders

Questions on other issues

Q51 Are there any other issues not raised in this paper that could impact competition in New Zealand's retail grocery sector?

I think not. We are an isolated country with a small population, and relatively stable population, so not a huge target for overseas retailers to expand to. Under no circumstances should Government incentivise other retailers to expand in New Zealand, although if they did come here it is not a bad thing. We also have two large established retailers who have invested heavily for the foothold they have. Ultimately are the profits made in the NZ Grocery industry higher than global standards? I don't think they are