

To Commerce Commission New Zealand
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From [REDACTED]

Comments on your draft report into competition in the retail grocery sector.

I want to thank your team for a thorough report that covers the retail grocery sector, tests all the likely scenarios against well-established international methods to confirm their suitability for, and results in its being an accurate assessment of the situation.

1. It is important that the Government recognises the importance of this study, perhaps the first of its kind into the business of food sales to the consumers of New Zealand and the final report needs to stress this.
2. The recommendations cover a wide range of options; these are not given any particular priority but looks at the possible difficulty of applying each of them. It is therefore important that this last point be disregarded in favour of reaching a satisfactory outcome for the consumer.
3. The duopoly has for many years operated at the excessively high profit margins, at least demonstrated in the report from 2010, and from my personal supplier experience roughly from the late 1980's when there were a number of chains operating in the big centres. The sale by L.D. Nathan Ltd of Woolworths NZ, to Woolworths Australia, (Countdown) and subsequent mergers 1990 – 2001, establishing the current non-competitive marketplace.
4. None of the proposed options appears to suggest that it would lead to consumers losing buying power or facing price increases so it is important to recommend the use of the most likely method to succeed to the best advantage of consumers in the shortest possible time.
5. The way in which this report is adopted and put into action has the potential to reduce the cost of the weekly grocery bill by up to 20% and in doing so will allow a large portion of the lower income population to better afford the high rental accommodation, buy healthier fresh foods and feed their family to a higher standard.

My summation and suggestions of the options as suggested by the report.

6. As the two members of the duopoly each have a vertically integrated system of operation to best guarantee their high ROI, each Company could have a similar system of change required of it to bring about lower grocery bills from within competitive marketplace. Therefore, the best option to progress to a competitive market for the benefit of consumers is to have some form of separation of those parts as recommended in 9.57. However, not allowing for use of 9.58.1 after a specified period.
7. This could be in Countdowns case by requiring divestment of a suite of stores that are in close proximity to each other or separation of the wholesale supply operation from the retail.
8. In the case of Foodstuffs a separation of the wholesale operation from their retail stores. This could lead to competition between each individual store of both the Pak'n Save and New World brands and should cause Countdown to adjust their retail pricing to attempt to match a more competitive market place.
9. A separation of this nature would allow the supply to all smaller retailers and development over time of larger retail grocery businesses.

10. To reduce the problems espoused in 9.54ff, a Companies Act Rule should spell out that no one person or company with an interest in a grocery wholesaling company can also have an interest in a grocery retailing business over a certain turnover figure.
11. Now with all products being bar-coded and centrally supplied from only a few national distribution centres any major changes could be achieved relatively simply and speedily.
12. My reasons for believing this approach will work best are a lack of alternatives as pointed out in your summations in: 9.41 + 9.42.
In 9.40 and 9.44 – 47, you show that the existing wholesale supply system could allow supply to other retailers, but I suggest they would only do this if compelled by regulation and therefore continued negotiation on this point would take a long time and would likely be unsuccessful because of a high level of resistance from the current ownership.
13. You suggest an approach to increase or open up the wholesale market supply but in 9.51, you show what would be required to achieve this, once again involving a long drawn out process.
14. The report raises possible difficulties in 9.60 – 9.64. It is to be noted that these will be overcome by good business acumen and it is the purpose of the Commerce Act to apply good works for the benefit of all people, consumers and business owners alike and not to differentiate nor to look for problems that may be encountered.
The high net asset value and personal net worth of the existing company owners, of Countdown, and of Foodstuffs Co-Op store owning shareholders would allow them to establish separate financial operations without prejudicing their wealth.
It is also not likely that there would be a single purchaser but a consortium.

Facilitation of entry

15. If the Govt were to initiate an incentivised approach to create another major player, it would be difficult and politically unwise.
New Zealand's small widely dispersed population might not allow the development of a third major retailer due to 'cost of business' aspects as mentioned elsewhere in your report.

Improving access to suitable sites

16. I strongly agree with the reports findings on this matter and that all of the recommendations be implemented.

Food and Grocery Code

17. I support a code of conduct and alignment with Australia but only if it was to be mandatory.

