

8 November 2024

Matthew Lane on behalf of Night 'n Day Foodstores Ltd.

This submission relates to feedback sought on the Preliminary Issues paper on Wholesale Supply.

*Questions and answers from **Section 3** of this paper:*

1. Who do you think the wholesale regime should service? For example, what types of customers and what market share?

The wholesale regime must service a diverse range of customers, from the local corner dairy to large format retailers. Currently, (regulated grocery retailers) RGR's are the only companies with the infrastructure, selection and buying power to distribute key products, particularly groceries.

Historically, independent businesses have been forced to shop at RGR's like consumers, despite the ineffectiveness of this approach. Small retailers then attempt to add margins on these purchases, while RGR's continue to profit as though serving general consumers.

2. Please describe any experiences you have had regarding different forms of wholesale supply, inside or outside of the wholesale regime. We are interested in the experiences of both wholesale customers and suppliers.

New Zealand's wholesale regimes are designed for a market that doesn't exist, catering mainly to supermarket-scale operations, with no other large competitors to utilize these offers.

While Woolworths has made a genuine effort to introduce a wholesale offering, demand for carton or pallet quantities is minimal. They've adapted by tailoring their retail premises to support smaller businesses, but further collaboration is needed to distinguish commercial purchasing from consumer-level buying effectively.

Foodstuffs appears to show limited commitment to wholesale growth, focusing more on meeting regulatory requirements than fostering a competitive wholesale market. This is highlighted by admissions of their regime's ineffectiveness and a statement from a Foodstuffs North Island Board Member stating "there is no demand for wholesale in New Zealand."

3. Please describe your experiences of wholesale pricing in the grocery industry.

It is more economical and practical to purchase through an RGR's retail channel than the wholesale regime.

This is evidenced by our banner purchasing over \$5.3 million in required wholesale products being sourced through retail stores, with only one store in the banner attempting to use the wholesale regime but still relying primarily on retail channels for most purchases.

- 4. Please describe your views and provide evidence on the costs to wholesale customers of retailing grocery products. For example, what margin between wholesale and retail prices is required to recover the costs of retail activities.**

A 20% difference between the GST-exclusive retail price and the GST-exclusive purchase price is considered a sufficient margin to remain competitive. This ensures coverage of downstream costs while allowing for a modest net margin for the operator.

- 5. Please describe your experience and awareness of the types and value of RDPs. How does this affect you as a wholesale customer (eg, retail pricing) or supplier? For example, what types of RDP between suppliers and wholesale customers have you used, and what impact did this have on margins? Please provide evidence if available.**

Common format RDP's used in market are;

- A. Off invoice discount
- B. Charge through statement discount
- C. Online delivery rebates
- D. Retail scan back rebates
- E. Rebates based on dollar purchases from suppliers
- F. Combo/bundling rebates
- G. Promotional discount
- H. Advertising rebates
 - a. TV display
 - b. Preferential placing
 - c. General placing
 - d. Point of sale placing
 - e. Collaborative external advertising

- 6. What is your view on the types of RDP that should be passed on to wholesale customers to reflect the RGRs' benefits of scale and efficiency?**

- A. Off invoice discount
- B. Charge through discount
- C. Online delivery rebates
- D. Retail scan back rebates
- E. Rebates based on dollar purchases from suppliers
- F. Promotional discount

Rebates are often used to influence starting cost prices, with agreements frequently increasing these prices in exchange for higher rebates. This practice preserves a gap in purchasing power, making it difficult for competitors to secure cost prices that compete with RGRs' retail pricing.

Therefore, it would be essential to monitor display rebates as they could be increased to mitigate any advantage gained from passing on the cost price negotiated by the RGR's.

7. Please describe your experience of accessing popular retail grocery products (or appropriate substitutes), including via RGRs and through direct supply.

Access to popular grocery products has not been an issue due to the use of retail channels as a substitute for wholesale. However, the limited product selection through the wholesale channel detracts from its use. Additionally, minimum purchase quantities restrict flexibility, as individual items are often needed rather than full cartons.

8. Please describe your experience of using alternative channels of supply.

No external distributor has been able to achieve the scale or pricing necessary to compete with the product lines retailed by the RGRs.

There is insufficient demand outside of the RGRs to establish a viable grocery supply chain. Additionally, suppliers have little incentive to support alternative channels due to the low market demand compared to the RGRs.

It is not commercially feasible for external distributors to offer the range and pricing needed to compete in the grocery market. Generally, the limited range offered by external distributors comes at higher prices than those within the RGRs.

While we utilize direct supply where possible, this can result in higher prices than RGR retail but helps mitigate supply chain issues and protects our data from competitors.

9. Please describe your experience of supplying wholesale groceries to retailers.

Not applicable.

10. Please describe your experiences/relationships with suppliers and/or retailers as a wholesale customer.

Nothing of significance to report at this time.

11. Please describe your experience regarding the effectiveness of systems and processes for wholesale grocery supply.

This is an area for improvement.

Currently, we rely on a general consumer portal, and it would be beneficial to have features such as the ability to upload orders, order in outers/cartons where needed, and access uniform price listings.

Discussions with Woolworths NZ have been opened to explore how their systems can better serve wholesale customers, and we look forward to continuing these conversations. Night 'n Day has no knowledge of the systems or processes available through the Foodstuffs wholesale channel.

12. Please describe whether you have experienced differences between the RGRs' and alternative channels' systems and processes? If yes, please comment on the effect of these differences.

Further to the above, other differences include visibility of stock on hand, the credit claiming process, required shelf life, reporting, and individual purchasing data.

While the systems are functional, tailoring them to a commercial offer would add significant value.

13. Please describe your experience of terms and conditions for wholesale grocery supply.

These arrangements currently rely on good faith.

Access to wholesale has been based on a simple contract that has worked historically, suited to a small-to-medium offer with minimal onerous terms. While it doesn't support scaling up retail offerings, it has "served its purpose."

There is an opportunity to improve the commercial terms, and discussions are ongoing.

14. Please describe whether you have experienced differences between the RGRs' and alternative channels' terms and conditions. If yes, please comment on the impact of these differences.

Night 'n Day has no knowledge of Foodstuffs terms and conditions.

15. What is your opinion on the findings of this progress assessment? Is there anything we have not mentioned in this paper that you consider is relevant? Please explain.

The findings of this progress assessment are satisfactory. However, there should be a greater focus on market demand for wholesale and strategies to increase that demand, as the current competition outside of the existing RGR structure is insufficient to create a truly functional wholesale market.

Questions and answers from Section 4 of this paper:

16. Do you consider we have identified the most important issues affecting the RGRs' wholesale offers? Is there anything we have not mentioned in this paper? If yes, please identify and explain.

Yes. The paper provides a comprehensive analysis of the key issues within the wholesale regime.

17. Is there any information or analysis that we have not mentioned in this paper that you consider relevant? If yes, please identify and explain.

The information and analysis mentioned in the paper are satisfactory.

18. Do you consider we have identified the most important issues affecting the direct supply of wholesale groceries? Is there anything we have not mentioned in this paper? If yes, please identify and explain.

It is worth considering ways to motivate both RGRs to grow their wholesale sales, as this is a key measure of success. The risk is that neither RGR may actively grow or compete in the wholesale market, offering the option without any intention of stimulating competition.

To drive motivation, a cost/reward incentive could be introduced. This would reward the RGR showing the most traction in the wholesale market, while encouraging the other to support it.

For example, the RGR with the lowest wholesale revenue could contribute 5% of the difference of sales to the RGR with the highest revenue. This would reward the leading RGR for its investment in generating wholesale sales, while motivating the other RGR to increase its sales and the leading RGR to maintain its growth.

Our experience shows Woolworths has actively worked to grow the wholesale market, while Foodstuffs has been less proactive, as evidenced by WWNZ having the highest sales and largest number of wholesale customers.

Questions and answers from Section 5 of this paper:

19. Please describe your views on the additional regulatory options.

They are needed to increase motivation for providing cost-effective wholesale options and to stimulate competition as the current regulations are insufficient to promote a fully functional wholesale market.

20. Are there other actions not described in this paper that you think would help? If yes, please identify and explain.

Any additional actions that may help have been addressed within the answers provided throughout this document