

Market study into the retail grocery sector

General comments on analysis:

- While outside the scope of this study, it should be noted that many suppliers operate with few competitors, and New Zealand subsidiaries of multi-national companies are often top performers in the global context. This may well be contributing to high prices.
- Food suppliers pay retailers many forms of discounts and support (eg various forms of rebates, volume discounts, promotional discounts, space payments, merchandising support, warehousing discounts). This can make the true net prices retailers pay to suppliers difficult to assess. This also helps enable the complexity around promotions.
- Over the past 25 years, retailers actively grew their centralised distribution capability in part to undermine the viability of supplier distribution networks
- Retailers ability to leverage discounts and support from suppliers is driven largely by their store networks and lack of alternative channels to market

Comments on options for recommendations:

Increasing wholesale access:

- If wholesale operations are opened up, there would still be a significant challenge for any new retailer to get access to similar net pricing as the existing major grocery retailers. This is because the majority of discounts paid are related to the store networks, rather than any wholesale (or supply chain) operations. An additional challenge would be to prevent retailers raising wholesale prices and funnelling extra discounts to their stores, by-passing wholesale customers.
- Any potential new retailer would likely have low trust of utilising a competitors' wholesale network, meaning full separation would be required to lower the barrier to entry.
- Retailer wholesale operations are tightly integrated with their internal warehousing and logistics operations for their own stores. Clarification is required as to whether any separation would include all warehousing and logistics operations. If not, a key issue would be the lack of scale for any separate wholesale operation to compete with the existing supermarket warehousing and logistics operations.

Directly stimulate retail competition

- The existing duopoly has limited competition. However, there is a risk that an additional competitor does not substantially increase competition, particularly if that competitor has a similar cost structure and consumer offer to the existing major retailers. By way of comparison, the oil, banking and electricity industries all have more competitors, but high prices for consumers persist in these industries.
- "Hard discounters" (such as Aldi and Lidl) operate with lower cost structures and prices. They have had a proven and significant impact on the prices consumers pay in Europe and more recently Australia. Aldi have been rumoured to be looking at New Zealand for many years. It may be worth exploring what it would take to get Aldi to

launch in New Zealand. Any issues they raise might also inform any recommendations for this study

Alternative option for recommendation:

- Mandate suppliers to offer products for sale to any retailer (or wholesaler) at the same net prices. Any variations would only be based on the difference in delivery costs based on order quantities.
- Consideration should be made to making this pricing information public, to increase retailer margin transparency.
- Suppliers paying rebates, promotional discounts, and for services such as merchandising, would likely need to be prohibited in order to ensure and verify they were supplying any retailer the same net pricing for products.

Benefits

- A “level playing field” for the purchase of products, which eliminates a significant barrier to entry for new retailers.
- Retailers funding their own promotional discounts would likely reduce the frequency and depth of promotions leading to simplifying of pricing for consumers, addressing concerns raised in the report
- A significant reduction in business complexity leading to a decrease in cost structures in both retailer and supplier organisations
- Retailers employing people directly for merchandising services may enable improved working conditions over time
- It may make it easier for new suppliers to enter the market.