Commerce Commission: Market study into the retail grocery sector - Comments

Re Ch 9 – enhancing competition – I suggest you have overlooked a couple of possibilities:

1) **Online shopping**. The extensive discussion in Ch 3 suggests lack of innovation here amid ongoing dominance by the main retailers. In Europe McKinsey finds the dominant trends in groceries are: online, value, and lifestyle agendas.[1] The first and third offer potential for new modes of competition.

   Consumers prefer to do most of their shopping as a 'main shop' at a single big box and this will apply to online shopping also, particularly given delivery charges. Entry barriers to online-only grocers include: minimum size to attract households' main shop, developing robust supply chains and distribution centres, and the likelihood of counter-strikes by the dominant retailers. Existing NZ online-only retailers - Honest Grocer, Supie – appear small or niche and the pattern overseas appears to be for chain groceries to dominate the online market too.[2] Nonetheless, there is potential for increased direct competition with established big box retailers.

   How to help? Many existing grocery suppliers, as well as small scale online retailers, would be drawn to supplying their goods through a consolidation web site that could offer the consumer their main shop as well as consolidated delivery. The consolidator would effectively be a wholesaler-retailer. The government could assist such a development by offering a package of start-up funding and commercial web site expertise on a competitive basis for 2-3 such sites to develop. As a condition of funding, there could be a required code of practice, a limit on charges, and retention by the government of a golden share to prevent sell off. Any code imposed on existing dominant retailers could restrict their ability to launch counter strikes against 'unfaithful' suppliers or deploy special offers such as free delivery. Alternatively, the government could help assist a consolidator at wholesale level only, who would supply retail web sites other than the big three.

2) **Command and control.** The national or regional level of the main retailers can set policy for local stores and thus ensure, for example, that suppliers are squeezed. Legislation could inhibit the ability to do so as deemed to be anti-competitive and thus facilitate innovation and local purchasing at store level. A difficulty is the different modes of ownership within the big three would make this difficult to apply equitably across them.

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[1] https://www.mckinsey.com/industries/retail/our-insights/the-path-forward-for-european-grocery-retailers March 2021.

[2] https://en.wikipedia.org/wiki/List_of_online_grocers