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Commerce Commission  
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## **Market Study into the Retail Grocery Sector – Comments on Draft Report**

The Warehouse Group continues to endorse the objectives of the Commerce Commission study into the retail grocery market and we are keen to support the Commission and the Government to help provide New Zealand consumers with affordable access to food through a more competitive retail grocery sector.

As indicated in our initial submission, we believe that the only thing that will make a meaningful difference to the grocery prices consumers pay in New Zealand is encouraging and facilitating new entry into grocery and adjacent markets, while ensuring that competition is not only preserved but flourishes over time.

That remains our view having read the draft report, which is comprehensive and paints a clear picture of why structural change is required in the grocery sector. The extent of the potential recommendations tabled is broad and we support many of them, including a preparedness to facilitate, invest or sponsor new entry in the sector and consideration of restructuring the existing vertical integration. However, we would like to draw to the Commission's attention some specific areas that we believe warrant further consideration.

### **1. Access to wholesale supply on competitive terms**

In our original submission we outlined the significant barriers to entry or expansion for any new or fledgling grocery operator, in particular, access to skill (physical and digital infrastructure and end-to-end supply chain capability) and scale (immediate access to competitive supply and operational efficiency).

Whilst the draft report references the need for wholesale solutions to provide potential new entrants with access to product and price, in our view there are two elements of wholesale grocery supply that should be considered separately.

#### **a. Access to product range and scale benefits from aggregated procurement.**

Alternative wholesale options would most likely be a welcome solution for independent and small retail traders, to enable them to benefit from better collective purchasing terms.



Potential large-scale entrants into the grocery market may seek access to wholesale supply to expedite market entry, however they are less likely to utilise wholesalers to secure product in the medium to long-term. Such entities are most likely to procure goods directly from the growers and producers to secure supply at the best price once they have built sufficient scale.

**b. Access to the end-to-end (e2e) supply chain infrastructure required to move goods from supplier to consumer.**

We believe that for any large-scale entrant, the more important issue is access to wholesale e2e supply chain infrastructure. This would need to include multi-temperature distribution, fulfilment capabilities and a transport fleet to support the handling and movement of goods. However, building such infrastructure would require a sizeable long-term investment, and until sufficient scale is achieved, it would carry significant risk, particularly given the current market structure.

Therefore, the key to facilitating entry is ensuring access to supply chain infrastructure for new entrants. We encourage the Commission to include a recommendation that the Government considers either providing investment support in the end-to-end supply chain (chill/frozen) infrastructure within New Zealand, to support scalable retail and wholesale alternatives, or intervening in the incumbent vertically integrated structures to provide access to other parties.

**2. Access to potential store sites**

The Warehouse Group also supports the recommendations pertaining to facilitating access to high density sites through possible divestment of the grocers' sites and to reviewing restrictive and exclusivity property covenants, which currently prevent potential competitors from obtaining access to, or using existing, suitable store sites.

**3. Matters that will benefit consumers once healthy competition is place**

Whilst the draft report has identified multiple factors that have an impact on competition in the grocery sector and the prices consumers pay for food, we believe that price transparency tools such as simplified promotional pricing and loyalty schemes are secondary to addressing the underlying structural issues affecting price.

We would ask the Commission to consider the materiality of the recommendations it is making to ensure that there are no unintended consequences to fledgling businesses in relation to new protocols on unit pricing, promotions and loyalty schemes. The Warehouse has been an Every Day Low Price (EDLP) retailer for more than three years to ensure consumer price transparency and integrity, but we recognise that recommendations that impose disproportionate technological or practical requirements or compliance costs on smaller operators may themselves create or increase barriers to entry or expansion. For example, smaller retailers may be challenged by a Grocery Supplier Code of Practice. Whilst we have already endorsed addressing potential inequalities of supplier/buyer bargaining power in our previous submissions, we believe a Code should only apply to retailers once they have reached a scale that would make them viable competitive entities to the two large grocers, as seen in markets such as the UK.



We look forward to continuing to support the study process and we welcome any opportunity to discuss what role TWG can play in giving Kiwis more equitable access to food at the consultation conferences scheduled in September.

Yours faithfully

**The Warehouse Group Limited**



**Nick Grayston**

Chief Executive Officer

