

26 August 2021

Project Lead (Grocery Market Study)
Commerce Commission
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New Zealand

Commerce Commission draft report on market study into the retail grocery sector.

Retail NZ is a membership organisation that represents the views and interests of New Zealand's retail sector. Our membership accounts for around two-thirds of total domestic retail turnover. We are the peak body representing retailers in New Zealand.

The following are our comments on the draft report on the market study into the retail grocery sector. We apologise for the brevity of these comments, however, the current Level 4 lockdown has impeded our ability to respond in more detail at the present time. However, we would be very happy to meet to discuss these points further.

Margins in the grocery sector

1. We note commentary in the report about the level of margins in the grocery sector. We do not understand how the Commission has derived these numbers. Our understanding is that net margins in the grocery sector are in the order of 4.3% in 2018.

Retail business structures

2. We note that there are different business structures in place throughout the retail sector. We think it is critically important that the Commerce Commission accurately represents and understand the ownership structures and variations in these structures within New Zealand retail businesses.
3. In particular, we are concerned that the Commission appears to have a poor understanding of the co-operative business model. We note that the co-operative model means, while there may be cooperation in the supply chain, that there are significant numbers of businesses operating at a retail level, all of which compete. This competition complements that provided by other supermarket businesses, as well as specialist food providers.
4. We therefore do not accept that there is a "duopoly" in the grocery sector.

Selling off stores

5. We note the Commission's suggestion that there could be a forced sell down of grocery retailers. This idea is complicated by franchise or cooperative ownership models, but fundamentally would be an overreach by the Government and is a precedent that should not be set.
6. The suggestion that the Government could create artificial arrangements in the New Zealand market would not provide good outcomes for consumers, or for New Zealand businesses. There would seem to be no compelling logic for the Government to provide special treatment for foreign businesses to enter the New Zealand market. Rather, we would suggest that a level playing field for all businesses is essential.

Code of conduct

7. We support the development of a code of conduct for the retail grocery sector.
8. This code of conduct should be developed jointly with all parts of the sector.
9. Retail NZ would be happy to be involved in any work the Commission undertakes in development of this code if that would be of assistance.

Suppliers' margins

10. We note that there has been little discussion in the draft Study around the profitability of suppliers. We would suggest that this requires as much focus as the profitability of retailers.

Unit pricing and marketing practices

11. We do not recommend the Commission to set unit prices or marketing practices for the grocery sector. If the Commission is to intervene on setting unit pricing and marketing practices, we urge it to err on the side of caution due to the precedent this could set.

Entry to New Zealand market

12. As the peak body for the New Zealand retail sector, we have had, over time, conversations with various international retailers about possible entry into the New Zealand market. Generally, a decision not to enter the New Zealand market is because of the small size of the population, our distance from other markets, and the lack of economies of scale here.
13. Simply put, it is often easier, and more lucrative, for businesses to enter other markets before looking to New Zealand. This is at odds with the Commission's narrative that the grocery market here is highly lucrative.

Thank you for taking the time to consider our submission, we would happily provide further comments directly to the Commission to support this work

Kind regards



Greg Harford
Chief Executive