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DAY 1 - RETAIL GROCERY MARKET STUDY CONFERENCE

21 October 2021

Session 1: The nature of competition in the retail grocery sector

Mr Devonshire: Just on behalf of the Commerce Commission, to welcome you all, it's my pleasure to welcome you all in the language of our Tangata Te Whenua to welcome you all to this session, this conference, over the next few days. On behalf of our Chairperson, Anna Rawlings, on behalf of our Commissioners, and on behalf of our Chief Executive, we welcome you all into the conference and we hope you enjoy the experience. I'm PJ Devonshire, I'm the Cultural Lead for the Commerce Commission, tēnā koutou, tēnā koutou katoa.

Ms Rawlings: Good morning everybody, thanks very much for joining us this morning. Welcome to this conference on our draft report on our market study into groceries. We're really looking forward to the discussion in the days ahead.

For those that I haven't met, my name's Anna Rawlings, I'm the Chair of the Commerce Commission and with me today and throughout the conference, are other Commissioners who have been working on this study. They are Commissioners Dr John Small, Dr Derek Johnston, and Associate Commissioner Vhari McWha.

Throughout the conference, all things being equal, they'll attend together from Wellington, as you see them now on your screen. And a number of Commission staff will also join them. They'll contribute to the conference as they have to the work with you in recent months.

Also in Wellington are Keston Ruxton, our Market Studies Manager, Matt Bailey, our acting Principal Advisor on the market study, Sunel Grimbeek, our Principal Economist working on the study, Ben Hamlin, Chief Legal Counsel Competition, and Karen Smith, the Project Manager with whom you can communicate about any queries you have during the conference.

As you can see, I'm joining the conference from my home in Auckland, like many of you are currently working under changing Covid alert levels and also in Auckland is Antonia Horrocks, our General Manager of the Commission's Competition Branch.

Finally we have our Chief Economist, Lin Johnson, who is joining us from Sydney for the duration of the conference.

As we move through the conference sessions from time to time, other of the Commission staff will join us and many of them will be known to you from the work that you contributed to the study in recent months.

I want to reiterate at the outset of the conference comments I made when we launched our draft report on the grocery study in appreciation for the time and energy that many of you have put into assisting us so far including your submissions on our recent

1 draft report. We want to thank you for making the time to be here with us during the
2 conference, to work through some of the issues that are most material to finalising that
3 report.

4 And we want to really acknowledge, of course, that your assistance has been
5 provided against the changing circumstances that we all face with the Covid-19 pandemic
6 and maintaining resilience and stability in the grocery sector has been essential to the
7 wellbeing of all New Zealanders. And all of you, I know, have contributed to that across
8 the sector during recent months, but particularly recent times, in Auckland in particular
9 and under raised alerts levels, we appreciate that this is no doubt particularly challenging.

10 As you know that context has presented its own challenges for us as well in
11 conducting of this really critical consultation phase of our study. And we had been looking
12 forward, of course, greatly to meeting with all of you in person in Wellington, but instead
13 we've been forced online with our conference. It's an operating environment that we've
14 all become really familiar with in the last year and a half or so, but for consultation
15 purposes, it will require us to work a little differently to how we would have in person.

16 So thank you for bearing with us while we pivoted to this plan B, and in advance as
17 we work through our online discussion in the coming days.

18 The silver lining, of course, is that working online enables us to provide access to
19 the conference to a much larger range of stakeholders than may have been able to attend
20 in person and we particularly welcome those that haven't been involved in Commission
21 processes before.

22 We're confident, of course we are, that everything will run smoothly in this format,
23 but if not, and if we encounter any technical issues along the way, then we'll use our email
24 address to communicate with you. And if you have any questions or feedback throughout
25 the conference, you should feel free to contact us using that email address as well, which
26 is marketstudies@comcom.govt.nz. Our website will also be an ongoing source of
27 information about the conference, but there is some time delay in posting material to our
28 website of course.

29 Now, to the study itself, as you're all aware, the Minister of Commerce asked us to
30 conduct this study and we're required to make our final report now by the 8th of March in
31 next year. I want to briefly summarise some of the context of the matters that we're
32 looking to discuss in the next fortnight or so and what our process will be after the
33 conference finishes.

34 The purpose of the study, as you know, is to identify and assess factors that may
35 affect competition in the grocery sector and to make recommendations that we consider
36 may improve competition. As you know, we're not investigating whether aspects of the
37 Commerce Act have been breached, neither is this an exercise in industry regulation as
38 such.

39 We undertake both of those kinds of work across other parts of the Commission
40 and so for example, we're not attempting to draw conclusions here about the right price
41 for groceries in NZ through this market study.

1 Market studies look at the factors that are affecting competition. We look at those
2 to see whether competition is working as effectively as it can and if not, why not. To do
3 that, we look at some common indicators as to whether the competition is working well
4 or not and they include, innovation, price, profitability, quality and the range and service
5 offered. And we'll talk about all of those things in coming days.

6 We also look at the competitive process itself, including from the supplier and
7 consumer perspective.

8 And together all of these things help us to understand what is affecting
9 competition and in this case, competition for the supply and acquisition of groceries.

10 We can look into the structure and the performance of the market itself, and if
11 required, we can make recommendations about how competition might be improved.
12 That's the endeavour that we're all working towards in the next few days.

13 Ultimately the overriding aim of the study is the same as the Commerce Act itself
14 and that is to promote competition in the grocery sector for the long-term benefit of NZ
15 consumers.

16 The Commerce Act requires us to publish the draft report, which you've seen and
17 also to have regard to comments and submissions on it. And the preliminary views on the
18 state of competition that we expressed in our draft report were preliminary and this
19 process in the next few days, as well as the vast number of submissions we've received,
20 are integral to enabling us to reach some final conclusions and to refine any
21 recommendations that we might make. Not all options for recommendations that we
22 identified may find their way into the final report and not all of our draft findings will
23 necessarily remain exactly the same when we finalise the report.

24 This is the purpose of the process that we're now engaged in.

25 And we received nearly 100 submissions on our draft report from a very diverse
26 range of submitters, many of whom we'd never been in contact with before publishing the
27 draft report. Some have responded to all aspects of our work and some have responded
28 to some limited areas only. And again, we thank all of you for that.

29 The conference provides an opportunity to discuss aspects of those submissions
30 with you and the opportunity to hear a little bit more from one another and to understand
31 each other's perspectives as well, which we've found beneficial in the past.

32 We encourage you to, of course, share your thoughts with us over the coming days
33 and also in the submission process following the conference, which is equally important.
34 This is where issues may be raised that you haven't raised already before, or where you've
35 got additional information that may assist us.

36 Following the conference we've asked for those comments to be provided by the
37 23rd of November. We might also have some additional questions for various parties and
38 we'll contact you in relation to that where we think that will assist our final report. And if

1 we revisit the detail of our process having conducted the conference, then we'll update
2 you as soon as we can with additional information in relation to that process.

3 As I mentioned earlier, the final report will be no later than the 8th of March next
4 year, that's a drop-dead or a hard deadline for us that is set by the Minister.

5 Now I just want to spend a few minutes, right at the outset, explaining how we
6 intend to run the conference in an online format.

7 We've divided the conference up into sessions which you will have seen from the
8 agenda. And we'll start today with the nature of competition in the grocery sector and
9 discuss issues affecting consumers and suppliers before we move on to look at indicators
10 of competition.

11 Then we're going to discuss the conditions for entry and expansion into these
12 markets and look at options to improve wholesale and retail competition towards the end.

13 We've set aside half-day sessions for discussion to accommodate the different
14 demands of working online, which I'm sure you'll all be very familiar with by now and the
15 conference will conclude on the 2nd of November. There are no sessions next Friday the
16 29th of October.

17 The final session we've set aside for some closing remarks, but we may also use
18 that session for overflow time if we find that some topics could do with some more
19 discussion.

20 To the discussion itself, in each session, the discussion will be chaired by one of the
21 Commissioners and the Chair of the session will lead the discussion and the questioning in
22 that session. Other Commissioners and staff may also have questions from time to time
23 as the session progresses, but we ask that all discussion is directed through the Chair, so
24 that we can keep the discussion online and in an orderly fashion.

25 You will have noticed that we're running the conference in a webinar format, so in
26 advance of the conference, we asked parties to indicate to us, whether they wanted the
27 opportunity to comment or to answer questions that might be asked by Commissioners.
28 And if you indicated that you wanted to participate in that way, you've been joined as a
29 panellist or you will be joined as a panellist for the sessions that you've indicated you'd
30 like to participate in.

31 When not speaking, we ask that all panellists ensure that their microphone is
32 muted and obviously that you turn it back on when you speak, and it's up to you whether
33 you wish to leave your camera on, or not.

34 When you first speak at each session we'd also ask that you identify yourself
35 briefly by name and by organisation so that our transcription service can readily identify
36 your voice and so that others attending can easily identify you, especially if they're
37 attending for the first time because not everyone will attend every session. It's also
38 helpful if, at some point if you haven't already, you identify your organisation name and
39 your Zoom title.

1 If you've indicated in advance of the conference that you wish to attend in an
2 observer capacity only, then you'll be observing the webinar from an audience only forum.
3 But nevertheless, we don't want that to preclude you from commenting or contributing to
4 the conference if you change your mind and wish to be heard. If you want to make a
5 comment then please indicate that by using the 'hands-up' function in Zoom, and if we
6 can accommodate this, our administrator will send you an invitation to join the panellists,
7 and if you accept that invitation, then we'd really love to hear from you.

8 While the process is a little less seamless than it might be in person, which we'd all
9 enjoy more significantly, we hope that you'll bear with us and we think that that will help
10 us to manage the large numbers of people attending the conference.

11 We won't provide for parties to ask questions of one another throughout the
12 conference. But to the extent that we can, we'll provide some time to ensure that people
13 have the opportunity to comment on the discussion by others, that's the purpose of the
14 conference where we can achieve it and we may also round out the sessions with an
15 opportunity for some further comments. In this way, as time allows, we'll endeavour to
16 ensure that everyone interested has an opportunity to contribute to the discussion. But if
17 time or technology doesn't allow for that, then we will note your interest in the subject
18 through the use of the hands-up function, in particular, and you're welcome to follow-up
19 with us at any time, after the session or through the submission process, to ensure that
20 we do obtain your perspective on the matters that have been discussed.

21 We've reviewed copies of all submissions and for those who haven't identified
22 them already, public versions are available on our website. You can be assured that we
23 have read what has been provided to date. And really for this conference, we want to
24 focus on discussion of new issues, or of material issues that we consider can usefully be
25 explored further to help us to collect further information, fill any gaps, or assist us to
26 reach our final conclusions.

27 We won't require detailed outlines, therefore, of matters that you've covered
28 already in written submission, but if you want to point us to written submission in the
29 course of your discussion, then please do that so that we can find that material later.

30 Finally, I think it's really important to note that given these are the objectives of
31 the conference, the amount of time spent on any particular issue at the conference
32 doesn't indicate its level of importance to the overall final report, or final
33 recommendations necessarily. Some issues are more complex and involved than others
34 and there are some issues in respect of which there is a lot of agreement already and
35 traversing those matters online in particular at a conference, won't take us all very much
36 further. That might just mean that we don't have questions to ask, or that these
37 matters are best addressed in a different way.

38 In relation to the last granular matters of administration, timing and
39 confidentiality, media presence and reporting and the conduct of breaks. As we move
40 through if we need to adjust timing, we'll let you know in the way that I've outlined on our
41 website and by email.

1 While its really important to us that the process is transparent, you will all
2 appreciate that much of the information that we've been provided in the course of the
3 study is commercially sensitive and confidential. If a question is asked of you and you
4 don't feel comfortable responding because you consider that the information is
5 confidential or commercially sensitive, then please feel free to just let us know that you'd
6 rather speak to us outside of the conference setting and we can follow-up with you
7 separately.

8 The sessions are being recorded for our purposes. When you're asked to speak, if
9 you don't have a headset on, can I just ask that you make sure that you are close and
10 accessible to your microphone and that you direct your voice towards the microphone
11 while you're speaking. Because the sessions will be transcribed, it's also helpful just to
12 speak at a normal but deliberate pace into the microphone to help our transcriber to pick
13 up what you're saying. If you're in a room with others, its important obviously that only
14 one of you speaks at a time. And if you can, that you just minimise background noise in
15 the usual way which is helpful in Zoom meetings.

16 We don't intend to publish a recording of the conference itself, but we will prepare
17 a transcript of proceedings.

18 Most of you will also be aware that there is a high degree of public interest in the
19 conference, and for that reason we have welcomed media representatives who have
20 expressed an interest in attending and they will be present on the webinar as they choose
21 to come and go. We do ask media that you don't record any part of the webinar. The
22 Commissioners and staff also won't be available for interviews to discuss the study, but if
23 you have any queries, you can contact our media contact, Nick Laurent.

24 As you'll see from the agenda, breaks have been scheduled during the sessions. If
25 any matters arise during the conference that you'd like to discuss with a member of staff,
26 again I'd encourage you to email them at the marketstudies@comcom.govt.nz address in
27 the first instance and they'll come back to you during a break or at the end of the day.

28 And, finally if you've got any documents that you're referring to in your address to
29 the conference, we'd ask that you refer to them clearly so that they can be identified in
30 the future and processed into the record for the Commission and the Chair may also ask
31 you to identify the document more clearly as you're speaking if it's not obvious to us.
32 We'd ask you to send it to us if it's something we don't already have after the conference
33 and when you do that, just to help us in our smooth processing of that material, if you can
34 indicate the session that you referred to that material and be clear about who it's sent
35 from and on behalf of.

36 So you might be pleased to know that that concludes the introductory comments
37 and housekeeping style matters for the conference and frees us up. Now to get on with
38 the real mahi here.

39 Thank you again for your interest in the study and for being here and for the really
40 thoughtful contributions that have assisted us greatly already to date. We're really

1 looking forward to our continued dialogue with all of you and to hearing from many of you
2 for the very first time.

3 I'm going to ask Dr John Small now to start us off with our first session which is
4 discussing the broader nature of competition in the grocery sector. Thanks John.

5 **Dr Small:** Thanks very much Anna and welcome everybody to this first session, it's a pleasure to
6 have you all with us. I'm shortly going to call upon a few parties to make short opening
7 addresses, that's in this order, Woolworths NZ, Foodstuffs North Island, Foodstuffs South
8 Island and Consumer NZ.

9 And before we do that, just a brief summary about what this session is about. It's
10 about the nature of competition in the retail grocery sector and this is looking particularly
11 at the way consumers choose their store that they go to or the grocer, more generally,
12 that they buy from and about the kind of shopping behaviour that consumers engage in,
13 the frequency and size of their purchases, that sort of thing. That's the first sort of sub-
14 topic.

15 And the second sub-topic is about more generally about the level and intensity of
16 competition between different grocery retailers.

17 So we've got a range of questions on those matters, but if I could just now, first of
18 all, call on Woolworths NZ to make a few opening comments, thank you.

19 **Mr Gluckman:** Thank you Commissioner and thank you Chair. In a moment I'll provide some
20 comments in relation to the nature of competition from Woolworths NZ's perspective, but
21 Kiri Hannifin will just provide a one-minute overview in relation to Woolworths NZ's views
22 on the market study as a whole at this point and then I'll return to the topic of the session
23 today.

24 **Ms Hannifin:** Kia ora Josh, tēnā koutou katoa, ngā mihi and thank you for the opportunity to join
25 these discussions today and over the next few days. Kiri Hannifin and I am the Director of
26 Corporate Affairs, Safety and Sustainability at Woolworths NZ.

27 Speaking for Woolworths NZ over the next couple of weeks are some of my
28 colleague, Josh Gluckman, who you've just met, who is the Director of Strategy and
29 Transformation. James Radcliffe, our General Counsel. Simon Linstone, our Deputy CFO
30 and Andrew Dixon from our Buying Team. And supporting Woolworths NZ, Troy Pilkington
31 from Russell McVeagh and James Mellsop from NERA Economic Consulting.

32 Our stores have been part of Aotearoa for over 90-years and we know we hold
33 both a privileged position and opportunity and responsibility to look after the
34 communities we serve right across the motu. Our purpose is to make Kiwis' lives a little
35 better every day and we unwaveringly work hard to deliver this. Our team of over 20,000
36 hardworking Kiwis deliver safe and fresh food across the country to 3 million customers
37 every week. Across our supply chain, we partner with over 140 growers and 1400
38 suppliers. We are continuously developing NZ supermarket and food supply chain to meet
39 the needs of our growing communities. But perhaps most importantly, we work hard to
40 share our manaakitanga with amazing charities and NGOs across the country and work

1 hard to deliver on our sustainability goals, which are in essence, to develop and deliver a
2 better Aotearoa.

3 We are here today because like you we want to see a thriving grocery sector across
4 NZ that provides great value for Kiwis and contributes meaningfully to the communities we
5 serve. We can see that in the Commissions draft report that there are areas that you
6 believe need to be improved and we want to work with you to help make positive change.

7 Most of the options the Commission has presented we agree with too, and we
8 believe will also make a positive change for consumers. However, we don't agree with all
9 of the findings in the draft report. And in our view, some of the options put forward could
10 have serious consequences, not least, the risk of increased food prices, but also a less
11 resilient and less efficient food supply chain in NZ.

12 We know this market study is important and we are proud to be involved in
13 assisting the Commission in its mahi, kia ora and thank you Josh.

14 **Mr Gluckman:** Thank you Kiri and kia ora and tēnā koutou katoa, Josh Gluckman, Woolworths
15 NZ. In our view, the market is already intensely competitive. It's rapidly becoming more
16 competitive and with the number of changes that have been proposed in the draft report
17 and that we do support, is likely to become even more so competitive.

18 To use the Commission's language, we compete intensely against both major
19 grocery retailers and other grocery retailers. And we compete intensely on price as well
20 as much, much more than price.

21 The fact we compete intensely on price is well illustrated by the fact that our food
22 prices in NZ have, grocery food prices have fallen in real terms. So for Woolworths NZ to
23 have grown at only .7% per annum over the past decade, substantially below CPI and
24 despite significant increases in rising input costs.

25 The fact we compete intensely with major grocery retailers and other grocery
26 retailers, is, in our view, well-illustrated by the high degrees of cross-shopping that exist.
27 In a given month, more than 50% of Kiwis will shop across multiple major supermarket
28 banners and in a given month, more than 50% of Kiwis will also shop across multiple retail
29 grocery banners more broadly. In that respect, we have constantly be on our toes and we
30 know if we don't get it right, Kiwis will choose to shop elsewhere, and they do.

31 The market is also changing very quickly from our vantage point. Costco, the
32 world's second largest bricks and mortar retailer, will be entering the NZ market and
33 opening their first store in the New Year. And while I'd like to touch much more on Costco
34 later throughout the course of the conference, the reality is that 50% of their sales or in
35 excess of 50% of their sales are food and groceries and they're very clearly a supermarket.
36 And it's with an aggressive price proposition that they will bring a company by global
37 buying scale, its hard to imagine a new market entrant better suited to meet the brief of
38 what the Commission appears to have an interest to see in their draft report.

1 And of course Costco's not alone. We've seen the meal kits market in NZ rapidly
2 attain scale in excess of \$400m and growing fast, with both My Food Bag and Hello Fresh
3 looking to enter into direct groceries online delivery as well.

4 Chemist Warehouse now has 25 stores. Players such as The Warehouse or
5 TheMarket.com becoming increasingly online. And importantly in our view, the entry of
6 Aldi is still considered to be imminent.

7 Online is also rapidly changing the sector at pace. Meaning quite simply, the days
8 of even needing a grocery store in order to be able to sell groceries, are increasingly a
9 thing of the past in a physical sense.

10 So, from our vantage point, we experience a highly competitive, rapidly changing
11 and dynamic grocery sector and grocery market and we really welcome the opportunity to
12 engage with the Commission as they work towards their final report.

13 Thank you.

14 **Dr Small:** Thank you Josh and thank you Kiri, for those opening comments. Can I call on
15 Foodstuffs NI please to say a few words.

16 **Mr Quin:** Kia ora everyone, Chris Quin and I know we have asked for NI then SI in order, but for
17 just this very first session, I will hand to Steve Anderson, our CEO of Foodstuffs SI, to
18 commence because I'll close on making some comments on the nature of competition on
19 behalf of both of us. So just for this one, if we could do that order, John, that would be
20 appreciated. So I'll hand to Steve.

21 **Dr Small:** Sure.

22 **Mr Anderson:** Thank you Chris. Steve Anderson, CEO of Foodstuffs SI. I'd like to thank the
23 Commerce Commission for the opportunity to present an introduction of Foodstuffs SI's
24 position in regards to the market study of the grocery sector.

25 I'd like to formally note here that our preference was to hold this conference as
26 had occurred in the previous fuel study on a face-to-face basis, with the ability to have
27 confidential sessions. But I do note that due to the Covid situation, a virtual event is to be
28 held now and this is the only option. However, I do question how efficient and effective
29 this will be.

30 During this introduction, I wish to talk about only three aspects of our submission.
31 And as subsequent areas of discussion will be dealt with in greater number of topics and
32 in greater detail.

33 The first topic I want to talk about is the conclusion in the draft report that the
34 Foodstuffs SI return on average capital employed was in excess of 22%. This conclusion is
35 the foundation upon which the subsequent recommendations were based. It is our view
36 our profitability has been significantly overstated. We worked with Foodstuffs NI along
37 with an economist, Houston Kemp and Incenta, and this has been presented as part of our
38 submission. This analysis shows that Foodstuffs SI's profitability is less than half that

1 stated by the Commission on a whole of business level and that the lower level is
2 consistent with international comparisons. Since the publication of the draft report I
3 would like to thank the Commission for engaging with us in seeking further information
4 from us in that regard. But I believe that this is a crucial and foundational aspect of our
5 submission.

6 The second issue I wish to raise, relates to regional NZ. Our mission is to feed the
7 South Island and it is important that the final recommendations and any changes to the
8 grocery markets takes into accounts the needs of the consumers in Westport and Gore, as
9 well as those in Christchurch, Dunedin and other urban centres.

10 And the last thing I wish to raise is relationships. I am the CEO of Foodstuffs SI and
11 this is my 21st year in this role. I'm due to retire in February next year, but prior to this
12 role I was the General Manager of Sales for Mainland Products, which was a precursor of
13 Fonterra and I did that role for 5-years. I have a visibility across the industry in terms of
14 time and roles that few have. I have genuinely loved working in this industry. I value and
15 have enjoyed the relationships between the suppliers and retailers from both sides of the
16 ledger. This positive relationship has been measured every year with the Nielsen survey
17 and last year, I'm very proud of the fact that we had 75% of our suppliers, who had a good
18 or excellent relationship with Foodstuffs SI.

19 This market study process has been incredibly corrosive. In my view, a large
20 number of relationships have been significantly damaged between all parties. I'm very
21 sad about that. Hopefully, at the end of this process, we will be able to rebuild those
22 relationships. However, there are a few undeniable facts that whatever we do, we need
23 to take into account. Retailers do not have elastic shelves, but we need to respect our
24 suppliers and work with them in good faith. Suppliers and remember I was one, tend to
25 believe that all their products are winners, yet most of the new products provided to us
26 ultimately fail. Why is that? Because customers don't want to buy them.

27 While there'll always be tension around these dynamics, which is a good thing, my
28 hope is that all parties, retailers, suppliers and the Commission, will really listen to each
29 other, do what they say what they will do, and listen to the ultimate payer of the bills, the
30 consumers. That is why Foodstuffs SI supports the creation of a Grocery Code of Conduct,
31 a simplification of our promotions, and improvements of access to retail sites. We will
32 commit to actually work to put these changes in place. We will listen to all parties; we will
33 do what we say we're going to do and we will listen to our consumers.

34 Thank you.

35 **Dr Small:** Thank you, Chris.

36 **Mr Quin:** Thank you and thank you John and thank you Anna for the welcome and the
37 introductions and thank you Steve. Kia ora everyone, Chris Quin, CEO of Foodstuffs NI. E
38 ngā mana, e ngā reo, e ngā rau Rangatira mā, tēnā koutou, tēnā koutou, tēnā koutou
39 katoa.

1 So to add to the comments made so far. Foodstuffs NI is a nearly 100-year old NZ
2 cooperative, made up of 323 individually, locally owned and operated businesses in
3 hundreds of communities all around the North Island.

4 I want to take just a few minutes to comment on the study and the draft report
5 and then also summarise the comments on the nature of competition for both North and
6 South Island Foodstuffs.

7 This is an important moment for Foodstuffs, the industry and NZ consumers. We
8 accept the clear challenge and we're committed to change that improves outcomes for
9 customers. And meaningful change is already happening due to this market study.

10 The purpose of this study was to carry out a year long study into whether
11 competition in the grocery sector is working well and if not, what can be done to improve
12 it.

13 Our submission on the draft market study report set out a comprehensive action
14 plan, which will remove any barriers to market entry that are within our control and
15 deliver better competition for the benefit of NZ consumers.

16 Customer-driven isn't an abstract concept for us. If you look at the actions and the
17 commitment of our incredible people through the extraordinary challenges of the
18 pandemic in our stores, in the supply chain and our support structures, you'll see how
19 much this is part of who we are and what we aspire to be. We have to compete hard
20 everyday for customers' shopping missions and we participate here to be part of the
21 industry solution.

22 The action plan we identified to date has had three core areas.

23 The first one is, delivering more value for customers by improving their ability to
24 make informed shopping decisions. By simplifying and clarifying our pricing and
25 promotional practices. And the terms of our loyalty program as well as committing to the
26 consistent use of unit pricing information for consumers.

27 We'll improve outcomes for customers by working with suppliers and the
28 Government to develop a consumer-focused grocery code for the industry to guide our
29 dealings with suppliers and protect their freedom to support other retailers.

30 And lastly, removing the barriers to competition within our control, by committing
31 to the end of use of restrictive land covenants and exclusivity provisions in the leases. And
32 we've already started to remove all existing such clauses for Foodstuffs NI.

33 There are, however, a number of areas where we contest the key findings of the
34 Commission's draft report that underpin a number of the draft recommendations. We
35 value the opportunity to demonstrate some important things.

36 The first, our returns are less than half of what the Commission's draft report
37 stated and are consistent with or below the average returns to supermarkets globally.

1 Secondly, that strong competition does actually exist for shopping missions already
2 and we're seeing new competition like Costco, Circle K, Supie, and others, arrive with
3 increasing regularity.

4 And NZ grocery prices are in line with comparable countries. And in addition, as
5 we have positioned and explained, for every dollar on shelf, the largest component is
6 supplier cost at 68c, 13c being GST in NZ, 15c our operating cost to pay our teams and run
7 our business. Just four cents is the net profit after tax, the study has essentially focused
8 on 19c of what makes up \$1 of food prices.

9 So we believe that the significant regulatory interventions proposed are not
10 supported by that analysis and given the extra information data we've been able to
11 provide, that does affect the Commission's draft findings and it's difficult to see the basis
12 for the recommendations beyond those in the action plan.

13 I will now want to summarise briefly on behalf of Foodstuffs NI and SI on the
14 specific topic of this session, nature of competition.

15 In Foodstuffs NI this week, around 2.1 million shopping missions were completed.
16 The average basket size of those shopping missions using data from 2019, given the effect
17 of Covid was eliminated, was \$45. However we have no ability to know whether the
18 customer coming through our doors is there to spend \$20 on a few things for dinner,
19 (which they could buy at any number of retailers) or several hundred dollars for all of their
20 grocery needs.

21 Every product on our shelves is substitutable for products sold by other retailers
22 which cater for all shopping missions, other than, arguably, the traditional full main shop.
23 So we're constrained across our entire range and customers. And importantly, we can't
24 tell whether a customer enters our store is doing their main shop, so we can't, and we
25 don't treat them any differently or charge them any different price. Mission style
26 shopping results in competition that benefits all grocery customers. We have to make
27 sure we put our best offer on the shelves everyday for any mission that might walk
28 through the door.

29 To do this, each banner offers a different mix of price, quality, range and service,
30 to deliver the best value, experience and solution we can offer to attempt to win the
31 customer's shopping mission.

32 In other words, we compete strongly with Woolworths NZ's multiple banners and
33 many other retailers across our range every day. We compete on price and on non-price
34 dimensions, both at a cooperative level and through our members who compete hard in
35 their local areas and with each other.

36 Competition on non-price dimensions is an important part of the competitive
37 process and benefits consumers and represents their choices. If we're chosen, it's
38 because they customer sees our mix of these as best meeting their needs.

39 The Commission's draft description of retail grocery markets as a duopoly with a
40 fringe of other retailers, is not Foodstuffs' daily experience. We see competition for every

1 store with options available in-between our own banners. We don't think that the
2 consumer survey supported the conclusions the Commission sought to draw from it, and
3 more importantly, those conclusions don't accord with our on-ground experience. The
4 trend towards mission style shopping and the constraints Foodstuffs faces are growing
5 and these have to be recognised to any forward-looking analysis in retail grocery markets.

6 Thank you.

7 **Dr Small:** Thank you very much indeed Chris and Steve for those opening comments,
8 particularly the ones that are bearing on the session we're about to go into, that's a very
9 helpful summary.

10 Could I now ask Consumer NZ please, to just say a few words.

11 **Mr Duffy:** Kia ora koutou, John Duffy, I'm joined by Aneleise Gawn, who's one of our consumer
12 advocates here at Consumer NZ and has dealt with many of the hundreds of complaints
13 we have received about the supermarket industry from consumers over the years.

14 We really appreciate the opportunity to make some introductory remarks at this
15 really, really important conference. And firstly we'd like to commend the Commerce
16 Commission on their robust analysis of the industry. It does echo many of the concerns
17 that we have been voicing about the supermarket industry for many years and we
18 welcome the preliminary findings in the draft report.

19 And I guess its fair to say that the draft reports confirmed what we've long
20 suspected that there is actually a lack of any real competition in the sector with Foodstuffs
21 and Woolworths making persistently high profits and I realise that is a hot topic up for
22 debate based on the previous comments. But from what the preliminary conclusions the
23 Commission's made, those profits are above those of other countries that we'd like to
24 compare ourselves to and there's significant barriers to entry for potential rivals. And this
25 lack of competition is resulting in higher prices for consumers at the checkout.

26 But it's also causing a range of other problems for consumers and those include,
27 misleading pricing and promotions, unfair and potentially discriminatory loyalty programs,
28 a clear lack of innovation in the sector, and a reduction in the range of products on offer,
29 thanks to particularly own brand promotion.

30 The existing duopoly has been in place for 20-years. No credible challenger has
31 emerged in that period. The Warehouse had a failed attempt to establish a rival offering
32 and their attempts demonstrate the difficulties facing potential entrants, even when those
33 entrants have a well-established national presence where they're providing consumer
34 goods.

35 We don't think the situation is going to change without regulatory intervention
36 across both the retail and wholesale levels of the market.

37 Our submission on the draft report covers off what we believe are the ten most
38 important interventions the Commission could recommend. I won't repeat those here,
39 these are just introductory comments.

1 But as I say, this very important conference gets underway, on behalf of NZ
2 consumers, I'd repeat the call that whatever recommendations come out of this event and
3 the process overall, they need to be robust and effective. It's actually comforting to hear
4 from Foodstuffs that they accept that there needs to be change, but from what we've
5 seen in the media, and the submissions from the industry, it could be very tempting to
6 view the voluntary solutions offered by the industry as positive developments for
7 consumers. And some of them are, and while we applaud the industry for a proactive
8 response to the more obvious concerns raised by the Commission, many of the solutions
9 that have been put forward, particularly those focused on pricing behaviour, are arguably
10 simply offers to comply with the existing law and to behave ethically and fairly. They will
11 not address the underlying lack of competition in the sector and they shouldn't be allowed
12 to distract from that problem.

13 These issues matter to all New Zealanders. It's a challenge both for the
14 Commission to be bold in its recommendations, and politicians who will need to act on
15 those recommendations.

16 Thank you very much for the opportunity to say a few words. That will do it from
17 us at the moment.

18 **Dr Small:** Thank you Jon, and thanks to everybody for those opening thoughts. So let's just kick
19 off now with some specific questions on the topic that Chris Quin actually touched on
20 quite explicitly which is the distinction between a main shop and other types of shopping
21 missions. So what we've had in the way of submissions is essentially an argument that
22 grocery retailers, major grocery retailers say that the main shop is of declining importance
23 and there's some evidence presented on that point. And that other retailers, by which I
24 mean non major grocery retailers, compete strongly for all other shopping missions.

25 So, just step back slightly, in the draft report, we formed the preliminary view that
26 the majors have a unique competitive advantage in respect of the main shop. And that
27 seemed consistent with the evidence that we looked at. And that view, I don't think has
28 been challenged that it is a unique advantage for the main shop. But what has been
29 argued is that that advantage is not particularly, is not as large as we thought it was and is
30 declining over time. And so if you take a forward-looking perspective, it may be of less
31 important in the future.

32 That's essentially what I took from, or we took from the submissions.

33 So, we didn't suggest that the main shop was the only competitive advantage that
34 major retailers had, and neither did we ignore all the other shopping missions. But I think
35 it would be useful to bottom this question out, if we spend the next little while focusing
36 on the strength of competition that the major retailers face from other retailers, in
37 respect of shopping missions other than the main shop.

38 And in our current thinking on this question, one of the things that's relevant is
39 that it seems that many, if not most consumers are probably familiar with their local
40 supermarket, possibly because it's where they do their main shop. Or maybe it's just a
41 convenient place for them to do many of their non-main shops.

1 And the other sort of background fact that seems relevant here, is the market
2 share information which, by our estimates and also by the majors' estimates, seems to be
3 reasonably stable between the two large networks at over 80%. So pretty large and pretty
4 stable over time. We're having trouble reconciling that with the submissions that say that
5 there's increase in competition for non-main shops and that those non-main shops are of
6 an increasing importance.

7 So I'd like to just focus on that sort of set of issues if I could. And perhaps if I could
8 start with Foodstuffs and ask, how can you reconcile this, how is it possible that the
9 changing nature of shopping patterns has allowed other retailers to compete more
10 strongly against you, given that Foodstuffs and Woolworths still and have for some time,
11 had very large and stable market shares?

12 **Mr Quin:** Thank you John. Chris Quin speaking from Foodstuffs NI. So I'll make a few comments
13 and then I may invite some further contribution if that's okay with you, John, from a
14 couple of our experts.

15 But firstly, look, the major retailers' method of competing is the ability to offer
16 what the Commission defines as a main shop, that is correct. A shop based on the
17 convenience of using one grocery store to get all the necessities in one place. But main
18 shops are diminishing in favour of other missions and that competitive advantage is being
19 eroded by that reasonably observed customer behaviour.

20 Our sales data and the Commission's consumer survey are consistent with mission
21 shopping and as already mentioned, the average basket size from the period used for
22 2019 is \$45.

23 Participants in the Commission's consumer survey actually made an average of 3.7
24 shopping trips a week, which we believe also backs up that missions are the dominant
25 behaviour.

26 We do compete, essentially, across all categories and then across the main shop
27 and all missions. And we've also provided some information around the level of cross-
28 shopping that occurs between banners and the emergence of digital and online as the
29 fastest growing method of retail shopping.

30 And we think that the ability to offer, what is referred to as the main shop, doesn't
31 significantly influence the way we compete day to day. Most people in our stores are not
32 there to do a main shop, we can't tell who is on a main shop. So we have to compete as if
33 all customers are on a mission for which they do have other options.

34 The other thing we would say is we believe with the action plan we put forward,
35 there are no barriers to anyone else choosing to compete for the main shop, and note the
36 growth of digital.

37 And lastly, look, in terms of market share, we don't think that market share for any
38 particular mission helps to explain competition. That's because it's not possible for us to
39 price discriminate with respect to the main shop, so there isn't a separate market as such
40 for the main shop.

1 But I might invite Catherine Tardif just to make a few extra comments on our
2 behalf and then Greg Houston, thank you.

3 **Katherine:** Thank you Chris. Our data that we have with our advisor Dunnhumby really shows
4 analysis of New World and PAK'nSAVE sales data, it shows that nine out of ten customers
5 walking through our doors are there on a mission other than the main shop. And this is
6 consistent with also our Foodstuffs NI sales data from 2019 as said by Chris, that
7 demonstrates that our average basket size is \$45.

8 Other retailers can and do compete for those shopping missions and baskets of
9 that size so other retailers do place a significant constraint on us. As a result, we cannot
10 price discriminate between main shoppers and customers who are on other missions.
11 This means that even if the main shop customers only have two choices of stores, those
12 customers have the benefit of our response to competition with other retailers on
13 shopping mission. We simply do not see the main shop as a market in itself.

14 I might pass onto Greg too, as we believe the Commission's consumer survey was
15 also consistent with mission shopping.

16 **Dr Small:** Thank you for that. Before we hear from Greg, I think there might be a
17 misunderstanding here. We don't see the main shop as a separate market either, we
18 don't think that you price discriminate between shopping missions. The question I'm
19 trying to get at is the extent to which you are constrained in your overall pricing,
20 recognising that you set the same prices for everybody no matter what mission they're on.
21 The extent to which you're constrained in that overall pricing, by the fact that, you say,
22 the other grocery retailers compete very strongly for this very common thing, which is a
23 non-main shop. It's the non-main shop that I'm particularly interested in rather than the
24 main shop.

25 And what I'm trying to understand is where is the evidence that this strong
26 competition for things that aren't the main shop is in place and how can you reconcile it
27 with the market share data which doesn't seem to be moving?

28 That's kind of my question, so maybe Greg could tackle that.

29 **Mr Houston:** Thank you Commissioner. So, I think the people from Foodstuffs will talk about the
30 way in which they respond in terms of their pricing decisions and so on and monitor what
31 other retailers are doing, which is an important part of that constraint.

32 But, I just want to come back to, sort of, the other side of that same coin, which is
33 that the important emphasis or part of the Commission's reasoning that there was
34 essentially a duopoly without serious constraint, was based on its conclusion that from the
35 survey, that most consumers undertake a main shop where they get all their necessities
36 and it put a very high, sort of weighting on the proportion and frequency with which
37 consumers do that.

38 And I think that interpretation of the survey obviously doesn't square with what
39 the Foodstuff people see in terms of, on the ground size and frequency of visitation and

1 the size of baskets which is way, way lower than what would be implied by that emphasis
2 on the main shop.

3 And the reason for that is when you look very closely at the survey data, we find
4 that the survey has asked people to identify their main store and which is the one they
5 spend their most time at, or do most of their shopping. And also asked them to whether
6 they undertake a larger shop. But the survey did not ask people whether they about the
7 frequency and even whether they actually undertake a main shop that, as defined by the
8 Commission, which is where they can get all of their necessities and has a very wide range
9 of products.

10 And so we think that that distinction between the Commission's definition of this
11 main shop, with the emphasis on all the necessities, which was a definition derived from a
12 very small number of qualitative people, and the quantitative data from the survey which
13 talks about, asked about the prevalence of that shopping at a main store, gives a distorted
14 picture, has given a distorted picture to the Commission about the emphasis of that main
15 shop with all the necessities –

16 **Dr Small:** Greg, if you wouldn't mind, sorry, look we hear what you're saying about the main
17 shop. We've read it in your submissions, that's very clear what your criticism is of the way
18 that we discussed the main shop in the draft report. What I'm really asking here is about
19 things that are not the main shop. Cause what you're saying, your argument is that, as I
20 understand it, is that there's a lot more competition for things that aren't the main shop
21 and what I'm kind of looking for is evidence that that's the case because it seems
22 inconsistent. I'll repeat again, it seems inconsistent with your market share.

23 And so I'm wondering whether there's some actual evidence that you've got that –
24 I mean, we know about your basket sizes, we know that you can't price discriminate.
25 What we can't quite reconcile at this point, is the claim that you're intensely competed
26 against for non-main shops, when we see the rest of the evidence.

27 So that's the part that I'm looking for. I wonder whether somebody, whether Chris
28 might like to have a go at that and I'd like to ask Woolworths about this as well.

29 **Ms Rawlings:** I might just add John, on that, you know in terms of the draft report before we go
30 to the responses. So what we did conclude was that, and it's around in sort of chapter 4
31 around paragraph 80'ish, that around 95% of the respondents to our consumer survey
32 were asked about their main store which was the store they spent most at or did most of
33 their grocery shopping at. And about 95% of people reported that that was only the major
34 grocery retailers. So it's the sense that, just moving away from accepting mission-based
35 shopping of whatever size, that it appears that all of the missions have a strong preference
36 for one of the major grocery retailers. I think that's another way of coming at what John is
37 asking.

38 **Mr Houston:** Perhaps if I just start off on this giving a sort of economist answer and then to back
39 it up by the Foodstuff people. If there's a prevalence of shopping missions where people,
40 as Foodstuffs understands, where people come into their store for a relatively small
41 basket, often with a specific theme to that basket, like getting something for breakfast or

1 getting something for dinner, or getting beer and wine. In each customer that is coming
2 into the store for that purpose has the choice of going into an alternative non-
3 supermarket store that doesn't have this wide range. And the prevalence of the number
4 of people coming in when they have, at that point, a choice to go elsewhere, is a very
5 important measure of the nature of competition. It's the choice on each one of those
6 decisions.

7 But the Foodstuffs people will be in a much better position to give you the realities
8 of that choice.

9 **Mr Quin:** Chris Quin speaking from Foodstuffs NI. Thank you for the clarification John and just
10 digging a little deeper into what's to be explored.

11 A couple of things that I think are worth making the point about.

12 The first is, that the data that we're needing to consider as part of this is, by it's
13 very nature, historic. It reflects past behaviour.

14 The definition of the market, you know, there's always going to be an issue around
15 its reach out into new methods of customers meeting their grocery and food acquisition
16 needs.

17 And then also we're trying to paint the picture of what we're seeing as a proven
18 and emerging trend around missions and what we are constrained by as we look forward.
19 So for example, quick service restaurant food delivery, food bag, all of these sort of things
20 play into the future picture.

21 So that leads us to our position that, from a Foodstuffs point of view, we're pretty
22 clear, we compete strongly with other retailers on both price and non-price dimensions.
23 We have competitors for all missions and competition is growing regularly.

24 The thing that is harder to provide structured evidence of but we know is true, is
25 that on the ground in a store in a catchment each week, the store owner, in our case an
26 operator, is looking at every possible competitor that is around them, competing in that
27 catchment for the customer's shopping mission, is looking at everything from green
28 grocers to produce to fishmongers to food bag, to all of those services and regularly trying
29 to evaluate their offer against those as well as the more structured like competition in
30 terms of other supermarket retailers.

31 So the act of competing occurs in a pretty fast moving, agile, unstructured way,
32 because that is the nature of the competition that we face for the customer's wallet that
33 is available for grocery and food.

34 It might help to, I'll ask David Stewart, our Head of Merchandise to just give a bit of
35 a structured view of how we put together price and then what happens in terms of
36 trading, David.

1 **Dr Small:** Chris, could I just, thank you very much for that. I'm conscious that we've got another
2 15-minutes in this session and I'd really like to explore this issue with Woolworths as well,
3 if you wouldn't mind.

4 **Mr Quin:** Fine, absolutely.

5 **Dr Small:** So perhaps if Woolworths have got something to add on this particular point about
6 how can we evidence the constraint that you say that you've got from other retailers, by
7 which I mean non-majors, for the smaller baskets. Cause I mean, one of the things is
8 obviously that you've got range and so a consumer who's looking for something for
9 breakfast or a consumer who is looking for something for something for a picnic or
10 something, they know that you're going to have everything, right, and yes there's other
11 grocery retailers around, but if it's a specialist fruit and veg or a specialist butcher, or
12 some other kind of specialist retailer, they may not have that range and I think that's part
13 of the concern that we're struggling with and so we're trying to understand how it is that
14 the major grocery retailers continue to have such large market share, even though there's
15 this tendency towards smaller shopping missions.

16 So, perhaps, could I ask Woolworths to comment on that?

17 **Mr Gluckman:** Thank you Commissioner, I will make brief comment. Certainly this topic of the
18 main shop is highly relevant and in our experience as well that's not the way that Kiwis
19 shop with us and therefore that's not the way that a competition frame of reference
20 should best be applied. And we know that Kiwis are not one-size-fits-all when it comes to
21 their drivers and even on a given day of the week, you might have different drivers at an
22 individual level. And it might be for some, convenience. For others, price, range, fresh
23 foods, availability is particularly important right now. And we know that in practice it's
24 never black and white and it's never just one of those things and it's a constantly changing
25 dynamic environment.

26 And certainly this main shop dynamic is one where its becoming more apparent
27 that fewer and fewer Kiwis do the main shop. So again, for us that's certainly less than
28 half of our sales are associated with main shopping missions and similarly, people are
29 often surprised and even someone on the call might be surprised to learn that our average
30 basket size is similarly only in the order of \$50.

31 But I think in terms of the proof points, Commissioner, that you're seeking, or the
32 kind of the triangulation points, for us we think the fact that we compete on a range of
33 dimensions and versus a range of players and quite intensely is, is best born out by the
34 outcomes that we see being observed.

35 I already touched on my introductory comments around what we've seen as
36 pricing outcomes in terms of pricing growth below CPI and certainly lower than our input
37 costs have increased, which we think is a sign of healthy price competition. I'm sure we'll
38 come back to the topic of grocery prices in NZ versus other jurisdictions later on through
39 the course of the conference, I won't spend time on that now.

40 We've seen our customer satisfaction scores, sustained increase over many, many
41 years. Again, similarly we're of the view that the Commission's, that our returns are less

1 than half of those of the level that the Commission has determined in their draft report.
2 But again we'll come back to that.

3 And we observe very high levels of innovation in the market. So we think the
4 outcomes are highly indicative of levels of competition.

5 And if I just double click in a little bit on the nature of that competition versus
6 some of those other non-major grocery retailers. And I'll use the language of major and
7 other grocery retailers, not cause it's the way we would necessarily think about things, but
8 I think it helps us speak a common language in the course of the conference for the
9 Commission. You know, we have to compete on lots of different dimensions. So whether
10 it's with petrol stations and small stores and dairies on convenience. And obviously we're
11 constantly looking to make our stores more convenient, whether that's through the
12 introduction of drive-ups and drive-throughs or ready meals range or innovating with
13 smaller format metro stores. You know, we compete with meal kits and online players on
14 a range of dimensions, whether that's convenience, price, range inspiration, fresh
15 specialist, green grocers, butchers, you know. And again, hence our investments and our
16 partnerships for example, with Hilton Meat, are significant innovative facility into
17 Auckland, which is just up and running now, open mid-pandemic, which will see a
18 significant increase in the range of ready, convenient and innovative meat SKUs and
19 products into the market.

20 Chemist Warehouse, price, absolutely. Range, our online offering, nationwide, are
21 absolutely as front and centre for our non-foods buying team and us as a business in
22 terms of meeting Kiwis' needs.

23 And so again, we think that the outcomes demonstrate vibrancy of that
24 competition and I think if you just come back to the comments in relation to market share,
25 our observation, we wouldn't share the characterisation of the market as put forward in
26 the draft report. We would assess Woolworths NZ's market share at being closer to 26%
27 of the grocery market and that's obviously before one includes food and beverages and
28 cafes, bars and restaurants, which would then reduce that market share further of course.

29 And you know, I guess we would note in terms of some of the ways that market
30 share would be measured within the industry and there are a few different ways that
31 market share is measured. That wouldn't pick up meal kits at all, which has grown to be a
32 \$400m market in just a few years. A lot of that wouldn't even pick up Farro, which is
33 \$100m turnover now across their half a dozen odd stores.

34 You know, Chemist Warehouse will not be picked up in some of those reads as
35 well, again, there are many different reads in play.

36 And I suppose in terms of the stability of the market share, and to the extent that
37 which there are large players, just probably a couple of final comments.

38 One would be, even a concentrated market is not necessarily indicative of not a
39 competitive market and I think that's well established in the ACCC and others have made
40 observations to that effect, so there's no denying there are some larger players in the
41 grocery market in NZ, but we would still maintain that the outcomes are consistent with

1 high-levels of competition, and again we'll traverse all of those I'm sure, over the course
2 of the coming week.

3 And equally in terms of stability of market share, when you're talking about
4 hundreds and hundreds of physical grocery stores, and there's still a physical component
5 to retail shopping, it's not a surprise that it doesn't move massively in aggregate because
6 there's still a geographical dimension to some ways that the Kiwis shop. But certainly if
7 you were to zoom in on a given category, or zoom in on a given short time period, you
8 would see a much more vibrant set of dynamics. It's just the maths of a large proportion
9 of physical stores.

10 So thank you.

11 **Dr Small:** Thank you for that, that's helpful. I mean you mentioned, and we talked in the draft
12 report of course about the various dimensions of competition and we sort of summarised
13 that as PQRS (price quality range and service).

14 I wonder if I could just explore with you, Josh, the reaction cause one of the
15 indicator of competition obviously is what happens, how you react when your rival does
16 something. So can we just explore a hypothesis which is that you know, down the road
17 from one of your Auckland stores, somebody opens say a Farro or a fruit and veg, or
18 maybe a Farro and a fruit and veg next door to each other in some little niche, you know,
19 development.

20 So, how would you, in practice, and you don't obviously, this may be confidential,
21 you don't have to answer if you don't want to, but, which of these dimensions would be of
22 most concern to you, PQRS, when you're thinking about how you'd change your offering,
23 what you do in response to new competition for one of your stores?

24 **Mr Gluckman:** Thank you Commissioner. Look, it will be horses for courses because there are
25 many different flavours of competition and many different flavours of competitors and
26 many different flavours of customer needs. And in practical sense we have to compete
27 across all of those dimensions.

28 I suppose the other thing I'll just note is that we compete at a local level, but we
29 also compete at a national level and I'm sure we'll come back to that potentially at
30 tomorrow's pricing session or others so we can consider that, you know, a national pricing
31 proposition, if we just focus on price, delivers a number of efficiencies for us, for example,
32 the ability to advertise on television, etc. So we'll probably again, come back to that.

33 So we do compete at a national level but we also compete at a local level.

34 So an example, I think you gave an example of a Farro boutique and we have real
35 examples of that. Grey Lynn, Richmond Road, its not a confidential example and there
36 maybe others that are, is an example of a Countdown over the road from the Farro that
37 has recently undergone refurbishment to elevate its fresh foods proposition, expanded
38 health foods offering and more. Now there are many, many other things beyond a
39 competitive entry into a physical proximity that will inform where or how we invest into
40 our stores.

1 But that would be one example Commissioner, thank you.

2 **Dr Small:** Thank you, so that is helpful, so I mean, would you agree with the proposition that
3 the, what we call the fringe, or the other retailers, these entrants, mainly seem to be, their
4 competitive strategy seems mainly focused around quality, range and service rather than
5 price. So would that be a fair characterisation? And also, I mean you mentioned
6 obviously national pricing and I certainly understand that, that you know, if you've got a
7 national pricing plan, then the fact that somebody might come in and even if they did
8 have lower prices to you right next door to one of your stores, you might not react in that
9 regard.

10 But, do you have any comment on why the other retailers mainly don't seem to be
11 competing on price?

12 **Mr Gluckman:** Thank you. No we wouldn't support that observation in our experience. I think a
13 couple of very obvious examples spring to mind for me.

14 One is Chemist Warehouse, a very strong price-orientated new entrant into the
15 market. They've grown to over 25 stores in just a few years, they've got a stated ambition
16 to achieve 70 store scale, and a store footprint that incidentally is not too different to that
17 of an Aldi Supermarket as well which we might come back to you later down the line.

18 So that would be one very, very obvious example. And they're certainly not a
19 single category retailer, right, you can buy Palmolive, you can buy baby food, baby
20 products, you can buy a number of things in Chemist Warehouse beyond prescriptions.
21 That would be one.

22 Another really, really stark example would be Costco. Now I certainly wouldn't
23 consider them a fringe entrant, I'd call them the major of major grocery retailers. But you
24 know, there is a very clear strong price proposition entering the grocery market. And I'm
25 happy again to share a little bit more about Costco and what that offers is and what it
26 entails and what it's like to shop in a Costco throughout the course of the conference.
27 Thank you.

28 **Dr Small:** Thanks very much. We've got another 5-minutes to go. I do want to keep to time. I
29 wonder whether this would be a useful time to bring in somebody else like, I believe,
30 we've got Northelia and I think we've got Supie on the panel. And I wonder if either of
31 you would like to make any comment on this question about, perhaps Northelia if I go to
32 you about the choice between, I suppose, essentially, about whether or not the basket
33 size and the prevalence of non-main shop missions affects the competitive position of
34 supermarkets as against, major retailers against other retailers?

35 **Mr Edwards:** Yeah, Tex Edwards from Northelia, thanks Commissioner Small. Thank you for the
36 opportunity to speak Commissioner.

37 Essentially, there seems to be a combined market here and that periphery shops
38 are combined with main shops. There's no differentiation and essentially we work to the
39 competing part of the supermarket duopoly which is infrastructure. So all dialogue leads
40 back to this infrastructure which is a strapline of ours which is market structure matters.

1 What we're competing on here is geographic location and because we have these
2 contiguous stores we have suburban areas where there's three or four stores of the same
3 banner in a 5 – 8-kilometre radius. We feel that that there is this creep. Other markets
4 that are more competitive that have the same population, Denmark is a good example,
5 Ireland is a good example, the consumer has a choice of stores within its 5-kilometre
6 radius, so he might go to one store for a main shop and another store for a small shop.

7 And I think the strategic point for us on infrastructure dominance is that the
8 supermarket duopoly has captured, there's no churn, they've captured both the small
9 shop and the big shop.

10 **Dr Small:** Thank you very much for that. I see we also have Matthew Lane here, from Night 'n
11 Day and obviously already in the market with a chain of smaller retail outlets. Matthew
12 could you comment on this question for us?

13 **Mr Lane:** Yes certainly. Good morning, my name is Matthew Lane and we've got a network of 51
14 stores across NZ and primarily compete in this top-up space, with small format.

15 Now, there's been a lot of discussion about the supermarkets competing with
16 other retailers, but I think it's actually the other retailers' ability to be able to compete
17 with them is the primary issue in amongst us. And it was very well touched on that it
18 seems to be other retailers don't compete on price. And that's simply because other
19 retailers don't have access to cost effective purchasing, which makes it an inability to pass
20 that onto consumers.

21 And for me that comes down to there's no independent wholesale in NZ. A lot of
22 the surveys are consumer-based behaviour and I think it probably rules out the fact that a
23 lot of the other grocery retailers actually have to source their products through
24 Progressive or Foodstuffs. And by not having that access it makes it impossible to create
25 buying power or the scale to be able to generate some of these efficiencies in it.

26 Now, both major retailers are entering the small top-up space and very rapidly and
27 what that does is, it means that they can leverage their overall buying power at their
28 major retailer levels right the way down the chain which puts further compression on the
29 current independent top-up stores.

30 And those top-up stores have no security of supply. A lot of their products do
31 come through the major retailers and they control the source of that. It was touched
32 when NPD, I guess controlled through that channel as well. We've simply attained a fair
33 majority of NPD through the major retailers. If a supplier can't get into the major
34 retailers, we subsequently can't get access to that product because we can't get the scale
35 that the supplier needs to be efficient.

36 I think it was Chris that touched on around Chemist Warehouse. Chemist
37 Warehouse has already been used multiple times as an example of competition. To me
38 the focus needs to centre around the dry grocery cause everything falls out from there.
39 The dry grocery is being leveraged for all the other categories and probably the prime
40 example of this is around alcohol.

1 Now the alcohol reforms, historically, centred around preventing small format
2 stores by having alcohol. And it was centred around the major retailers now they control
3 the majority and certainly significant portion of having alcohol along with top-up shop
4 being bread, milk and alcohol. I don't think it was the intention to get your prescription
5 filled and also pick up the six-pack within the same retail premises when it first came out.
6 But as we've seen, it sort of adapted and enfolded more options such as cafes into their
7 premises.

8 And look, it's around prices, it's pretty clear. It's what you can buy it for verse
9 what you can sell it for. Now, the existing wholesale network that's primarily targeted to
10 the other retailers centres around Trents and Gilmours and the like, and for our buying
11 power with that, it's 43% more expensive on a random average shop that we created
12 through purchasing it through Gilmours verse using Countdown or New World online if we
13 were to undertake that shop.

14 So it's impossible to be able to compete on price as a strategy when your cost price
15 is 43% more expensive than what a general consumer can purchase that.

16 And the banners are creating enough of competition, they are folding more
17 banners in and also folding more small formal stores, which is becoming increasingly hard
18 to compete because they can leverage their larger ones right the way down.

19 I also noticed that Circle K and Costco were both used as competitors. And it
20 seems, ironic, I think Circle K has three small format stores and Costco is yet to establish.
21 So if that's what we're pointing as the major competition for these major retailers, it
22 seems a very limited on it.

23 So I think in summary, the independent wholesale, particularly at the dry grocery,
24 is controlling both major shop and also the top-up shop and there's no economical way to
25 be able to access the dry grocery to be able to compete in the other areas of that top-up
26 shop space, so fresh meat, fresh vegetables or alcohol.

27 **Dr Small:** Thanks very much Matthew, that's helpful. I will just extend slightly to hear from
28 Supie. Obviously Supie is an online retailer rather than a bricks and mortar operation. But
29 have you got anything to add on this particular point?

30 **Ms Balle:** Yeah, so Sarah Balle here, from Supie. So our one comment would be around the
31 main shop given that's where our space is as well, rather than a top-up shop. Being online
32 only – and this is probably a question that should be posed, is, what is the main shop
33 market share for the major retailers in terms of online? Because we know that online
34 customers, they don't use that format as their top-up shop. It is their main shop. So, the
35 market share from an online perspective in main shop area would be largely the two main
36 players. And this is who we compete with and that is a space that, yeah, we find or
37 struggle to take on that market share.

38 **Dr Small:** Yeah, that's an interesting point. So yeah, I presume that that's related to the
39 transaction costs of the delivery and the pick-up and so on. I think we better take a break
40 now, but this may be something we can come back to, obviously we've got another, the
41 rest of the morning to talk about these issues more deeply, but let's take a break now and

1 come back at 11.15 if we could and the webinar will now just go into some kind of
2 dormant state, I'm not sure exactly what's going to happen but we'll see you back at
3 quarter past eleven, thank you very much.

4 **Ms Rawlings:** We'll just remind panellists, just to turn your sound and your video off during the
5 break. See you soon.

6

7 **Dr Small:** Good morning again and welcome back. So that last session was exploring the role of
8 shopping missions primarily and whether the definition of shopping missions really makes
9 a big difference to competition analysis or not. And I'm kind of aware that Foodstuffs may
10 like to reply, possibly to what was said, so I'm going to invite you to do that in a minute.

11 But I'd also like to foreshadow where we're going immediately from here and so
12 you might like to think about this in compiling any response you've got to what we've
13 heard just previously.

14 And this is about, really about service differentiation. So submissions from the
15 majors have said service differentiation is very important for consumers and link this to
16 the observation that consumer store choice, which is really the key point here, is
17 increasingly driven by convenience and other non-price dimensions of competition.

18 So, I'd like to explore that convenience point and what does it mean. And how
19 does it fit into that service offering. Obviously this is relevant to the shopping mission
20 discussion plays into this as well, so if I could go to Foodstuffs first of all for any sort of
21 reflections on what we heard before, plus any further comments about how service
22 differentiation and convenience and other non-price aspects influence competition.

23 **Mr Quin:** Just a few points that have occurred to us thinking about this morning's conversation. I
24 think, firstly, we'd want to reflect that one of the issues we're dealing with here is the
25 narrow definition of market share that is due to history and due to what is measured.

26 There is a wide range of constraining competitors that are not included in any of
27 the market share figures that are referred to. And as an example, we note The
28 Warehouse Group recently reported their results and celebrated the fact that their fastest
29 growing category was dry grocery. But their dry grocery contribution would not be
30 included in any of the market share measures we've referred to today as one example.

31 The second thing would be that we would make the point that market share is not
32 the issue as opposed to the presence of competitive constraints. So the erosion of market
33 share is not proof that there is not a level of constraint and I think what we can point to
34 and we have in a lot of our submission, a lot of information, is the activity that is
35 generated by the major retailers in competing across PQRS and the various innovations
36 and the various reactions in market activity that that leads to.

37 A simple example would be that we don't mind sharing in PAK'nSAVE for example,
38 two to three times a week, quite extensive price checking is carried out to make sure that
39 our promise around NZ's lowest food prices in that brand is being delivered all through

1 the week. That leads to adjustments and activity multiple times a week in order to deliver
2 on that aspect of competition.

3 So there is activity we can point to that is proof behind the activity that is about
4 competing every day. And the conversation we've already made, covered a lot of ground
5 on around missions and options for every mission.

6 Which sort of leads us to a little bit of a view on the outcomes focus around price
7 moving slower than inflation. The proof that there is quite a high level of activity around
8 competition both at PQRS levels. And that there are options for all missions.

9 So there is no doubt there are two large players in the market, but there is a
10 significant number of constraining competitors and depending on how you measure a
11 market share for the consumer choices, will show the change that is emerging rapidly over
12 time and the current state being quite different to the some of the historic data.

13 So just as a few observations, thank you for the chance to make those.

14 Just moving to the second part of the question which is really how competition
15 occurs? And the answer is it occurs across all aspects of PQRS in different ways in
16 different offers.

17 So, if I reflect very briefly on the question that was posed before around, you
18 know, arrival of new competitors and potential reaction or action that is taken. We try
19 and think on the basis that any competitor could be here at any time. We've always
20 talked about what are we doing from a consumer point of view on the insights we have
21 about consumers. And if Aldi was here, or if Costco was here (which they are now and
22 they are very close to opening their first and have their second store resource consented)
23 or the 100 or so Circle K stores that have been committed to occurring in the next period
24 of time.

25 And our view would be, we simply plan to how do we present our offer to market
26 to compete for the shopping missions that are available to us. So, just a few quick
27 comments on that. Thank you.

28 **Dr Small:** Thank you very much. I mean while I've got you there, Woolworths NZ has cited your
29 PAK'nSAVE banner as evidence of strong competition on price between the majors. So
30 could you just comment – and you've just mentioned about the price checking that you do
31 inside PAK'nSAVE in order to substantiate your promises, (which is good to hear from a
32 fair-trading perspective) but could you just comment on the role you think of price
33 differentiation in driving store choice as between the various banners, yourselves and
34 others?

35 **Mr Quin:** Thank you Commissioner. I think so a couple of comments. Firstly, we have shared in
36 the information that we've already submitted that convenience as defined by customers
37 individually sits as their first driver of store choice and that price or value as they would
38 describe it would be their second.

1 Convenience goes across a range of things and gets quite individualised. So
2 location can be convenience, size of store and ease of shop can be convenience.
3 Availability of product or the customer's individual perception of the level of service they
4 receive in any retail offer, all contribute to what a customer will define as convenience.

5 Price plays, you know, the first and second most important criteria are
6 convenience and value. So price sits very high on the list. The Commission and most
7 people on this call will be familiar with the fact that PAK'nSAVE has managed to deliver its
8 promise of NZ's lowest food prices, it does that by having quite a different business
9 operation that works hard to remove cost from the operation so that price can be lower in
10 the market. That will suit the convenience and value trade-off of some customers, but not
11 all. And as we mentioned before with the evidence of cross-shopping that we're
12 submitting, you know, we have to work hard to make sure that gap is enough for
13 customers to accept the trade-off in terms of quality, range and service that comes with
14 the ability to offer that.

15 That price gap is constant hard work. We've got to work at that several times a
16 week and make sure that we're where we need to be and keep working at the business
17 model of PAK'nSAVE to make sure it can deliver that price gap into the market.

18 So hopefully that's been helpful.

19 **Dr Small:** Yeah, that is very helpful, I mean another way that we think about competition
20 sometimes is the extent to which people pay attention to their rivals or the parties they
21 see as their main rivals. So, the fact that PAK'nSAVE, for example, is constantly looking at
22 its prices and comparing them, do I take it that that comparison is with other majors, or
23 does it also occur with smaller grocery retailers, such as Night 'n Day for example?

24 **Mr Quin:** So our experience on that is that it occurs at a very structured way against major
25 retailers cause the information is generally available in a structured way through online
26 channels and price marketing through various digital presence which enables the majors
27 to consider each other's position and work out how to compete, you know, as I said,
28 several times a week.

29 Then, what happens in real life basically down at every store level then across a
30 less regular but equally focused review as we look at price, a number of them have been
31 mentioned. So a Chemist Warehouse, a Farro, a Supie, whoever it is that is competing
32 with us for missions, we are gathering the information as accurately and less regularly
33 than we do with the majors, but regularly, to understand where we are sitting in market
34 versus them from all aspects of the service, but for example, price.

35 We can make some further comment on how that actually works if you would like
36 John, I've got David Stewart to maybe add a little bit from a merchandise point of view if
37 you wanted?

38 **Dr Small:** I think that will be fine for now, thank you very much Chris. So perhaps this will be a
39 good time to bring Woolworths back into the conversation around this question of non-
40 price factors of competition, convenience and service and quality and how those things fit
41 together.

1 Woolworths, your submission was strong on the role of convenience as a factor in
2 store choice and I think we agree with that. And you also said that if all major grocery
3 retailers structure their businesses only to focus on price dimensions, then that wouldn't
4 be a very good market and it would only serve the needs of a subset of NZ consumers.

5 So, could I ask you the same question I asked Chris which is what is the role of
6 price differentiation in driving store choice by consumers and how do you think about the
7 emphasis that consumers put on price as opposed to other dimensions of the retail offer?

8 **Mr Gluckman:** Thank you Commissioner. I guess the first thing I'd note is we would think about
9 price competition. And in our experience we compete intensely on price and we have to
10 because if we get it wrong, Kiwis will choose to shop elsewhere or they'll choose not to
11 put a particular product in their basket and we know even a 50c price difference on a
12 promotion can be the difference between a large spike of sales or a very small spike of
13 sales.

14 We also have to compete intensely on price because NZ is actually a market which
15 is characterised by a very large, in a proportional sense, no frills discount orientated player
16 in PAK'nSAVE and that business model affords them, I guess, a particular price
17 proposition, but that comes with a number of other trade-offs. So you know, no one
18 there to pack your bags, a narrower range of grocery products. And so, in our experience,
19 Kiwis are looking for more than just price, but they're certainly looking for price and that's
20 why we need to compete intensely on price.

21 So we seek to compete and we do compete actively across a range of dimensions.
22 Value for money and price is certainly one of them. Similarly, fresh foods, quality, product
23 availability, shopping experience, store environments, team friendliness and engagement.
24 And in the context of your question, Commissioner, increasingly convenience. And
25 convenience is not just about physical store location, it's also about online shopping more
26 and more and that might be a dynamic that I'm happy to spend some more time on that
27 or we can come back to it at the right point in time because certainly we think it's a
28 dimension of active change, whether that's through a new entrant such as Supie or
29 Themarket.com, the Honest Grocer or other players into the market, you know, a rapid
30 acceleration, we've already touched on meal kits and certainly we've got some different
31 views to the Commission's draft report in relation to the high degrees of online uptake
32 and the significance of that dynamic in the NZ market.

33 So I'm happy to come back to that, thank you.

34 **Dr Small:** Thank you, I think we will. But just for the moment, if I could just carry on with the
35 convenience for a little bit if you don't mind. What I think we heard from Foodstuffs
36 before was that convenience is not just about, well, when we say, you say and we say that
37 consumers put a high value on convenience, I think we say that because consumers have
38 told us that in surveys and I'm trying to understand what do you think those consumers
39 think when they refer to convenience.

40 You've said it's about location but it's also potentially about whether it's online or
41 physical and I certainly agree with that. But Foodstuffs were, seemed to me to be

1 expanding the definition of convenience somewhat wider into things that we might think
2 of as service and quality dimensions of the instore experience.

3 How far would you go in your definition of what you think consumers might mean
4 when they say that they value convenience?

5 **Mr Gluckman:** I think in practice its likely to be a broad-church Commissioner. So a ready meal's
6 product, for example, and so certainly we're increasing our range of ready meals or more
7 shortcut convenience-orientated products at the moment. Is that convenience innovation
8 or is that product or range innovation? It's probably both, right.

9 So our view is that convenience as a macro trend, probably includes a number of
10 different components to it whether that's the ease of the shopping experience, which
11 might actually just be about how readily you can get in and out. So things like self-
12 checkouts or increasingly things like scan and go. So we've got more than half a dozen
13 stores where you can just shop on your mobile phone and walk out now without having to
14 go to a checkout at all.

15 Whether it's drive-ups and drive-throughs, which are, I guess, online innovations
16 but relate to the physical box whether it's the range of ready food items that I've just
17 touched on and some of our partnerships are investments to increase that availability for
18 customers.

19 I mean then of course, online shopping which is obviously a big one. And again we
20 won't spend time on that now if that's preferred.

21 **Dr Small:** Thank you. Yeah that's helpful. So regarding online, and this may be an opportunity
22 to bring Supie back into the conversation, but your company is big on online and consider
23 yourself a leader and have grown very fast in that field.

24 And obviously you don't have to say things that are confidential, but the Supie
25 proposition was that online shopping tends to be main shopping, getting back to the
26 missions issue again.

27 Would you agree with that characterisation?

28 **Mr Gluckman:** Commissioner, in our experience and certainly from my perspective in my role,
29 online disruption and online competition is not likely to be limited solely to main shop
30 competition. Certainly it's the case that it can meet that customer need, but Uber Eats for
31 example, who are starting to sell groceries online, are very clearly going to be meeting a
32 hyper-convenience need for example in terms of the grocery shopping mission.

33 So, I think there will be, again, a number of different permutations, but certainly it
34 is our observation that, I guess, the advent of online shopping at a more macro level is
35 certainly rapidly changing the competitive environment for grocery retail as it is for all
36 other retail sectors.

- 1 **Dr Small:** That sounds like a qualified yes that putting aside, sort of convenience ready to eat
2 stuff such as Uber Eats, that that may be the case that baskets are bigger and I think we
3 might have had some evidence on this actually.
- 4 **Mr Gluckman:** Just on that point, sorry, my perspective would be that online shopping is able to
5 meet both the needs of the main shop as well as other customer shopping missions.
- 6 **Dr Small:** I certainly agree with that, but do you think that the main shop – my question was
7 really, do you think main shopping is more common in online than it is instore? We've
8 heard the evidence that through the check-outs, basket sizes are declining and main shop
9 is falling away. Is that consistent with online?
- 10 **Mr Gluckman:** No, again if I take the rise in meal kits for example, if I take the Uber Eats example,
11 we would see that the rise of online is increasingly able to meet a range of different
12 customer shopping missions and not just about main shop.
- 13 **Dr Small:** I was wondering about your online actually, but that's alright, that's fine.
- 14 Supie, have you got anything to add to, sorry, I shouldn't call you Supie. Sarah,
15 have you got anything to add to that discussion about online shopping?
- 16 **Ms Balle:** Yeah, I guess my only comment would be that is whether Uber Eats, which doesn't
17 offer groceries currently, or only a very small portion of groceries, is included in this
18 conversation as competition within the grocery market, but that's my 2 cents on that.
- 19 **Dr Small:** Thank you.
- 20 **Ms McWha:** Can I just ask you a follow-up question there Sarah. So, would you say then that
21 when people shop with you, are they typically buying like a fairly large basket? You know
22 we've heard from the main sort of bricks and mortar retailers that their baskets are
23 around \$50 mark on average, would your basket size tend to be a bit bigger than that?
- 24 **Ms Balle:** A hundred percent. So we consider that, I would almost say 100% of our customers
25 and members are doing a main shop with us. And that it's not a convenience or top-up
26 shop by any stretch of the imagination, it is a main shop.
- 27 **Ms McWha:** Okay, thank you.
- 28 **Ms Rawlings:** I think John, just before we move on that Tex might have had a comment on this
29 topic before we move onto your next question.
- 30 **Dr Small:** Oh so he does, thank you. Tex have you got something to say here?
- 31 **Mr Edwards:** Yeah, thank you. The Northelia and monopoly watch position on internet shopping
32 is that the internet isn't going to save this duopoly, this infrastructure duopoly. Why?
33 Because an SVO, a supermarket virtual operator, is very similar to an MVNO, a mobile
34 virtual network operator. You need third player and you need scale and a third
35 distribution centre to make internet shopping a reality.

1 In the UK, where internet supermarket shopping is taking place at scale, there is
2 unutilised capacity in scalable DCs. This really helps fertilise the use of the internet to do
3 the shopping.

4 I would share an observation with my industry colleague, Josh Gluckman, that if
5 meal kits are actually a competitor to the supermarket duopoly, and Uber Eats is a
6 competitor to the supermarket duopoly, then we need a scalable third DC to enable scale
7 and the benefits of lower costs to be delivered to those people manufacturing those Uber
8 Eats meals and manufacturing those meal kits.

9 And so it's the supply chain infrastructure that the question draws back to. The
10 question was, is the internet going to save the competition problems we have in the
11 supermarket duopoly? The Northelia and Monopoly Watch answer is no. Why? Because
12 we need the scalable third and possibly fourth DC to lower the wholesale inputs to the
13 meal kits, to the Supie facilities and to Uber Eats.

14 That's my contribution, thank you.

15 **Dr Small:** Thank you. Okay, I propose to move off that topic now, its been a very helpful
16 conversation and the fact that we're moving off it doesn't mean that you can't still tell us
17 things that you think we should hear, obviously in cross submission and through the email
18 address too if you wish.

19 So now I'd like to talk and we have been melding into this a little bit anyway, about
20 topic 2, the level of intensity of competition between different types of retailers.

21 And I'll start here if I may on local concentration levels. Some of you will have read
22 the analysis that we commissioned from Frontier Economics which found that
23 concentration in local markets, that is the number of independent supermarkets that are
24 in any local area, and entry and exit and rebranding in those local market have very little
25 effect on local prices. And you'd expect, well at least there's a reasonable argument that
26 you think that one could expect that to happen that the more offerings there are in any
27 locality that are convenient, and remember convenience is important, for individual
28 shoppers, that prices might well be lower as supermarkets react to the presence of their
29 rivals.

30 So it's a slightly odd finding that there was none of this and obviously this is
31 connected with national pricing strategies on behalf of both of the major networks.

32 Houston Kemp for Foodstuffs argued that that this finding from Frontier Economics
33 that local concentration doesn't really have any impact on prices was completely
34 consistent with retail grocery competition being effective at the national level. And
35 Foodstuffs NI say that because they compete primarily on price at a national level, (well in
36 their case the North Island) changes in local market concentration wouldn't be expected
37 to have a significant effect.

38 So, how does this view line up with the argument that is also being put to us,
39 which is that grocery retailers who don't have a national presence are a major constraint,
40 a major competitive constraint. So how can it be that, how can you put together these

1 two things, how can we reconcile that, national pricing and the view that a firm that's only
2 got a few stores, six stores in Auckland or something like that, is also a competitive
3 constraint?

4 So that's the question I'd like to explore and maybe I go to Foodstuffs first since
5 that was your commissioned report.

6 **Mr Quin:** Thank you Commissioner. And we might invite Greg given that you mentioned his
7 comments. Our view is, island-wide pricing policy, in the case of the two Foodstuffs
8 cooperatives is pro-competitive. Means that consumers in remote regions with fewer
9 competitors, naturally because of size and density, benefit from competition in areas
10 where there are more competitors. And essentially, the competitiveness with which we
11 have to react in the higher density areas flows through to those areas.

12 But I might ask Greg also to comment a little bit more on that.

13 **Mr Houston:** Thank you. Well I think the principle point is that if pricing at the national level is a
14 function of the two majors competing with each other and looking at each other's pricing,
15 as well as the local store owners, which do have the ability to adjust those prices in
16 response to local conditions. And there is some variation, it's not a fixed, uniform level.

17 And so the constraint, or the outcome that Frontier Economics found suggests that
18 that constraint or the combination of those things is operating. So the constraint operates
19 because every time a consumer in a local area goes into a supermarket, of which we know
20 many, many occasions that's to select or to purchase a basket that they could equally
21 purchase at a local store, and they are choosing the supermarket, we don't exactly know
22 how often they're choosing the other store, but they're making that choice on the basis of
23 the convenience and price combination that's open to them.

24 So I don't think the absence of variation shows that that constraint is not
25 operating.

26 **Dr Small:** Would you agree that there's an absence to variation though? I mean I hear what you
27 say that in the Foodstuffs network it's possible for a local owner to cut their prices in
28 response to local competition. But the evidence in the Frontier report suggested strongly
29 that that rarely hardly ever happens.

30 So is that fact that, could we agree that that's true?

31 **Mr Houston:** Well I guess there's two ways you can interpret that. One is that competition is
32 effective and that prices don't need to be adjusted a great deal in response to changes in
33 local market conditions. Or you could, I guess, adopt the alternative interpretation which
34 you're suggesting which is that there's no need for those local or national level
35 competitors to care about local market competition.

36 So the two, I guess, hypotheses and the latter hypotheses which you're, I guess,
37 raising, wouldn't fit with the existence of the multiple or the choices that so many people
38 have when they come into a supermarket not to make that purchase at a supermarket but
39 to go elsewhere.

1 So I think it's one of those things that the absence of price variation could prove
2 intense competition, or it could alternately prove absence of competition, you need to
3 look at other considerations to derive conclusions as to which of those is the more correct
4 one.

5 **Ms McWha:** I mean I think I would agree with you in some circumstances, Greg. I think the
6 problem here that I'm struggling with is that what we're being told is that the
7 supermarkets are increasingly competing with a range of other types of retailers and what
8 we would expect to see therefore, is that as those retailers enter the market, the prices
9 would change. And so you would, well I would expect to see that prices would change in
10 the local market and that might flow through to the national prices. And sure you might
11 not get as big a price change as you would get if everybody was pricing just on a local
12 level. Some people are pricing nationally, you might get a slightly smaller price change.

13 But I think what I would expect is that as we are seeing this increase in
14 competition, or if that's what's happening, if there is an increase in competition from a
15 range of retailers, then I would expect to see price effects and we don't seem to be able to
16 see that in the data and that's where our concern is and we're just struggling to reconcile
17 how it's possible that there's this increased sort of fringe, or this increase of competition
18 for smaller shops, because that's, evidently how people are shopping now, but we're not
19 seeing a price impact.

20 So, I'm just wondering if you can help us with that?

21 **Mr Houston:** Well I think you would only expect to see the phenomenon that you're talking
22 about if competition wasn't already working well. So the phenomenon that you're
23 suggesting presupposes that there is circumstance of excess profits, which was a finding in
24 the draft report, which is we don't think is an appropriate finding. So if there really was
25 excess profits, then of course you would expect to see competitors entering and that
26 driving prices down.

27 But profits are not at an exceptional level, which we think is the right way of
28 viewing it, then that suggests that the market is in a sort of more of an equilibrium
29 situation, in which case local competition will be dictated by the balance between store
30 capacity, the number and the diversity of stores, relative to the population. And you
31 would also expect that to be a stable thing with growth in stores happening as the growth
32 in catchment and so on. Because the most important part of a decision to open a store, if
33 you're a major, is whether or not there's the population capacity there to be served.
34 Bearing in mind that other stores, both specialist and sort of full range, are present.

35 So I don't think the proposition is that you're looking for necessarily follows.

36 **Dr Small:** I struggle with the proposition that you're putting to us Greg, which is that this thing
37 is in equilibrium, I mean how do you explain the growth of all these other competitors
38 that we're being told about if this thing is in some kind of long run equilibrium. So you
39 seem to be arguing that the majors can't cut their prices and that they shouldn't because
40 stores are just sort of where they need to be and only just where they need to be. It
41 doesn't look like an equilibrium or I struggle to see how the pattern, thy physical pattern

1 of stores and online for example, is consistent with a stable equilibrium. The only thing
2 that seems to be stable here is the fact that people seem to keep going to supermarkets
3 for a lot of their shopping.

4 So maybe we should ask Woolworths, have you got anything to add to this
5 question about the consistency between national pricing and strong competition from
6 fringe retailers that don't have national presence?

7 **Mr Gluckman:** Thank you Commissioner. If we focus on price momentarily and then I'll come
8 back to other aspects of competition.

9 We think the most informative dimension is what outcomes are being observed?
10 And again, we come back to the facts that grocery retail prices have fallen in real terms.
11 So have grown at a rate lower than inflation and have grown at a rate lower than input
12 prices and that to us is highly indicative of price competition in action.

13 In relation to national and local competition, I guess, my reflection would be, or
14 observation would be that we compete at both the national level and compete at a local
15 level and we compete on price and we compete much more than price. And I provided
16 the example of Farro earlier in terms of a local competitive response. That national price
17 position does afford us a number of efficiencies. It's also not unique to grocery retail, or
18 it's not unique to NZ, grocery retailers around the world adopt national pricing positions
19 and it's not unique to grocery retail and that retailers overall adopt national pricing
20 positions.

21 And nevertheless, our observation and certainly our expectation also, is that
22 aggressive price-oriented entrants which have been observed and are being observed,
23 may therefore actually impact pricing at not just a local level, also a national level.
24 Chemist Warehouse has been an example of that. A Costco may shortly be another
25 example of that.

26 Yeah, so that would be my observations Commissioner.

27 **Dr Small:** Okay, so a large retailer such as Chemist Warehouse, you're saying would or perhaps
28 has had an impact on your national prices?

29 **Mr Gluckman:** Correct.

30 **Dr Small:** What about transportation costs, just while we're talking about national pricing, how
31 do you factor that in, perhaps you could talk us through why it's a profit maximising and
32 efficient thing for you to do in the first place to have national pricing. I mean, why, for
33 example, would a consumer who's located close to one of your DCs in Auckland or
34 Christchurch pay the same price as somebody in Gore or Hawera or somewhere that's a
35 little further afield?

36 **Mr Gluckman:** I'll provide some brief comments. National pricing also affords customers a
37 number of benefits and of course customers benefits where they're not next door to a DC.
38 It also provides them with a high degree of price trust when they enter a Countdown

1 supermarket, for example, that they're going to experience a consistent kind of affordable
2 low price/every day. So I think it does deliver a number of benefits for customers.

3 Operationally it also provides us with efficiencies and those then manifest again in
4 lower prices on the shelf for customers. But I think it would be wrong to suggest it was
5 solely focused on the first part of your comment, Commissioner.

6 **Dr Small:** So it's about, what you're saying is it's internalised in the transportation costs while it
7 doesn't necessarily reflect, you end up with prices that are flat rather than prices that
8 reflect the actual costs for that store, you're happy to, if you like, internalise those extra
9 costs because of some other efficiencies.

10 And they would be, what are these other efficiencies that you get from it on the
11 plus side?

12 **Mr Gluckman:** Marketing would be a very obvious example in terms of the ability to advertise
13 nationally on television, that would be one, Commissioner.

14 **Dr Small:** Okay, thanks. I think Chris Quin had his hand up to talk about this as well, so maybe if
15 we come to you Chris.

16 **Mr Quin:** Thank you Commissioner. Very briefly I think an observation we would make is that
17 generally, single region or local competition most often begins in the most competitive
18 and largest density locations. Auckland for example tends to be where we see most
19 competitors who start in one region start.

20 I'm just wondering whether the question a little bit goes to the fact that what
21 you're not seeing is local differentiation of pricing because of the brand pricing policies
22 that both major retailers pursue. So effectively when, for example, a new competitor,
23 Chemist Warehouse started in Auckland, we will consider what we need to do to compete
24 on the PQRS angles and then react across a brand. Which is to the benefit of consumers
25 outside of the centre where the competition starts.

26 So I think understanding that process possibly helps shine a light on why you're not
27 seeing differentiation between regions in price because we're choosing, for quite similar
28 business reasons actually, that Woolworths NZ have identified to have a brand level set of
29 promises to our customers on that front. And that's how we execute it and similarly for
30 the transport cost, we would agree generally in principle with the reasons why we take
31 that approach.

32 So that's possibly just one additional insight into that, thank you.

33 **Dr Small:** Thanks for that. And I remember you told us earlier when we spoke earlier in the year
34 that, and it's come through elsewhere as well that your individual store operators have
35 got the flexibility, they're allowed the flexibility by you to cut prices in response to local
36 conditions. In other words your national pricing is more of a cap than a floor.

37 So, doesn't that mean though that an alternative would be to just allow your
38 stores that are near Chemist Warehouse for example, to cut their prices or they're,

1 obviously, they're allowed to anyway, so why does that not happen as a rational response
2 of those store owners to that entry, that localised entry?

3 **Mr Quin:** I think it goes back to the observation around competition at a brand level as well as at
4 a local level. So, our maximum retail prices which are our brand promises and promotions
5 in that we execute to make sure the promise we're making at a marketing level is being
6 delivered at every store. And that reacts to local or new national competitors, depending
7 on who that is.

8 And then the store will, you know, locally look around and go, what is Fruit World
9 offering next to me and what do I need to adjust downwards to compete?

10 There was, there was a media story in the last few weeks on that very example in
11 Silverdale, which showed we have promotional level pricing and then there was keeping
12 an eye on your local competitors and going where you needed to go to compete in your
13 catchment.

14 And that's the multiple aspects on which we need to compete.

15 **Dr Small:** Thanks for that. I mean, the Frontier evidence did suggest that there's not much of
16 that and that, you know, generally speaking, across your banners, prices are very, very
17 constant. So would you agree that it's more exception than the rule that local operators
18 respond to those local effects?

19 **Mr Quin:** No I don't I would describe it like that Commissioner. You know, I think I'll just repeat,
20 we have a level of promotion and promise that we need to make sure every store delivers
21 to. And then we have a myriad of activity below that where stores are choosing to
22 improve or to change their pricing position below the maximum so that the promise is
23 being met. And that is a pretty constant activity across our individual stores.

24 **Dr Small:** Thanks.

25 **Ms McWha:** Chris, can I just ask a quick follow-up question. Is that across all kinds of product
26 categories, or does that tend to be limited to, say, fresh products and that kind of thing,
27 the ability to adjust locally?

28 **Mr Quin:** Yeah, the ability to adjust locally is across the whole of the store and occurs across all
29 categories.

30 **Ms McWha:** Okay, thank you.

31 **Dr Small:** But the practice might be more concentrated, cause Vhari's questions reminded me
32 that one of your criticisms of Frontier was that they didn't use, didn't look at products that
33 weren't barcoded which includes a lot of fresh. Is it quite common in fresh for that to
34 happen do you think?

35 **Mr Quin:** Yeah, thank you. Look, fresh tends to be a much more variably priced category
36 because of supply and because of manufacturing and because of availability, that's

1 natural. And that, you know, that piece not being included, you know, has not
2 represented appropriately the full range of activity, but it does occur across all categories.

3 **Dr Small:** Thanks, okay. So Matthew Lane from Night 'n Day has been sitting here waiting
4 patiently with his hand up, so Matthew can I bring you into this please.

5 **Mr Lane:** Thank you very much. I just want to touch on a point that's been made how Chemist
6 Warehouse has been able to influence Woolworths' prices to consumers.

7 I think that's a really good point to make because I suspect there's an independent
8 wholesale chain associated with that which does create competition to purchase and
9 retail goods. And what that does is, if Chemist Warehouse had to rely on Woolworths or
10 Foodstuffs as their wholesale channel, I do not believe they'd be able to compete or
11 influence Woolworths prices in that prescription market and dry groceries face that
12 problem where it can't be influenced on a nationwide level because the ability to be able
13 to obtain that supply from, I guess, a source that isn't conflicted and more focuses on its
14 own banners, is that the only real supply in NZ.

15 Prescriptions are the fringe part I suspect of Woolworths' business, the core part
16 that needs to be protected is that dry grocery and sort of everything flows off from there.

17 So if we can get additional independent wholesalers, and Tex mentioned it, I
18 suspect that would enable prices to be driven down on a nationwide level, or even a
19 localised level because you can actually access them at a fair rate.

20 **Dr Small:** Thank you. I've got a couple of more topics to go through. But we are getting to a
21 point, we're into the last half hour. So, maybe have a think about any wrap-up comments
22 that you might want to make if there's space for that at the end.

23 The next point I just wanted to raise is really about competition between the
24 majors. So moving away so much from the role of other grocery retailers in competing
25 against you and focusing on you folk competing against each other. And which you do
26 through your individual banners and broadly speaking, you've got three each I think.
27 Although, depending on how Woolworths regards Supervalu and Fresh Choice.

28 There is some economic literature and I hear what you said about the rationale for
29 national pricing, the trade-off between reflecting costs accurately and efficiencies
30 associated with marketing, for example. There is some economic literature that suggests
31 that national pricing can accommodate facilitating behaviour, for example, through
32 increased price transparency, so you can really see what your rival is doing and I think
33 we've already touched on this a little bit with Foodstuffs regarding the benchmarking of
34 PAK'nSAVE's prices.

35 In our draft report, we commented on this, the active monitoring of price
36 differentials between the banners. And obviously we've got the, you know, it's clear that
37 PAK'nSAVE has this price differentiation strategy. I guess, maybe a question for Foodstuffs
38 to start with, does this mean, does this sort of commercial strategy effectively mean that
39 for example, PAK'nSAVE don't really compete directly against New World?

1 **Mr Quin:** Thank you Commissioner. Firstly, I think, you know, as a sort of less formal statement I
2 would say that not a single one of our store owners would be happy accommodating
3 anyone else. They exist to drive their store as hard as they possibly can and I think that's
4 been shown through the conversation we've had around the dynamics of price and
5 competition, that comes from the fact that that model exists.

6 PAK'nSAVE lives on a single brand promise of NZ's lowest food prices and has to
7 work hard multiple times a week to deliver that promise and compete.

8 New World is a different mix of PQRS. But also, you know, as we've mentioned,
9 across the customer information that we've shared, convenience sits quite high as does
10 value. So New World cannot not compete on price, it has to compete on a balance of all
11 of those things. So, the same measure and observation of market that we've spoken
12 about that occurs for PAK'nSAVE, occurs for New World and it occurs for all of our
13 banners.

14 So, New World is as focused on price but with a different investment into the
15 quality range and service that is offered to customers, thus a different price position in the
16 market to be able to fund that offer in its attempt to win customer shopping missions in a
17 market where there are multiple options and many competitors.

18 So, that would be our view on that question.

19 **Dr Small:** Right, maybe I could summarise and put this into economics jargon, its kind of a
20 market segmentation strategy, you see some people who are willing to pay a bit more for
21 an upmarket type New World experience and others to place, maybe place more weight
22 on price and less on some of the other dimensions of your offering and they might tend to
23 favour a PAK'nSAVE, is that the way you see it?

24 **Mr Quin:** I think it's relatively apparent that we compete with multiple banners with quite
25 different promises and propositions. And that eats right down into the business model of
26 each of those banners. And the cost you can afford to operate with so that you can
27 compete on price as well as quality range and service. And appeal to different shopping
28 missions or different customer motivators in their balance of convenience and value.

29 So, yes we work hard to try and have the brands differentiate so that they can try
30 and compete using a different proposition.

31 **Dr Small:** Thanks.

32 **Mr Quin:** The other quick thing I'd add, John, is we see reasonably strong evidence of cross-
33 shopping between the banners and between our competing competitor banners.

34 **Dr Small:** Yeah, and some of that is probably driven by convenience or happen to be different
35 places and for whatever reason, we've certainly noted that evidence.

36 Would Consumer NZ like to comment on this issue about differentiation between
37 the banners and what that has to say about competition between them?

1 **Mr Duffy:** Look, we haven't really prepared any comments on this, other than to say that
2 anecdotally from the discussions we have with consumers, yeah, there is a differentiation
3 probably between the brands that are perceived as lower cost and kind of no frills.
4 PAK'nSAVE would be an example of that. And the kind of higher-end supermarkets, New
5 World would probably be considered an example of a higher-end one. But the problems
6 we see and receive complaints on are kind of universal across those major banners. So
7 there's no differentiation there. So yeah, we hadn't prepared any further comments on
8 that.

9 **Dr Small:** That's fine, thank you. Josh Gluckman's got something to say this point.

10 **Mr Gluckman:** In our experience we compete intensely on a range of dimensions but that
11 certainly includes price and so the extent to which we differentiate, for us, is very clearly a
12 sign of reactive competition. But there's no question that the facts illustrate a very high
13 level of customer overlap that exists and that's certainly not just driven by a convenience
14 dimension. There's a strong pricing dimension to that as there may be other dimensions.

15 So in our view, the level of differentiation we've observed is entirely consistent
16 with high levels of competition. Again we refer to our comments on pricing outcomes
17 previously made.

18 But I might just introduce James Mellsop from NERA to provide some additional
19 perspectives on this from an economic perspective.

20 **Mr Mellsop:** Thanks Josh. I think the sort of factual comments have been made really but just
21 going back to your characterisation, I guess, Commissioner Small, one way to think about
22 this and to sort of put it into economics jargon, if say New World imposed a SSNIP, would
23 that be profitable. And it's quite plausible that it would not be. In other words, New
24 World is competing with PAK'nSAVE, competing with Countdown, if we're just focusing on
25 those major brands.

26 So the concept of differentiation is, of course, quite consistent with workable
27 competition. I mean in some markets you might say it's not, but here I think the evidence
28 about the number of cross-shoppers, and I think perhaps with respect your response to
29 Chris Quin may have underemphasised the facts on that, I think, John. I think both
30 Houston Kemp report and the two supermarkets have put forward some quite compelling
31 evidence on the degree of the cross-shopping. So I would just like to emphasise that does
32 suggest that if New World imposed a SSNIP, it would not be profitable cause people would
33 shift to the other brands.

34 **Dr Small:** Yeah I would certainly hope that would be the case James, because you know, if it
35 wasn't, then they should have already done it. So yeah, I would absolutely agree with you
36 that, I mean I presume that everybody's optimising already and so that's fine. But since
37 we're talking about cross-shopping and this is more general for James or anybody.

38 So, would you like to tell us what you think drives that, is it short-term promotions
39 or is it long-term patterns of, I just regularly shop at both the New World and the
40 Countdown? Or is it all of that?

1 **Mr Mellso**p: So this is probably not for me so much John, I suspect it's for the businesspeople.

2 **Mr Gluckman**: Commissioner, I'll make a brief comment for Woolworths NZ's standpoint. There
3 will be an element of many things that will drive it. Certainly we know that NZ has
4 historically been a highly promotionally intense marketplace with a lot of specials activity,
5 as the Commission has observed in its draft report, albeit, you know, continued changes
6 over time to deliver lower prices every day, and again I'm sure we'll spend more time on
7 that tomorrow and through subsequent sessions.

8 But, you know, in that context, there will be a role that promotional activity is
9 playing. There will also be a role that other price activity may play and there'll also be a
10 role that other consumer shopping missions may play.

11 So I suspect it's a number of things, Commissioner.

12 **Dr Small**: Thank you. Chris Quin from Foodstuffs, do you have any view on this, do you think
13 it's, I mean, put it this way, to what extent do you think cross-shopping increases or
14 changes in response to weekly specials?

15 **Mr Quin**: Thank you Commissioner. Look, I would agree with the comments made by
16 Woolworths NZ, it is the range of factors that drives cross-shopping.

17 One of the things we do see in some of our research is the percentage of
18 customers that are researching price digitally before their shopping mission and
19 depending on audience and scope and timing and those things, we see up to half of
20 customers researching price before shopping. Which indicates they are quite responsive
21 to that and have the options.

22 So we do see definitely where we have a strong promotional period, we will see a
23 market reaction to that and movement. And then a settling back based on what the
24 competitive reaction is. And that's part of the ongoing, weekly competition environment
25 that we live in is that we just have to keep working hard to win those missions.

26 So we would agree, it's a number of dynamics that does it and the market is
27 moving quite responsively to those offers.

28 **Dr Small**: Thanks. And perhaps I should just refine my question slightly, because your answer
29 reminded me of the non-kind of, you know, 50c off a block of cheese type promotions as
30 compared to the steak knives and containers promotions, the name of which I'm sorry I've
31 forgotten.

32 But, going back to this question about what drives cross-shopping, I'm pretty sure
33 I've seen that the latter, those sort of several week promotions where you collect the
34 stamps or whatever, that that does drive a change in in-store visitors and volumes.

35 Is that a more important form of promotion and a driver of attraction across
36 between the stores than the weekly mailer specials, do you think?

1 **Mr Quin:** I would say you come back to the evidence that we've seen, that convenience and
2 value are the two biggest drivers. And those sort of promotions, the continuity type
3 promotions, collectables or otherwise, which a number of retailers run, can be successful
4 but only when you are competitive on price and other aspects of the offer. You can't
5 replace one with the other in terms of customer attraction. You have to be offering a
6 total of all that is more attractive to customers in order to win.

7 So, there isn't escaping that the two things we've been speaking about reasonably
8 consistently are the major drivers of store choice for customers. If you can add to that
9 with further investment, you can try and compete for more missions for a period of time.

10 **Dr Small:** Thanks for that. Josh, thank you.

11 **Mr Gluckman:** Just a very brief additional comment. Certainly we would see that tactical price
12 promotions, the 50c off example, they can still play a significant role in driving traffic. Not
13 just for purchasing of an individual product, but for shifting an entire basket, driven in by a
14 particular traffic driving promotional price point even on an individual item of food. So it's
15 certainly the case that we see promotional activity being a dynamic, not just at the level of
16 a collectables program, but also at an individual price point basis, Commissioner, thank
17 you.

18 **Dr Small:** Thanks for that.

19 **Ms Rawlings:** So just if I interrupt there, John, I mean that sounds in that kind of case a bit more
20 like a switch for a particular purpose driven by promotional pricing as opposed to a form
21 of cross-shopping where people are getting their needs across a week or a couple of
22 weeks, by using the store that is most convenient to them, say, when you talk about
23 convenience as a driver. Would you agree that in that promotional context, price is being
24 elevated to a level that's really driving the behaviour where, I think, most people have said
25 this morning, that convenience is really a significant factor in people's decision making
26 otherwise?

27 **Mr Gluckman:** Thank you Chair, again, I suspect it will be a broad church and there'll be different
28 drivers for different individual customers. But certainly, you know, there would be many
29 Kiwis who would be checking a mailer in their letterbox, or would be checking pricing
30 online. And we see a significant proportion to our online site, that is checking prices
31 online as opposed to just looking to do an online shop while they're there. So they will
32 absolutely be looking for prices and that will be a driver of that cross-shopping or that
33 shopping around dynamic.

34 But it won't be the only driver of that dynamic and in practicality we'd imagine
35 there'd be a number that may exist. It might be a particular product that they find that
36 one supermarket is ranging that they're seeking their way to a BBQ with their friends over
37 the weekend. Or it might be a particular, there might be a number of reasons, it might be
38 that they're driving past. But certainly we see that price and price awareness (and Kiwis
39 are incredibly price savvy) and hence some of the history of intensive specials activity in
40 this marketplace recognising that the desire to meet that need of customers. So yes,
41 thank you.

1 **Dr Small:** Thanks for that. Perhaps if we could just move on now to the last main topic on my
2 list which is prompted by an empirical observation which was actually emphasised to us in
3 his submission by Ernie Newman, you may have seen, regarding the uneven distribution of
4 retail choice across the major urban areas. And in particular it seems Countdown has a
5 higher market share of stores, a concentration of stores in Auckland. And in Wellington,
6 Foodstuffs is in that position.

7 So I guess my question to both of you is, would you agree with that
8 characterisation and initially how did this happen? Who would like to go first, either of
9 you, Josh or Chris perhaps?

10 **Mr Gluckman:** I'm happy to Commissioner. Look, there will be aspects of where our physical
11 stores are located and obviously online changes the geographical dimensions for
12 competition as well.

13 But we are actively seeking to get more Countdown stores into many, many parts
14 of NZ as we speak and on a regular basis. And so, we're looking forward to giving more
15 customers access to our proposition as much as we possibly can. So I'm not sure what
16 more colour there is for me to add.

17 **Dr Small:** Okay, Chris, could you help us understanding how this came about?

18 **Mr Quin:** I think the Commission will be well aware of where the number of stores are and the
19 brands they are. So, those are the historic facts. We would absolutely agree the future is
20 a mix of digital and physical and that is where we see our competition coming from more
21 and more.

22 There is history to that around the previous company structures and mergers of
23 brands and those sort of things that have created the Auckland versus Wellington
24 presence of stores. But, you know, without going into competitively sensitive information,
25 we know we have plans to aggressively fill gaps where we can so that we can offer
26 communities our competing offer where we're not already. And that is just the history of
27 how it's unfolded and that leads us to where we are.

28 And I would also note that as part of the response we've already made, we've
29 removed the barriers that were in place for anyone obtaining any of the land that might
30 be suitable for competing offers. So there is nothing standing in the way of anyone doing
31 that.

32 **Dr Small:** And we certainly appreciate that. So perhaps I'll ask Woolworths this question, Chris
33 was referring there to restrictive covenants and exclusive provisions in leases. Is that
34 perhaps the reason why competition, so far, hasn't led to a more even distribution of
35 stores, for example, why your presence in Wellington is relatively low? Or is there
36 something else, I mean why hasn't competition, I guess, more generally, why hasn't
37 competition led to more even distribution of stores?

38 **Mr Gluckman:** Some of it may be the dimensions of which supermarkets were there first and
39 scale of population. So there might be a number of different reasons in a given catchment
40 which might determine why things are as they are, are certainly, in our experience, we're

1 actively seeking to open Countdowns all over the country because we think there are still
2 many Kiwis who would benefit from access to our offer and our proposition.

3 **Dr Small:** Do you have any thought about whether this fact affects the intensity of competition
4 between yourselves and Foodstuffs, is it harder for you to, I mean, the fact that you don't
5 have a great presence in Wellington, take that as an example, do you think that affects
6 the intensity of competition between the two networks?

7 **Mr Gluckman:** I think they're definitely local dimensions of competition, notwithstanding the
8 comments made around national pricing, for example, so whether that's other aspects of
9 our offer that we're looking to bring to a given market. So I suppose that would be my
10 observation, Commissioner.

11 **Dr Small:** Thanks.

12 **Ms McWha:** Josh, can I just sort of re-ask the question that John asked I think, which really is,
13 are there other barriers, you know you mentioned that kind of the scale of existing stores
14 is something that you take into account when deciding whether to enter and that all
15 makes sense. But I'm wondering whether there are other barriers that are preventing you
16 from entering particular markets?

17 **Mr Gluckman:** You'd like us to make some comment or some reflections in relation to site
18 availability, for example, I'd be happy to throw to my colleague, James Radcliffe, perhaps
19 to make some comments about Woolworths NZ perspective.

20 **Ms McWha:** Sure.

21 **Mr Radcliffe:** Sure, thanks Josh, hi, James Radcliffe, I'm the General Counsel here at Countdown
22 for the transcript. I think um, we'll probably come back to this in a session I think that's
23 booked later on in the conference for some detailed comments, and if there's any specific
24 issues that the Commissions would like to cover, please let us know and we'll come
25 prepared to cover that.

26 But on the whole, we typically haven't found the existence of restrictive covenants
27 or lease restraints have imposed a significant impediment in terms of our development of
28 sites. But of course we're, you know, constantly looking for sites and availability of sites.

29 So I think the answer to the question is, not really. But of course we have taken on
30 board the views of the Commission that have been expressed in the draft report and I
31 guess the views of the other submitters. So we can certainly come back to that in more
32 detail later on in the conference if that's okay with the Commissioners?

33 **Ms McWha:** Absolutely, yeah.

34 **Dr Small:** Sounds great, thank you.

35 **Ms McWha:** Sorry, just to belabour this point a little bit. So there's nothing else that you would
36 say to us, "These are things that are slowing us down, or preventing us from competing?"

37 **Mr Radcliffe:** I think we will talk about planning issues later on in the conference as well.

1 **Ms McWha:** Yep, that's fine, thank you.

2 **Dr Small:** Thanks, now Tex Edwards has had his hand up patiently for a little while, while we've
3 been talking about that subject, so we can bring him in now.

4 **Mr Edwards:** Thank you Commissioner Small. This point of footprint and stores goes to the core
5 DNA of this enquiry. And if I can note something about my industry colleague, James
6 Radcliffe, in the background of his picture, he's based in the Ponsonby store, you can see
7 the crane 1200 metres away from his Ponsonby store building the Herne Bay store. This is
8 a district which I'm also calling from and I apologise for the slight tethering of the call, the
9 internet is very congested around this part of town.

10 But essentially, when we see James Radcliffe's picture in the store, we can see the
11 crane building the store next to Herne Bay, which is the adjacent suburb to where he's
12 making the call from above his store in Williamson Ave.

13 800 metres down the road from Williamson Ave is another Countdown store and
14 in-between this new store that's being built and his current store, there is another
15 Countdown store.

16 It goes to the absolute core part of this enquiry which is the hypothesis that the
17 competition in supermarkets in NZ is about getting the store and maintaining the
18 footprint. And it impacts all these other useful comments that we made earlier in the
19 enquiry, Commissioners, because we talked about adding the top-up shop to the main
20 shop. And so the expansion of these two giants, these two duopolists, is that they've
21 expanded the main shop with the top-up shop and their infrastructure footprint is what's
22 being competed on here. And it's a series of suburban monopolies, not a duopoly. And
23 the working case study earlier in the day, we mentioned the location of Farro to the other
24 Grey Lynn store, remembering that there's four shops (four Countdowns in Grey Lynn) it's
25 a working example of Ernie Newman's comments in his submission.

26 And I urge the Commission and I urge participants in this conference to focus in on
27 the infrastructure constraints here, because that's what has been competed on to date.
28 We must take notice of the strategic theme of the 12-year battle for the PAK'nSAVE store
29 in Wairau Road in the North Shore because that articulates what has happened in the last
30 20-years and why we've got to this position.

31 I'd be delighted to answer questions and go into more detail later, thanks for the
32 opportunity.

33 **Dr Small:** Thank you. I must say, this is something that's intrigued me as well. I mean, there are
34 a few places around in the country where there's, in provincial cities, where there's two
35 Countdowns right next to each other, which I presume is an artifact of a previous merger
36 probably. But its nevertheless must still be profitable for you to keep them both open.

37 So, look we're closing in on the end here. I'd like to offer both Foodstuffs and
38 Woolworths a chance to comment either on what Tex has just said, or on anything else.

39 Nick, could you come in now please.

1 **Mr Hogendijk:** Good morning and good afternoon for all of you there and thank you for your
2 time. So Nick Hogendijk, Managing Partner of Hexis Quadrant. Just a little bit of context
3 quickly. We work with a series of retailers, cooperatives and suppliers and in particular in
4 NZ, we have worked with countless number of suppliers over the last 2-years as this has
5 all been unfolding.

6 For me there is three burning questions and my colleagues of which many are
7 retailers and wholesalers, for their entire careers up until now.

8 The first piece is, there is no true competition between the ecosystems that are
9 currently operating in the market today which then creates three burning questions.

10 The first burning question for me is, is it easy for the existing supermarkets to leave
11 their ecosystems today and acquire what they need to trade competitively, if they are to
12 step away from the Woolworths or the Foodstuffs ecosystem?

13 The second question for me, is it easy for NZ consumers to buy what they require
14 or acquire what they need outside of the two ecosystems that are Foodstuffs and
15 Countdown and all of the banners that sit within their ecosystems?

16 And the third question for me is, is it easy for the majority of NZ suppliers to
17 acquire appropriate volume outside of the two current ecosystems?

18 San Remo Pasta cannot easily replace the volume it has suffered at the loss of
19 Foodstuffs NI. Lettuce growers and farmers who produce their product for their
20 customers can't just replace their volume when they're [inaudible] or have their orders
21 cancelled at the last minute. Which is common practice in certain instances.

22 Quite simply the answer to each of these questions is no, and so therefore if you
23 look at the grocery market and not the Roger Corbett-esque where only 26% of the
24 market has come from Woolworths and we have a highly competitive marketplace that is
25 coming from Foodstuffs on the same guise as none of our members will be happy to
26 accommodate competitors for the PAK'nSAVE stores and New World cannot compete on
27 price for the New World stores that were mentioned earlier.

28 You don't have a competitive marketplace. You've had reference today Costco,
29 which is opening a store next year. Let's be clear on that, one store.

30 Circle K which has three to four stores. Two of which are likely to close shortly.

31 Farro which is what, approximately six stores. That's not competition.

32 Aldi have clearly stated that they are not going to enter the NZ market at any stage
33 soon and have no appetite to do so.

34 And meal kits keep being referenced at \$400m which is what, 1% - 1.5% share of
35 the entire marketplace that we're talking about which is grocery.

36 Notwithstanding we've then had Chemist Warehouse referenced and the reason
37 that Chemist Warehouse entered the NZ market was the volume of orders that they

1 receive from NZ consumers looking for a better price alternative, range and selection, was
2 so great coming out of NZ that they had to open their own stores over there.

3 So we're having all these lovely conversations and it's very polite but there's a lot
4 of white noise and there's a lot of smoke screening going on here and it doesn't address
5 the fact that there are two ecosystems and there are not many options outside of those.
6 And even the businesses like Night 'n Day, etc, have to source from Foodstuffs or
7 Woolworths in order to get their product. In order to do so, they are not price
8 competitive. And that is an issue. And it's an issue that's been ignored.

9 The other piece for me is, the consumer sentiment in the NZ marketplace
10 throughout this process has been overwhelmingly clear that price is the issue. So we can
11 talk about convenience as much as we like. But the reason we're here is because of price.
12 NZ consumers are not getting price. And we can talk about 4% EBITs for a wholesale
13 business, but we're not going right through the value chain to the stores which include
14 rich listers in PAK'nSAVE stores, who are also making extraordinarily healthy profits when
15 a global average for supermarkets is 3% to 3.5%. And that's from Deloitte's reports, not
16 mine.

17 So, we are having a conversation that's very polite about the competition and
18 we're not actually talking about the restraints of the competition.

19 Thank you.

20 **Dr Small:** Thanks Nick. That has brought us to time. I don't see any hands shooting up to
21 respond to any of that.

22 **Ms Rawlings:** Just Josh there John.

23 **Mr Gluckman:** Not to respond, but perhaps just some closing remarks for Woolworths NZ if that
24 was acceptable.

25 **Dr Small:** Absolutely, go on.

26 **Mr Gluckman:** I suppose for us, we've spent a lot of time this morning and it's good to be
27 underway with the consultation conference talking about the nature of competition. I
28 think we've interchanged between the dimensions of the different players as distinct from
29 some of the competitive outcomes being observed. And for us we think it's really
30 important to anchor back to those outcomes which we consider to be entirely consistent
31 with high levels of competition.

32 And we've talked a bit about the fact that grocery retail prices have fallen in real
33 terms despite cost inputs rising at a higher rate, that would suggest price competition in
34 action. We'll come back over the course of the conference to international price
35 comparisons and what they do or don't reveal about the role of competition in relation to
36 grocery prices overall.

37 We've referenced the fact that customer satisfaction has increased that in our
38 view there are very high levels of innovation being experienced, and again, we'll come

1 back to the fact that our returns are less than half the level that the Commission has
2 calculated in their draft report.

3 So for us we think that the real test here is the outcomes which we consider are
4 entirely consistent with high levels of competition. Thank you.

5 **Dr Small:** Thanks very much Josh and for your contributions this morning. Chris, some final
6 comments from you.

7 **Mr Quin:** Thank you Commissioner and I'll try to be brief. Firstly, one matter of fact that is
8 important, the 4% net profit after tax number that we have represented quite publicly and
9 openly in our submissions is a whole of business number. So I just want to be very clear.
10 The characterisation previously was incorrect.

11 Look, without repeating anything that's been said, our observation of the market
12 is, yes, there are two large players but there are many competitors who offer an
13 alternative for every shopping mission and constrain our activity and we need to compete
14 with and respond to constantly.

15 The historic market share view that is underpinning some of the conversation
16 about this is across a narrow view of history of how people are attaining their grocery and
17 food needs as opposed to the future of how they will do that. And I think we've tried to
18 underpin that with the understanding about missions and about cross-shopping and about
19 those activities.

20 And I think one important point that's sort of been a thread through the morning
21 is, we're not avoiding each other by differentiating and that is how we're choosing to
22 compete because we try and mix the PQRS factors for the customers as we understand
23 them better and better as we go forward.

24 And from a price point of view, the Commission's well aware of our view about
25 how our price should be compared to the rest of the world and we in fact sit 21st in the
26 OECD and alongside similar countries as a rule. So we have a view on price for NZ'ers that
27 whilst we have to keep working on it, and with the pressure that is on our supplier
28 partners to increase price, we're working hard to try and mitigate the effect on NZ
29 consumers but when we look at it on a comparison basis, we see a strong and fair
30 position.

31 So I just wanted to add those points to the closing, thank you Commissioners for
32 your time.

33 **Dr Small:** Thank you very much indeed. I will allow Tex, but please make it brief Tex, we're over
34 time.

35 **Mr Edwards:** Thank you Commissioner Small. Let me be desperately brief and let me not say
36 anything that Tex Edwards has submitted to the conference. Let me reference your
37 Australian investment banking community that supervises the capital market valuation of
38 Woolworths.

1 Wilsons Stockbrokers recently mentioned on the divestment of Endeavour that
2 Australian and NZ supermarkets have a privileged duopolistic market structure and as a
3 consequence, valuations are ten times earnings higher than international benchmark.

4 And I just reflect with the Commission as I close in a brief statement, that if we
5 looked at what the Australian capital markets are saying about the Woolworths valuation
6 in the stock market, it helps us address this confusion and this noisy disposition that we're
7 not too profitable in NZ.

8 Thank you.

9 **Dr Small:** Thanks. Right, well I'm going to call it to a close there, that's been really very helpful
10 for us indeed. I think we've got a good feel from various participants about their areas of
11 focus on how they see the landscape and it's been done in a good and professional way.
12 So thank you very much for your time and we shall look forward to continuing this
13 tomorrow. And until then, I shall bid you farewell, thank you very much.

14 **Ms Rawlings:** I'll just add just in closing there John, if people have any observations in relation to
15 your ability to contribute through the online forum or if you've been here as an attendee
16 but actually would have liked to have commented and found that to be limited today or
17 any other comments that you have about the operation of the forum as we work through
18 the next few days, please do feed that back through our team so that we can talk to you
19 about that or look at how we might address that moving forward. And I'll just reiterate
20 John's comments, thanks very much for the morning and we'll see many of you tomorrow.

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