

Northelia Version 1.4

Greenfields institutional start up

Solving the competition problem in NZ supermarkets

New supermarket operator in NZ

Like for like challenger,

Like for like customer ecosystem

Like for like capital base

Like for like wholesale distributor

Northelia Ver 1.4 is a group of experienced DIB (done it before) operating entrepreneurs, who have worked in the supermarket industry and have noted the Commerce Commission's determination to create a proper competitive 3 or 5 player NZ supermarket market. Northelia is submitting in stealth, because, its executive, investors and board need "day jobs", Northelia is available for confidential discussions with Govt, ComCom, MBIE and the Productivity Commission, but its not available for public exposure to lobbyists business sabotage agencies. Northelia, is advocating a once in generation private sector initiative to bring NZ owned competition in groceries for NZ consumers and NZ suppliers.

Northelia compliments the Commission for its draft 517 page report, one of the most comprehensive reports of the last 20 years. Noteworthy of this submission is that today's problems in competition stem from a ridiculous decision in the early 2000s to allow Foodtown to merge with Countdown, ironically Foodstuffs complained to suggest that it would fracture competition and it would cause downstream problems – This has happened.

The Commission's report missed a vital point. Today there is massive competition in supermarkets – there is competition to own them. Foodstuffs, runs an internal process which illustrates the prices new franchisees are prepared to pay for a food distribution business with monopoly features attached via a co-op model. Who doesn't want to own a supermarket?

Our submission is focused on what is the process to harness this appetite for supermarkets, and channel it into something that fights for fair for consumers and suppliers.

The Draft Report of 29 July, proves the requirement for direct intervention and divestment to achieve the requirements of like for like competition.

We urge the Commission not to accept pyrrhic competition solutions and accept the noise of maintaining in perpetuity the dominance of the series of regional and suburban monopolies. We support a vibrant wholesale market, delivering outcomes to existing niche players, and convenience stores, but we urge the formation of a like for like supermarket footprint, to give market power to consumers rather than monopolists

We set out the following discussion of the business case and the fair and equitable creation of a market, to enable NZ consumers and suppliers to benefit from a mechanism called competition.

This intervention in market structure will avoid a myriad of complex red tape, and pyrrhic outcomes which don't force a clashing of capital delivering operating efficiencies and what consumers want

OUR SUMMARY SUBMISSION IN ONE SENTENCE

“We will deliver a new like for like supermarket chain, with independent competing open access wholesaler, a NZ controlled and owned facility with world class technology, leveraging franchise and owned stores confronting the benign and clubhouse noise from the current monopolist incumbents;; this Greenfield institutional start-up will mobilise a capital base in excess of \$1bn “

Our submission discusses the following

- 1) Why we are prepared to enter the market after a satisfactory intervention
- 2) What type of international style regulation is relevant and benchmarked in NZ to solve the problem
- 3) The ongoing supervision of the market as a new entrant comes out of the starting blocks
- 4) Why our group operates in stealth
- 5) Expected incumbent reactions to a competition proposal

- **Why we are prepared to enter the market after an intervention**

The profitability of the supermarkets is surrounded by a moat and a wall, monopoly rents have been used to finance barriers to entry. There isn't a business case to finance the J curve costs of decades of ongoing losses, with NZ's weak competition framework

- 1) Pocket pricing
- 2) Bundling
- 3) Rebates

These are all legal in NZ , section 36 of the Commerce Act still despite 20 years of review is still in “never never land “ controlled by incumbent lobbyists

Supermarkets are a mature business, there is no category growth unlike Video streaming , retirement care, digital transformations, etc , simply put a mature business model won't attract competitive pressure unless the moat (barriers) are removed .

The risk the Commission has in not forcing a break up is a halfway house is created in which token gestures of competition occur and consumers don't benefit , it will look like competition but the same dominance exists.

BARRIERS TO ENTRY FOR A LIKE FOR LIKE GREEN FIELD INSTITUTIONAL OPERATOR TO ENTER

- 1) **Is the Government serious about this**, where is their legislation and comprehension? – NZ has the OECD 's world's worst competition environment described in early 2000s in OXFORD press as "widely regarded as a model of failure"
- 2) **Where is the footprint of stores available**, and at what price are they available (its no good having a new entrant pay monopoly prices for access - (Which is what the NZ Govt forced a new competitor to Telecom to pay by the Baumol-Willig rule). In excess of 125 stores are needed to launch nationwide like for like scale , how this are resold , or refranchised , is of critical detail
- 3) **Where is the legislation** about pocket pricing, bundling, abuse of power and section 36
- 4) **Where is access to wholesaling and is there a legislative framework** which can assist the transition to new entrants, while challengers build new distribution centres (similar to the ladder of investment in telecommunications it understand the wholesale bottleneck)
- 5) **Capital** , Northelia' s has budgeted on a NZD \$250 m + stores , (assuming stores are leased)
- 6) **Process, what is the ComCom recommendation ?** ,is it fair to all parties , will it be held up in endless incumbent litigation? There is plenty of international precedent for breaking monopolies internationally but none in NZ , how quick will legalisation be facilitated , -how will opposition parties behave – there is no lobbyist legislation in NZ – how will this impact dirty tactics

Suggested Process

If the Commission & MBIE are serious about a transformation then, which has no global precedent

- 1) **Initial discussions in Commercial in Confidence with the Commission**
 - a. Establish credentials of consultants, capital base, and operating systems and expertise
 - b. Consult to Commission and MBIE on how an entity would commence
 - c. Consult on process, for forced sale of footprint stores (over 200) and construction
 - d. Force demerger discussion from incumbents, effectively demanding new distribution centres, separate ownership of 1/3
 - e. How does ComCom execute this process without damaging NZ 's reputation as an easy place to do business .
 - f. Substantial consultation with Māori Iwi groups to ensure they have an opportunity to own , operate and leverage their consumer power in any proposal

Expected incumbent reactions to a competition proposal & the Commerce Commission report

- 1) Revisit new legal and PR teams
- 2) Commence a new ESG program (*NZ Herald 15 July* , “Countdown spending \$1m on Maori , Pasifika , Women , LGBTQIA & People with Disabilities”)
- 3) Argue effective scalable cross benefits to customers
- 4) Start promoting local brands
- 5) Demonise new entrants & challenger plans
- 6) Look for self-regulatory and pyrrhic competition solutions
- 7) Ensure challengers have no scale as to have pretend competition (many brands high prices only 2 scalable operators)
- 8) Fantasise that new technology is coming and that (FYI , 2005 CEO of telecom , (* if you have scale & Dominance it doesn't matter what new technology comes , you can transfer your dominance to it)
- 9) Send nasty PR stories to distract, diffuse and dismantle challengers. regulators
- 10) Hire the best lawyers in town

Suggested next steps for Commerce Commission

- 1) Recommend that the government force divestment of 200 supermarkets to 2 new groups who will build distribution centres, and ignite a competitive wholesale market, benefiting entire F & B community
- 2) Hire game theory economists, who will work out **Herfindahl–Hirschman** ratios for consumers within a 5km – 10km radius as to what stores should be divested, (like the offer by Countdown to sell Te Awamutu & and Birkenhead stores in 2001 merger proposals)
- 3) Require all operators to commit to XXsqm of local produce floor space within 200kms , to ignite innovation in local produce and for kiwis to be able to test produce, marketing , packaging and export capability of their produce
- 4) Vigorously pursue central govt to end business apartheid and pass changes to section 36 and sect 27 of Commerce Act , to ban rebates , pocket pricing , unreasonable bundling, and abuse of market power
- 5) Commit to opening structured dialogue with “ like for like “ supermarket operators and take counsel on how simple and cheap it is to build distribution centres for scalable wholesale supermarket grocery distribution .

The directors, stakeholders, supporters and advocates of Northelia, thank the Commission for receiving its submission and congratulate the analysts, senior directors , workers , spreadsheet jockeys and support staff at the NZ Commerce Commission for such a comprehensive and professional report

This report is dedicated to the 43, 356 minimum wage workers in the 2 incumbent monopolies who sweat, worry, grunt, stretch, exhaust, smile, laugh, politely answer, and work dam hard to serve the public and navigate lock downs and customer confusion. A special thank you to "Mrs Subramanian" from Countdown Howick who assists my 90 yr. old mum with her groceries and chats with her every week.

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