**Considerations for examining high or unreasonable retail grocery prices in the New Zealand**

There is no doubt NZs market is a small and isolated which naturally results in higher costs of business compared to European, Asian, and American markets.

However, there are other factors causing high retail pricing in New Zealand

**Market consolidation:**

The historic mergers in the sector which lead to the formation of today's duopoly have reduced competition in the sector.

**Retailer supplier rationalisation:**

The duopoly retailers have rationalised their number of suppliers.

This rationalisation decreases competition and hollows out industry.

As a result of this rationalisation there may be a trend of consolidation of suppliers to meet the retailers demands.

With fewer but larger suppliers' prices appear to have gone up and would continue to do so.

Consumer choice has also been reduced and innovation is lost.

**Monopoly suppliers of primary products and ingredients:**

Further to the above point - at the wholesale level there are too few suppliers of primary products and ingredients to secondary suppliers (processing manufacturers) and ultimately consumers.

Locally sourced commodities and inputs can cost multiples more than their globally traded price.

**Retailer Private label:**

As you will know retailer private label is globally a major factor in high prices. NZ retailer private labels include Macro, Signature, Pam's brands etc.

Over the last 20 years we've seen retailers leverage off data from sales of independent suppliers to supersede independent suppliers' products.

Their retail data is used to diminish shelf position and space and squeeze margins of independent suppliers to unsustainable levels. This leads to a hollowing out of local industry.

Private label is a major issue here and overseas - particularly with Amazon in the USA and EU.

Large retailers or retail platforms need to be prohibited from selling their private label brands.

**Fixed margins:**

NZ retail margins are higher and getting higher than overseas retailers.

In all category's New Zealand retailer margins are too high. A mean figure of 20% per annum is common after requiring suppliers to pay instore promotions and forced discounting.

It does not appear to be uncommon for buyers to 'suggest' to suppliers to heavily discount so as to exceed a 20% margin. This may or may not be at the behest of the corporate office and strategy

Incentives in the duopoly appear to be misplaced towards short term profiteering.

Ethics appear to be lacking.

**Regulatory costs (Non-tariff barriers):**

New Zealand has non-tariff trade barriers e.g., biosecurity and labelling regulations

These restrictions and protections increase the cost of otherwise lower cost products and manufacturing inputs.

New Zealand biosecurity laws and the costs to comply with them can be high and a deterrence to competitive trade. These additional compliance costs can equate to multiples of the base cost of the goods which need to be passed to consumers.

Also, the New Zealand and Australian food labelling standards are an outlier in global labelling regulation. These regulations require manufacturers and suppliers to create labelling just for the local market. Because the New Zealand market is comparatively small, the cost to return ratio of such unique regulation is not favourable.

It would be useful to explore the extent to which these non-tariff trade barriers contribute to high prices.

**Land banking:**

It might be useful to think about the duopoly as property investment vehicles rather than supermarket grocery chains (similarly to McDonalds and the franchise fast food landscape). Both Woolworths and Foodstuffs have significant land holdings and land bank to prevent potential competitors acquiring property in desirable locations.

Unique to Foodstuffs is that members of the cooperative also land bank to prevent competitors. Using their significant cashflow, store operators buy up land and buildings around their stores.

**Note**:

Lessons should be learned from German retailer Kaufland's failed attempt to enter the Australian market.

**Suggestions for the scope of the study:**

Examination of the effect of private label on prices

Historic effect of consolidation in the sector on prices

The suitability and effect of a cooperative corporate form and governance on prices.

The downstream effect of government regulation on prices

The scale and diversity of the supplier base on prices