4 February 2021

Turners and Growers Fresh Limited (T&G Fresh)

Market study into the retail grocery sector

Introduction

T&G Fresh appreciates the opportunity to respond to the Commerce Commission's preliminary issues paper on the retail grocery sector, of 10 December 2020.

This submission is divided into two parts:

a) Part 1: Provides background on T&G Fresh and its role as both a grower, marketer and supplier of fresh fruit and vegetables in New Zealand.
b) Part 2: Sets out T&G Fresh's response to relevant questions for which we have feedback on within the preliminary issues paper.

T&G Fresh is happy to provide more detail to the Commission on any of the points raised.

Part 1: Overview of the T&G Fresh business

T&G Fresh is the domestic New Zealand business of T&G Global Limited, which is listed on the New Zealand Stock Exchange.

The business spans the fruit and vegetable supply chain, from partnering with retailers, in-home meal kit partners, foodservice providers and quick service restaurants to provide them with the brands and quality they need, right through to growing its own produce, working with independent growers throughout the country, exporting produce, as well as importing produce which isn't readily grown in New Zealand. The business operates both as a grower, grower aggregator and supplier of fresh fruit and vegetables.

In May 2020, T&G Global acquired Freshmax New Zealand's domestic division and integrated it with T&G Fresh.

T&G Global, through its subsidiaries, grows, markets and sells its own apples, tomatoes, blueberries and citrus crops.

Alongside its own grown produce, T&G Fresh competes with other wholesalers to sell produce on behalf of independent New Zealand growers through its 12 market floors located in Whangarei, Auckland, Hamilton, Tauranga, Gisborne, Hastings, New Plymouth, Palmerston North, Wellington, Nelson, Christchurch and Dunedin. These markets are trading floors (both physical and digital), where growers' produce is sold to the major supermarkets, independent retailers and foodservice customers.

T&G Fresh is recognised as a category supplier of fresh produce to both Countdown New Zealand, and Foodstuffs North Island and Foodstuffs South Island, as well as to meal kit providers.

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Part 2: Response to questions in the preliminary issues paper

Questions on the scope of grocery products to be considered in the study	
Q1	**Do you agree with our preliminary view on the grocery products to be considered in the study, as described in paragraph 29 and Table 1? Why/why not?** Yes. Fresh fruit and vegetables should be considered in the study.
Q2	**Does Table 1 appropriately reflect how products are categorised in the grocery sector?** No. Fresh fruit and vegetables differ entirely from dried, frozen or canned fruit and vegetables and therefore, fresh produce should be a category on its own. Fresh produce is perishable and has a much shorter shelf life than dried, canned or frozen fruit and vegetables.
Q3	**Are some product categories more competitive than others, either in terms of the acquisition of groceries from suppliers, or the supply of groceries to retail customers? If so, please explain.** Yes, some product categories are more competitive than others. The level of competition is determined by numerous factors, including (but not limited to): • Route to market • The number of suppliers in the category • The volume of product sold in the category • The volume of product available to supply (i.e seasonal products, such as strawberries) • The profitability of a product for suppliers/retailers • The shelf life of a product (can it be stored for investment buying, or is it highly perishable) Fresh produce is one of a few categories solely determined by supply and demand. When fresh produce is grown, it must be sold quickly because of its perishability. Unlike other industries, in fresh produce you can't pause production because demand is low or pricing isn't so good. You are at the mercy of mother nature, the market, and prices change daily due to supply and consumer demand.
Q4	**Are there any product categories we should consider in greater detail than others? If so, which ones and why?** No.
Q5	**If we do focus on certain product categories, are the factors set out in paragraph 34 appropriate to guide our focus? Are there any other factors we should also consider?** Yes, the factors in paragraph 34 are appropriate. Due to the nature of fresh produce, price changes occur on a daily basis (with pricing going both up and down). However, due to the nature of the industry and the pricing model being determined by supply versus demand, and the perishable nature of fresh produce over time, we have not seen the significant increase in pricing that you'd expect to see as a result of increased costs of production.

Questions on the importance of grocery products to New Zealanders	
Q6	**Would considering the supply of grocery products to commercial customers assist in our assessment of competition in the retail grocery sector? If so, how?** Yes, commercial customers will have an influence on supply and demand and therefore should be considered as part of the study.

Questions on New Zealand's major grocery retailers	
Q7	**Is our description of New Zealand's major grocery retailers accurate?** There is one addition, with Foodstuffs also owning the Gilmours brand (https://www.foodstuffs.co.nz/our-brands/). Otherwise, the description is accurate.
Q8	**What are the key characteristics of a supermarket, compared to other retail grocery stores?** New Zealand supermarkets operate as a formally organised group of >30 stores, selling a full range of products to satisfy the household needs of their customers. New Zealand's supermarkets hold considerable market share. Other retail grocery stores may operate on a more specialised basis, with limited products. e.g. fruit and vegetable shops, Farro Fresh, etc. In recent years we have also seen the emergence of Asian Supermarkets, such as Tai Ping.

Questions on the role of other grocery retailers	
Q9	**How does our description of other grocery retailers in New Zealand fit with your understanding of the sector?** The description of other grocery retailers is accurate.
Q10	**Are there any other grocery retailers or types of retailers we should have regard to in the study?** Only as set out in response to questions 6 to 8 above and question 12 to 15 below.

Questions on the supply chain in the New Zealand grocery sector	
Q11	**How does our high-level summary of the supply chain in the New Zealand grocery sector (as shown in Figure 3 above) fit with your understanding of the sector?** Figure 3 is accurate.
Q12	**Are there any other key steps or participants in the supply chain which should be included?** The foodservice sector should also be included as participants in the supply chain, as they are another significant route to market for fresh produce, and foodservice customer demand affects major retailer pricing of fresh produce.

Questions on the impact of changes in consumers' shopping habits	
Q13	**In your view, what impact (if any) have online shopping and meal kits had on the New Zealand grocery sector? What impact do you think these trends will have in the future?** The popularity of online shopping and online meals accelerated in 2020. We believe that much of this was due to COVID-19, and it looks as if it will continue to grow. The growth in online shopping has benefitted grocery retailers, with both Countdown and Foodstuffs offering online ordering and/or home delivery. Further growth is also expected to be seen for online meal kit providers.
Q14	**Are there any other developments in how consumers purchase groceries which might impact competition? How should we take these into account in our study?** Increasingly, customers are using online meal kit providers, and we believe the online channel should be considered as part of this study.
Q15	**Do you agree that the study should primarily focus on traditional retail grocery stores?**

	The focus should be on traditional retail grocery stores but include considerations for online.

Questions on the impact of COVID-19 on the New Zealand grocery sector	
Q16	**Are there any changes to the New Zealand grocery sector due to COVID-19 that we should consider in our study? If so, what are these changes and what effect, if any, are they likely to have in the future?** COVID-19 lockdowns had a huge impact on the fresh produce sector, from independents and specialist retailers, to growers and suppliers. With the Government's decision that only supermarkets were able to remain physically open during the lockdowns, we know that many fresh produce growers were forced to dump a large amount of product over this period. Although supermarkets increased the volume of what they sold, this wasn't to the extent of what the market would have normally taken. The specification of produce is also different across smaller retailers and independents, when compared to the major retailers, as visual appearance is not a strong driver, e.g. the purchase of large produce items which are cut up and sold in smaller portions or used in foodservice. There was a significant gap in grades of produce that supermarkets were able to take, which meant a huge amount of fresh produce wastage throughout COVID-19.
Q17	**Has COVID-19 changed the manner or frequency with which consumers shop? If so, do you think that these changes have persisted, or will continue to persist, following the COVID-19 lockdown period? What effect might this have on smaller retailers?** Yes, COVID-19 has impacted shopper behaviour. Sources such as IRI scan data and Nielsen have documented the changes in behaviour. The main change being lower frequency of visits and increase in size/value per shop, driven by consumers wanting to limit the time they spend out in public. The other change has seen consumers shopping locally and closer to their homes. Post COVID-19 lockdowns, independent retailers have lost about 2.5% in market share due to the fact they were unable to operate during the lockdowns, with the assumption that many customers have decided to stay with major retailers, rather than going back to specialist stores or independents.
Q18	**Has COVID-19 had any long-term impacts on other retailers (including specialist retailers) and their suppliers?** Yes, COVID-19 has had widespread impacts on foodservice retailers, specialist grocery retailers, through to cafes and convenience stores, all of which we understand have experienced sales drops.

Questions on our high-level approach to the retail grocery market study	
Q19	**Do you have any comments on our proposed high-level approach to the study as discussed in paragraphs 66 to 70 above?**
Q20	**Would international comparisons of grocery prices and profitability of retailers provide insights into the level of competition in the retail grocery sector? If so, how should we undertake these comparisons? For example, which measures of profitability are relevant in this context?** A comparison of New Zealand grocery prices versus international grocery prices is complex - New Zealand's market is very different to any of those offshore. It would be very difficult to have an accurate comparison due to major differences in the number of retailers in market, geographic considerations for logistics and costs, number and size of suppliers, etc. As a small island nation at the bottom of the world, it is relatively expensive to import product into New Zealand compared to other countries. We also have

	very strict biosecurity pathways to import product, which limits the countries we are able to import produce from.

Questions on national and regional retail competition	
Q21	**How do major grocery retailers set their service offerings (such as price, quality, product range and opening hours)? For example, are prices set centrally, regionally, and/or on a store-by-store basis?** Suppliers submit their proposed wholesale cost price and promotional offers via a promotional programme and have no involvement in setting retail price.
Q22	**How closely do smaller grocery retailers compete with the major grocery retailers? What are the main similarities and differences between them? Does this vary regionally and/or locally? Does it vary by product category?** Smaller retailers compete regularly with Countdown and Foodstuffs. Most smaller retailers will try to compete on value, specialised offerings and range.
Q23	**To what extent do grocery service offerings (such as price, quality, product range and opening hours) differ across the country? What are the causes of differences?** Generally, the grocery service offering is the same across the country for the major retailers, with the main difference being localised suppliers for fresh produce, due to its short shelf life. As Countdown is a national retailer, their products and pricing are generally consistent across the country.
Q24	**What factors do consumers consider most important when deciding which grocery retailers to shop at, and which brands to purchase? How far will consumers travel to purchase groceries? Does this depend on where the consumer lives? Have any changes in consumers' purchasing behaviour affected the distance or time they are prepared to travel or take in order to shop?**
Q25	**Should we compare grocery prices across regions within New Zealand? If so, how should we undertake these comparisons?** We would suggest a comparison in prices by region e.g. Countdown North Island versus Pak n Save North Island versus New World North Island. There are differences between North and South Island prices, which are driven by the two Foodstuffs groups. For fresh produce, the pricing can vary with proximity to supply and distance from source e.g., citrus is predominantly grown in the North Island and therefore, freight costs are higher when moving product to the South Island.
Q26	**Do you have any other views on competition in New Zealand's retail grocery sector which you would like to share?**

Questions on accommodating behaviour	
Q27	**To what extent do you think there is accommodating behaviour between retailers in the New Zealand grocery sector? Please explain.** We don't believe there is accommodating behaviour by the retailers, but as a supplier, we try to manage our promotions so that we don't have clashing promotional activity in competing banners.
Q28	**Which, if any, aspects of grocery retailers' offerings may be subject to accommodating behaviour (for example, location of store openings, prices, promotional schedules)?** As above - there is an expectation from the major retailers that suppliers will manage their promotional plans so that there are no clashes.

Q29	**To what extent do grocery retailers monitor or respond to one another's behaviour? Which specific factors are monitored and how often are comparisons made?** All retailers track and monitor price and have clear expectations around competitiveness and retail margins.

Questions on conditions of entry and expansion	
Q30	**What factors affect entry and expansion in the New Zealand retail grocery sector? How significant are these factors in affecting entry and expansion from retailers?**
Q31	**To what extent does the size and geography of New Zealand affect the possibility of entry and expansion?**
Q32	**Are there recent examples of actual or potential entry or expansion in the sector that we should be aware of? What are these?** Asian Supermarkets, such as Jadan and Tai Ping – mainly in the Auckland region. Also, the upcoming entry of Costco into Auckland in 2022.

Questions on competition at the wholesale level	
Q33	**Are there existing wholesalers who are willing and able to supply new entrants to the retail market? Which product categories do these wholesalers supply?** Yes, mainly the fresh produce wholesalers, many of whom already have their own distribution networks in operation.
Q34	**Are there any barriers to entry and expansion at the wholesale level of the New Zealand grocery sector we should be aware of? If so, how significant are they?**
Q35	**Do you have any other views on competition at the wholesale level of the New Zealand grocery sector which you would like to share?**

Questions on competition at the supplier level	
Q36	**Are there any factors affecting competition at the supplier level we should be aware of and consider during our study?** There are relevant points in 109/109.1/109.2 that may apply to the New Zealand market.
Q37	**What impact, if any, do private label products have on competition at the supplier level?** In the fresh produce category, we are seeing private label lessen brand awareness and innovation, and we're observing an increased focus by major retailers to drive their private label strategies and expand their range.

Q38	**Do you have any other views on competition at the supplier level of the New Zealand grocery sector which you would like to share?**

Questions on the grocery procurement practices of the major grocery retailers	
Q39	**What are your views on the relative bargaining power of retailers and suppliers in the New Zealand grocery sector? How, if at all, does the relative bargaining power differ based on the specific retailers and suppliers involved?** The balance of power is in favour of the major retailers. Large suppliers tend to be slightly better off than smaller suppliers due to size/volume of their brands, but the balance is still in favour of major retailers.
Q40	**Is the relative bargaining power between retailers and suppliers impacting competition in the New Zealand grocery sector? If so, how?** As above. The balance of power sits with the major retailers however there is a different approach between the two retailers, with different levels of collaboration with suppliers.
Q41	**Is there any specific behaviour or conduct between retailers and suppliers we should consider in our study?** It would be appropriate to consider the contracting processes adopted by the retailers.

Questions on factors which may affect consumers' ability to make well-informed decisions	
Q42	**How relevant do you consider consumers' access to information is to our study?** Low relevance. Consumers can access pricing online, and in store the price per gram is clearly labelled.
Q43	**How do consumers compare offerings across grocery retailers? Where do consumers access the information they need to make these comparisons (for example, advertising by grocery retailers, price comparison websites)?**
Q44	**How easy is it for consumers to compare product offerings once in store? What factors influence this?**

Questions on retailers' pricing practices	
Q45	**What strategies do New Zealand grocery retailers use when setting prices for their products, including promotional prices? What are the benefits and potential harms to consumers of these strategies?** With fresh produce being a highly perishable product, we need to match supply with demand, meaning a huge amount of price elasticity across days/weeks. i.e. weather drives different consumer demand and purchasing. We set our suggested RRP to retailers based on our understanding of supply and demand at any point in time. Retailers then decide what that means from their perspective. When the market falls, it falls because supply is outweighing demand. Often, T&G will drop its prices to create demand, in order to move volume.

Q46	**Why is the percentage of grocery products sold on promotion high in New Zealand relative to other countries? Does this benefit or harm New Zealand consumers?**
Q47	**How are pricing promotions funded? Do these typically result in lower margins to retailers or suppliers?** Suppliers provide a discounted price and retailers tend to reduce their margin for promotional activity.

Questions on loyalty programmes	
Q48	**How important are loyalty programmes in New Zealand's retail grocery sector? What impact, if any, are grocery retailers' loyalty programmes having on the sector?**
Q49	**To what extent do consumers base their purchasing decisions on the benefits associated with loyalty programmes? Do consumers typically participate in more than one loyalty programme?**
Q50	**Are there any other specific features of loyalty programmes offered by grocery retailers we should consider in our study?**

Questions on other issues	
Q51	**Are there any other issues not raised in this paper that could impact competition in New Zealand's retail grocery sector?** No