

Project Lead (Grocery Market Study) Commerce Commission
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**TIM MORRIS OF CORIOLIS LIMITED SUBMISSION ON THE COMMERCE COMMISSION
MARKET STUDY INTO THE RETAIL GROCERY SECTOR**

Dear Sir/Madam,

BACKGROUND

1. I hold a Bachelor in Agricultural Economics with a specialisation in Food Industry Management from Cornell University in New York. At Cornell University, I was selected for The Food Marketing Fellows honours program.
2. I have been working in the food industry for over 35 years, with roles in retailing, foodservice and consumer packaged goods (CPG) and have more than 20 years' experience in strategic consulting. Over this time, I have worked in a wide range of roles and on a wide range of projects in the food and beverage value chain.
3. I am a Managing Director and founding partner of Coriolis Australia and Coriolis New Zealand (Coriolis), which was founded in 1999. Coriolis is the leading Australasian management consulting and market research firm in providing services to participants across the total food and beverage value chain. In this role, I consult to retailers, manufacturers, agribusiness, private equity and government on retailing and the food/CPG industry in Australia, New Zealand, South East Asia, and globally. In addition to working with clients, in my role with Coriolis, I regularly produces reports on current industry topics.
4. I am an internationally recognised expert in the changing structure of global supermarket and mass merchandise retailing. My work has been cited in the media, in numerous publications business school case studies and in university textbooks.
5. I have coordinated and led many projects at Coriolis, including new market analysis, new market entry strategies, a ten year plus project profiling the New Zealand Food & Beverage Industry for MBIE, NZTE and MPI, and analysis of the New Zealand food service sector. I have worked with numerous retailers to assist them in developing business plans for the expansion into new markets, including Progressive Enterprises (NZ), Briscoe Group, Starbucks Australia, FAL Australia and Pizza Hut. I was an advisor to two alternative bidders for Progressive Enterprises (one a major global retailer), prior to that business being acquired by Woolworths Australia.
6. I was the lead researcher on many reports published by Coriolis on retail globalization, Wal-Mart, Costco, Aldi, Safeway, Woolworths Australia, Whole Foods, Trader Joes and many others.
7. I have undertaken extensive, in-depth analysis of the market impact of new entrants into the Australian and New Zealand market on existing players. Coriolis' reports on the Australian

entry of both Aldi and Costco are widely regarded as the definitive work on these retailers in Australasia.

8. Some examples of my published work relevant to this study include:
9. 2000, The impact of Aldi on the Australian market
https://coriolisresearch.com/pdfs/coriolis_aldi_in_australia.pdf
10. 2000, eGROCERY: EVOLUTION, REVOLUTION OR HALLUCINATION?
https://coriolisresearch.com/pdfs/coriolis_eGrocery_hallucination.pdf
11. 2001, Retail Supermarket Globalisation: Who's Winning?
https://coriolisresearch.com/pdfs/coriolis_retail_supermarket_globalization.pdf
12. 2002, Towards Private Label Success
https://coriolisresearch.com/pdfs/coriolis_towards_private_label_success.pdf
13. 2004, Tesco: A Case Study in Supermarket Excellence
https://coriolisresearch.com/pdfs/coriolis_tesco_study_in_excellence.pdf
14. 2004, Costco in Australasia: Are they going to stock-up?
https://coriolisresearch.com/pdfs/coriolis_Costco_in_Australia.pdf
15. 2004, Understanding Costco
https://coriolisresearch.com/pdfs/coriolis_understanding_Costco.pdf
16. 2005, An Overview of Woolworths Australia
https://coriolisresearch.com/pdfs/coriolis_overview_woolworths_australia_200502.pdf
17. 2005, Understanding Loblaws
https://coriolisresearch.com/pdfs/coriolis_understanding_loblaws.pdf
18. 2005, Understanding Trader Joe's
https://coriolisresearch.com/pdfs/coriolis_understanding_trader_joes_final.pdf
19. 2008, Australasian supermarket industry: Backwater, Behemoth, or Beachhead
https://coriolisresearch.com/pdfs/cr_-_backwater_behemoth_or_beachhead.pdf
20. Prior to launching Coriolis, from 1997 to 1999 I worked as a consultant at Swander Pace (a food industry consulting firm in the United States), where I provided strategic insight and advice to Fortune 500 food companies and developed growth and acquisition strategy for major U.S. food manufacturers.
21. I have also worked for a number of international retailers and manufacturers, including Nestlé, Dreyer's Ice Cream, Kraft/General Foods (US), Safeway (US) and Woolworths New Zealand.
22. I was an expert witness for the New Zealand Commerce Commission in 2007 in relation to the proposed acquisition of The Warehouse (NZ) by Woolworths NZ/Progressive Enterprises.
https://coriolisresearch.com/pdfs/coriolis_hypermarket_lessons_FINAL.pdf
23. I was also an expert witness for Progressive Enterprises in 2001/2002 in relation to their proposed acquisition of Woolworths NZ (from Dairy Farm).

24. I was recently an expert witness in the In the matter of Norman Leslie Wills And Jane Anne Danaher (As Trustees For The Minty Tin Superannuation Fund) V Woolworths Group Ltd (Formerly Woolworths Ltd).
25. I have been an expert witness in a range of other cases and insurance claims.
26. I am regularly invited to be a keynote speaker (including, for example, on the topics of supermarket retailing and fast moving consumer goods (FMCG) industry benchmarking) and have been invited to be on the board of directors of two Australasian retailers, both of which I declined.
27. On two occasions I have worked on business plans and fund raising to launch a start-up food retailer in New Zealand modelled on a non-traditional/alternative format. Neither project proceeded due to the inability to get supply at competitive prices.
28. As an interesting footnote, I am also the oldest Pak’N Save employee in New Zealand as I worked for the original Pak N’Save in California before it was photocopied by Foodstuffs.
29. To date I have been avoiding getting involved with this Market Study into the Retail Grocery Sector for two reasons: (1) first, I have been incredibly busy at work and (2) second, consultants, like lawyers, accountants and prostitutes, try and avoid giving away paid services for free.
30. I would suggest that your analysis of the problem is generally good. Sure, I could pull it apart in places, but you have the right issues identified. Where you are coming apart is in your proposed solutions. Samuel Langhorne Clemens, known by his pen name of “Mark Twain” (a riverboat term), commented that anyone who has been a riverboat captain can tell when an author - writing about riverboats - has not. As it stands, your proposed solutions to the current duopoly situation stand out to this experienced retailer as severely lacking in understanding of some of the basics of modern food retailing.
31. In addition, a review of the transcripts of your sessions highlights a complete lack of voices in the room from any of the short list of firms that could - under the right circumstances - actually change the situation, such as Coles, Costco, Aldi, Tesco, Wal-Mart, Kaufland, Ahold, DFA and others. It also lacked voices from the existing firms with a track record in competing in New Zealand food retail beyond Night’N Day, such as any Asian supermarket, Farro, Huckleberry, and others. The lack of Asian voices in particular was concerning. In addition, it also lacked any voices from the long list of failed food retailing entrants, including Nosh, Cost-U-Less, and the Warehouse Extra.
32. Track down the former manager of the first New Zealand Cost-U-Less in Rotorua if you want the lowdown on how specifically existing supermarkets can target a new entrant.
33. I therefore feel moved to contribute to a narrow range of the discussion where I believe more insights and facts from markets beyond New Zealand’s shores are required.

BLURRED LANGUAGE / LACK OF DEFINITIONS

34. More accuracy is needed in the definition and description of food retail formats.
35. I’m told that when Māori arrived in New Zealand, being a tropical people they had not seen snow. Thus the visible snow in the mountains was described as clouds (thus land of the long white cloud). Conversely, the Inuit people of the Canadian arctic are reported to have dozens of words for snow.

36. New Zealand currently has a very narrow food retailing “ecology” and as a result, discussion to date is using imprecise, undefined words. In other words, if all you have seen is a traditional supermarket, everything looks like a traditional supermarket. In contrast, the United States market has a vibrant and full food retail ecology. As a result, the industry there uses clear store format definitions. The generally accepted store definitions in the United States (and Canada) are those that have been given by Willard Bishop (now Inmar) in various updated forms since 1983.
37. I attach these as EXHIBIT 1 and EXHIBIT 2.
38. In addition, I attach as EXHIBIT 3 these definition applied to the current New Zealand situation. I would suggest that applying these to your discussion would clarify the situation. In particular, it will clarify discussion around planned and potential new entrants.
39. I would now like to make three strong claims. These are based on past work, past research, past reading and a lifetime spent in the food industry across multiple countries. I could easily support all three claims with hundreds of pages of examples, case studies and statistical analysis for each. A quick review of the reports listed above under points 9-19 and 22, particularly our “Retail Globalisation” [point 11] and “Hypermarket Lessons” [point 22] demonstrate my global industry knowledge.

CLAIM 01 – PROPOSED WHOLESALE SOLUTION HAS FAILED ELSEWHERE

40. “Independent Wholesalers” have gone extinct in developed markets
41. If I define a peer group for New Zealand, similar to what we did in our last report for you (“Hypermarket lessons for New Zealand: A report to the Commerce Commission of New Zealand” (Sept 2007) available at https://coriolisresearch.com/pdfs/coriolis_hypermarket_lessons_FINAL.pdf] of similar developed, Western markets, so the various regions of the United States, Canada, Australia, the United Kingdom, Ireland, Norway, Sweden, Finland, Denmark, Germany, Poland, Czech, France, the Netherlands, Belgium, Switzerland, Spain, Portugal, Italy, Greece and Japan.
42. At the same time, I define an “independent wholesaler” as a separately owned, non-aligned, standalone “broadline” wholesaler of a full range of everyday groceries at competitive prices enabling any and all independent stores to compete with chain store operators in their region.
43. Screening the above defined peer group for “independent wholesalers” (as defined) shows none exist other than Metcash (which is both slowly dying and rapidly shifting its business model).
44. I’ll repeat that, there are no “independent wholesalers” (as defined) left. You need to face facts. Dinosaurs are gone. Moa are gone. “Independent wholesalers” (as defined) are gone.
45. You are currently proposing, as a solution for New Zealand, a concept that has failed everywhere. On reading your draft report, I immediately mentally replaced the phrase “independent wholesaler” with “magical unicorn fairy.” They don’t exist. No “magical unicorn fairy” is going to come save the day. If one did, it would fail.
46. Across the developed world, there are two remaining forms of wholesalers to mainstream, everyday independent supermarkets: (1) co-operative and (2) captives.

EXHIBIT 01: FOOD RETAIL STORE TYPE DEFINITIONS

SECTOR	STORE TYPE	DEFINITION
Traditional Grocery	Traditional Supermarkets	Stores offering a full line of groceries, meat, and produce with at least \$2 million in annual sales and up to 15% of their sales in GM/HBC. These stores typically carry anywhere from 15,000 to 60,000 SKUs (depending on the size of the store), and may offer a service deli, a service bakery, and/or a pharmacy.
	Fresh Format (aka. Fresh Box)	Different from traditional supermarkets and traditional natural food stores, fresh stores emphasize perishables and offer center-store assortments that differ from those of traditional retailers—especially in the areas of ethnic, natural, and organic, e.g., Byerly's, Lowes Foods, Lunds, Mariano's, The Fresh Market, and Whole Foods.
	Limited-Assortment Store	A low-priced grocery store that offers a limited assortment of center-store and perishable items (fewer than 2,000), e.g., Aldi, Trader Joe's, and Save-A-Lot.
	Super Warehouse	A high-volume hybrid of a large Traditional Supermarket and a Warehouse store. Super Warehouse stores typically offer a full range of service departments, perishables, and reduced prices, e.g., Cub Foods, Food 4 Less, and Smart & Final.
	Other (Small Grocery)	A small "corner grocery store" that carries a limited selection of staples and other convenience goods. These stores generate less than \$2 million in business annually.
Non-Traditional Grocery	Wholesale Club	A membership retail/wholesale hybrid with a varied selection and limited variety of products presented in a warehouse-type environment. These ~120,000 square-foot stores have 60% to 70% GM/HBC and a grocery line dedicated to large sizes and bulk sales. Memberships include both business accounts and consumer groups, e.g., Sam's Club, Costco, and BJ's.
	Supercenter	A hybrid of a large Traditional Supermarket and a Mass Merchandiser. Supercenters offer a wide variety of food, as well as non-food merchandise. These stores average more than 170,000 square feet and typically devote as much as 40% of the space to grocery items, e.g., Walmart Supercenter, SuperTarget, Meijer, and Kroger Marketplace stores.
	Dollar	A small store format that traditionally sold staples and knickknacks, but now sells food and consumable items at aggressive price points that account for at least 20%, and up to 66%, of their volume, e.g., Dollar General, Dollar Tree, and Family Dollar.
	Drug	A prescription-based drug store that generates 20% or more of its total sales from consumables, general merchandise, and seasonal items. This channel includes major chain drug stores such as Walgreens and CVS, but does not include stores/chains, e.g., The Medicine Shoppe that sell prescriptions almost exclusively.
	Mass (aka. Discount Department Store)	A large store selling primarily hardlines, clothing, electronics, and sporting goods, but also carries grocery and non-edible grocery items. This channel includes traditional Walmart, Kmart, and Target stores, etc.
	eCommerce (Food & Consumables)	Food and consumable products ordered using the internet via any device, regardless of the method of payment or fulfillment. This channel includes Amazon and Peapod as well as the eCommerce business generated by traditional brick-and-mortar retailers, e.g., Coborns (Coborns Delivers), Kroger (Clicklist), Safeway (Shop.Safeway.com), ShopRite (ShopRite from Home and ShopRite Delivers), Walmart (Walmart Grocery). The other non-traditional retail segments above include their eCommerce business.
Convenience Stores	Convenience stores	A small, higher-margin store that offers an edited selection of staple groceries, non-foods, and other convenience food items, e.g., ready-to-heat and ready-to-eat foods. The Convenience Store with Gas format includes only Convenience Stores that sell gasoline, e.g., ExxonMobil (On the Run), AM/PM, etc.
	Convenience stores with gas	Small, higher-margin Convenience Stores that don't sell gas and offer an edited selection of staple groceries, non-foods, and other convenience food items, e.g., ready-to-heat and ready-to-eat foods. Stores such as 7-Eleven without gasoline pumps are included.

Source: Inmar Willard Bishop Analytics "Future of Food Retailing 2017" available at <https://allenaustin.com/wp-content/uploads/2020/07/TP-The-Future-of-Food-Retailing-2017-Final.pdf> (there is a 2021 edition, but this is not available online)

EXHIBIT 02: PERFORMANCE METRICS OF FOOD RETAIL STORE TYPES

SECTOR	STORE TYPE	# of stores in US market	Average sales/store per year	Total sector annual sales in US market	% dollar share of US market****	Average stock keeping units (SKU) per store**	Average area per store**	Grocery/consumables % of sales
Traditional Grocery	Traditional Supermarkets	25,380	\$17	\$440,136	36.2%	45,500	52,100 sqft 4,840 sqm	100%
	Fresh Format (aka. Fresh Box)	1,547	\$18	\$27,882	2.3%	30,000	36,000 sqft 3,345 sqm	100%
	Limited-Assortment Store	4,093	\$9	\$37,273	3.1%	1,400	15,000 sqft 1,394 sqm	100%
	Super Warehouse	730	\$32	\$23,617	1.9%	41,000	60,700 sqft 5,639 sqm	100%
	Other (Small Grocery)	8,748	\$2	\$13,818	1.1%	3,000	9,000 sqft 836 sqm	100%
Non-Traditional Grocery	Wholesale Club	1,472	\$74	\$109,183	9.0%	5,100	131,000 sqft 12,170 sqm	59%
	Supercenter	4,106	\$56	\$228,331	18.8%	125,000	184,000 sqft 17,094 sqm	60%
	Dollar	30,496	\$1	\$33,757	2.8%	4,900	7,400 sqft 687 sqm	66%
	Drug	23,607	\$3	\$61,998	5.1%	20,000	11,700 sqft 1,087 sqm	34%
	Mass (aka. Discount Department Store)	2,775	\$15	\$42,627	3.5%	95,000	115,600 sqft 10,740 sqm	23%
	Military***	178	\$24	\$4,332	0.4%	15,000	29,400 sqft 2,731 sqm	100%
Convenience Stores	Convenience stores	130,755	\$1	\$165,906	13.6%	4,200	2,400 sqft 223 sqm	81%
	Convenience stores with gas	30,297	\$1	\$28,140	2.3%	5,100	3,400 sqft 316 sqm	81%*

* Excludes petrol; ** Uses 2006 data (last available); *** excluded from definitions page prior due to low relevance to NZ; **** excluding non-store eCommerce; Source: Inmar Willard Bishop Analytics "Future of Food Retailing 2017" available at <https://allenaustin.com/wp-content/uploads/2020/07/TP-The-Future-of-Food-Retailing-2017-Final.pdf> (there is a 2021 edition, but this is not available online); Willard Bishop "The Future of Food Retailing June 2007; Coriolis analysis

EXHIBIT 03: NZ PRESENCE OF FOOD RETAIL STORE TYPES

SECTOR	STORE TYPE	IN NEW ZEALAND?	CURRENT EXAMPLES	HISTORICAL	ROUGH "BACK-OF-THE ENVELOPE % dollar share grocery/consumables in NZ	% dollar share grocery/consumables in US market*
Traditional Grocery	Traditional Supermarkets	YES	Countdown, New World, Asian Supermarkets (some)	Foodtown, 3 Guys (later), numerous others	60-65%	36.2%
	Fresh Format (aka. Fresh Box)	NOT REALLY	Farro (partially/somewhat)	Nosh	Under 1%	2.3%
	Limited-Assortment Store	NO (WAS HISTORICALLY)	-	3 Guys (initially)	-	3.1%
	Super Warehouse	YES	Pak'N Save	-	25-30%	1.9%
	Other (Small Grocery)	YES	Four Square (some), Night 'n Day (some), others	Numerous others	Under 5%	1.1%
Non-Traditional Grocery	Wholesale Club	FAILED IN PAST; NEW ENTRANT BUILDING	Costco (building 1 site)	Cost-U-Less	-	9.0%
	Supercenter	FAILED	-	Warehouse Extra	-	18.8%
	Dollar	NOT OFFERING SIG. FOOD	The \$2 Shop	-	-	2.8%
	Drug	NOT OFFERING SIG. FOOD	Chemist Warehouse	-	-	5.1%
	Mass (aka. Discount Department Store)	YES	The Warehouse	-	2-3%	3.5%
	Non-store/non-chain eCommerce (Food & Consumables)	YES	Supie	-	0.1%	N/A**
Convenience Stores	Convenience stores	YES	Four Square (some), Night 'n Day (some), others		4-6%	13.6%
	Convenience stores with gas	YES	BP, Mobil, Caltex, Z, others			2.3%

** Most successful offers are associated with an existing chain; see Coriolis "eGrocery: Revolution, Evolution or Hallucination" for discussion of issues and clear strength of incumbents in sector; ; Source: Inmar Willard Bishop Analytics "Future of Food Retailing 2017" available at <https://allenaustin.com/wp-content/uploads/2020/07/TP-The-Future-of-Food-Retailing-2017-Final.pdf> (there is a 2021 edition, but this is not available online); Statistics NZ retail trade survey; past Coriolis work; Coriolis estimates and analysis

47. First, effectively all remaining “independent” wholesalers to independent conventional supermarkets” are in fact co-operatives owned by the store owners they supply (I.e. like Foodstuffs).
48. Alternatively, in some markets (e.g. parts of Canada, the current situation of SuperValu/Fresh Choice under Woolworths/Countdown) you can find corporate chain supermarkets that also - as a side activity - continue to wholesale to a captive group of “banner group” owner/operator stores that are nominally independent, This typically occurs as a result of a historic acquisition or merger. This form of wholesale functions of a dominant supermarket selling to weak, captive independently owned and operated stores is declining globally as this structure suffers from all the issues SuperValu/Fresh Choice owners face such as low profitability (in New Zealand, SuperValu and Fresh Choice stores have significantly lower profitability than Foodstuffs owners), only occurring on poor sites not wanted by the parent, etc).
49. There is no other. There is no third option. I suggest you move away from this “magical unicorn fairy” concept of a standalone, independent wholesaler.
50. The global experience says that any nominally independent wholesaler will only succeed if it is - in practice - owned by the stores it supplies (i.e. like Foodstuffs).

CLAIM 02 – ORGANIC ENTRY INTO TRADITIONAL SUPERMARKETS IS IMPOSSIBLE

51. New “traditional supermarket” market entrants cannot organically enter developed supermarket markets.
52. It is generally agreed that the traditional supermarket emerged on August 4, 1930, when Michael J. Cullen opened the first King Cullen store. The spread of the automobile and growth of female participation in the workforce enabled the emergence of a new format that required the (predominantly at the time) female head of household to travel by car past a number of existing grocery stores to this new store and buy in bulk at significantly lower prices. The concept rapidly spread and by the 1960’s, supermarkets were the dominant food retailing format across North America. In retail theory, this has been described as the “supermarket transition”. The transition from lots of small grocery stores to fewer, larger supermarkets. Other countries have followed the United States markets in making the supermarket transition, China for example in the last 20 years. However, there exist significant parts of the world that have yet to make this transition, for example Iran or India. By illustration, until about 2017, New Zealand (with 5m people) had more supermarkets than India (with 1,353m people).
53. Returning to our peer group, history shows us that organic entry into a new market is/was only possible during the supermarket transition period (typically ~20 years). However, once this supermarket transition was completed, no successful organic (i.e. excluding acquisition of existing stores) new entrant has succeeded in entering into existing markets with standard traditional supermarkets (as defined in EXHIBIT 1-2).
54. Everywhere, the barriers to entry that existing supermarkets can put up are insurmountable for a new traditional supermarket entrant.
55. Following the “supermarket transition”, firms can enter new markets, but “new” supermarket entrants do so by acquiring an existing position by acquiring an existing retailer.
56. I’ll repeat that, organic entry by a new entrant with traditional supermarkets into an existing market already stocked with traditional supermarkets is impossible once the supermarket transition is complete. This is well known and discussed regularly, particularly by share analysts covering traditional supermarket food retailing in North America, Canada and Europe.

See for example, the CIBC analyst report “The Importance of Local Market Share” November 29, 2004 by the legendary Perry Caicco or any lengthy, in-depth analysis on Albertsons, Kroger or Safeway (historically).

57. The only “edge case” exception to this would be regional traditional supermarket chains expanding into a close, geographically connected region that can be serviced from an existing warehouse (e.g. Eastern Missouri into Western Kentucky). However, these sorts of creeping expansions typically fail when the targeted expansion market is large and full of strong competitors (c.f. for example Safeway into Ontario) and not relevant here (cf. Tasman Sea).
58. Applied to New Zealand, this suggests that no new competitor to Countdown or New World will be able to emerge organically (i.e. starting from scratch) in traditional supermarkets. This conclusion is true with or without any this “magical unicorn fairy” “independent wholesaler” discussed above. This conclusion applies to both start-ups and freshly arriving global firms.

CLAIM 03 – ORGANIC ENTRY INTO NEW MARKETS REQUIRES ALTERNATIVE FORMATS

59. New entrants can only succeed with new formats.
60. All - every single - successful new entrant into a mature existing “post supermarket transition” market has done so with a non-standard store format (aka. alternative format). In other words, if you want to enter a market that has already undergone the “supermarket transition” (i.e. a market full of traditional supermarkets), you will only succeed with one of the other formats listed in Exhibit 01.
61. That the only two new entrants that have succeeded in building a material position in New Zealand supermarket retailing in the last fifty years were non-traditional supermarkets appears to demonstrate this global industry truism locally: Three Guys (as a true new entrant from the UK with a limited-assortment store¹ and Pak’N Save (as a new warehouse/super warehouse format launched by Foodstuffs).
62. In addition, all failed attempts at building a material position in New Zealand supermarket retailing in the last thirty years were not traditional supermarkets: the Warehouse with Warehouse Extra [a supercentre], Cost-U-Less [a wholesale club], and Nosh [effectively a small “fresh box” format].
63. In addition, all realistic planned or discussed attempts at building a material position in New Zealand supermarket retailing by experienced global firms (who understand the above) are not traditional supermarkets: Costco [a wholesale club] and Aldi [a limited-assortment store].
64. The recent “billion dollar” failure of Kaufland (a major global retailer based in Germany) to organically enter the “duopoly/oligopoly” Australian supermarket industry with what was effectively a traditional supermarket format illustrates the above. I would suggest the Commission study the case study of this massive failure of a highly resourced and experienced global retailer at organically penetrating a duopoly/oligopoly situation as this has strong lessons for your imagined solutions.
65. <https://www.news.com.au/finance/business/retail/why-german-supermarket-pulled-the-pin-on-australia-after-investing-millions/news-story/503516e793d33befd3284c56d1e81f1a>
66. <https://www.smartcompany.com.au/industries/retail/kaufland-schwarz-group-australia/>

¹ initially - though once Foodtown acquired 3 Guys, they exited the limited-assortment position, turned it into a small traditional supermarket and slowly killed it

67. <https://www.smh.com.au/business/companies/deteriorating-market-why-kaufland-pulled-the-plug-on-its-australian-dream-20200123-p53u4w.html>

68. <https://www.afr.com/companies/retail/kaufland-pulls-plug-on-australia-without-firing-a-shot-20200122-p53tqa>

BRINGING THE ABOVE TOGETHER

69. Bringing the above conclusions together has significant implications for the current New Zealand situation and any possible remedy the Commission might propose.

70. The available New Zealand and global peer group evidence strongly suggests that any organic entry into conventional supermarkets will fail.

71. The available New Zealand and global peer group evidence strongly suggests that any "independent wholesaler" will fail if it is not owned by the stores it supplies.

72. Therefore, **IF** you want competition in traditional supermarkets in any meaningful timeframe, you will need to force separation (at Foodstuffs) or divestment (at WW/Countdown).

73. Returning to the above discussion of having a good analysis of the problem, but weak solutions so far, I would suggest the Commission back away from proposing detailed solutions. Forget telling the industry what to do and instead focus on a desired outcome that is clearly articulated and measurable. A SMART outcome (Specific, Measurable Actionable, Realistic and Timebound).

74. Imagine as a counter factual to your existing "independent wholesaler" concept, you instead clearly articulate a specific desired outcome. As a strawman I propose:

"By January 1, 2024, any food retailer with more than 27% market share in any region of New Zealand (e.g. Canterbury) shall be forced to divest stores until they reach 27%."

75. 27% is a strawman chosen by reference to European country and North American regional peers.

76. How would this likely play out?

FOODSTUFFS

77. Foodstuffs has a simple, logical solution which is to merge its North and South Island operations, then split itself into two separate co-operatives, being New World NZ Co-Op (with ca. 20-25% market share depending on definition) and Pak'N Save NZ Co-Op (with ca. 25-30%). Based on my understanding of regional market share, this would probably require (1) a small number of stores to swap banners and (2) potentially require actual spinoff from either group a handful of stores in a few highly concentrated regions (e.g. Wellington where Foodstuffs historically has upwards of 70% regional share).

78. While Foodstuffs will complain that this is impossible, my experience suggests this could be completed in under two years. The early history of Pak'N Save shows that the stores could buy much/most of their inventory directly, minimising the need for warehousing. Hence the pallet quantities still stacked to the roof above the shelves in Pak'N Save stores. I would go as far as suggesting that secretly many of the Pak'N Save owner operators would quietly like this option as they could regain their flexibility and freedom from bureaucratic Foodstuffs group controls.

79. Based on my understanding of the Super Warehouse format, I would suggest that the newly freed Pak'N Save would (1) reduce prices further, (2) reduce range and (3) likely require a limited investment in some form of cross-docking warehouse.
80. This solution would appear to directly address all concerns about individual Foodstuffs store owners having their stores taken from them or appropriated by government fiat. The stores would still exist, the two co-ops would still exist, just now they would be different non-regional co-ops, now in competition nationally with each other.
81. I would also point out that if the market is as competitive as Foodstuffs and Woolworths claim, economic theory suggests this reorganisation should not impact their competitiveness.

WOOLWORTHS

82. This target (27%) would present Woolworths with much more of a challenge. As an Australian owned chain store operator, they would clearly need to divest stores across New Zealand. Woolworths market share is currently ca 45% of Nielsen/IRI scan, so something like 40% of total market (depending on definition). Moving to 27% would require Woolworths to divest ca 18% of their sales. Interesting this is close to Tex's estimates of minimum scale as well.
83. Investment Bankers like Goldman Sachs would be lining up to assist Woolworths with this transaction. There would be global interest in buying the assets and the short list would include Coles Australia (who owned Foodtown and 3 Guys historically), Tesco (UK who were an alternative bidder for Progressive when that was acquired by Woolworths Australia), Sobey's (Canada), Loblaw (Canada), Kroger (USA), Dairy Farm Asia (who owned Woolworths NZ historically), Ahold (Netherlands), The Warehouse (NZ) and a wide range of private equity funds, many of whom have extensive experience with buying supermarkets (e.g. KKR).
84. As a result of a competitive sale process, Woolworths would receive a fair market value for their business. If I was a betting man, I would wager on Coles Australia (AU #2) buying the business - as they would have the highest synergies - and thus re-entering the New Zealand market.

RESULT

85. At the end of this process, New Zealand would by January 1, 2024 have a competitive food retailing sector made up of four separate supermarket groups - New World NZ Co-Op, Pak'N Save NZ Co-Op, Woolworths/Progressive and the winning bidder new competitor "NewCo" - all of similar size. I highlight this last point, as my experience prior to the Progressive/Countdown and DFA/Woolworths NZ merger was that management at these two smaller groups strongly felt they were disadvantaged against the much larger Foodstuffs group. Four players all of similar size is much easier for the participants to accept.
86. This four player model also emerges as a long term stable solution across many peer group countries of similar size, for example Switzerland, Norway, Finland, Denver MSA, Orlando MSA, the Netherlands, Quebec, Ontario and elsewhere.

SOLUTION WON'T SOLVE THE REAL PROBLEM

87. However, if the New Zealand Government goes through with the above and makes the effort to force competition into the sector, I believe you will have solved "a problem", but not "the problem."

88. "The problem" that New Zealand consumer face is that New Zealand grocery prices are too high. Anyone who has lived in or travelled to other parts of the world has experienced the absolute sticker shock at seeing dramatically lower prices elsewhere.
89. In EXHIBIT 04, I have picked two global products - Tabasco Sauce and chicken breast - for a non-rigorous, but highly illustrative example of the dramatically lower prices that consumers pay elsewhere. Tabasco Sauce - at \$4.99 in New Zealand - is more than twice as much as in Texas and boneless, skinless chicken breast - at \$13.00/kg in New Zealand - is three times as much as in Texas.
90. As this analysis shows, "All Other Causes" dramatically exceed the excessive margins that the two main supermarket groups extract from their duopoly position. This is "the elephant in the room" that accounts for ca. 90%+ of New Zealand's higher prices.
91. In EXHIBIT 05 I show the same price comparison without the duopoly premium. New Zealand prices are still high.
92. Yes, New Zealand supermarket retailers are something like +50% more profitable than they should be. But due to the marginal nature of supermarket retailing, this is only pennies on the dollar, as Foodstuffs highlights.
93. In EXHIBIT 06 I show, from a previous piece of work, my estimated drivers for higher New Zealand food prices.
94. In an ideal world, the Commerce Commission (or the Productivity Commission) would have researched "why New Zealand food prices are higher?" which is the real issue facing consumers in this country.
95. From past work and experience, I believe there is a path to reducing New Zealand food prices by -15% to -20%. Supermarket competition is a small part of this puzzle.

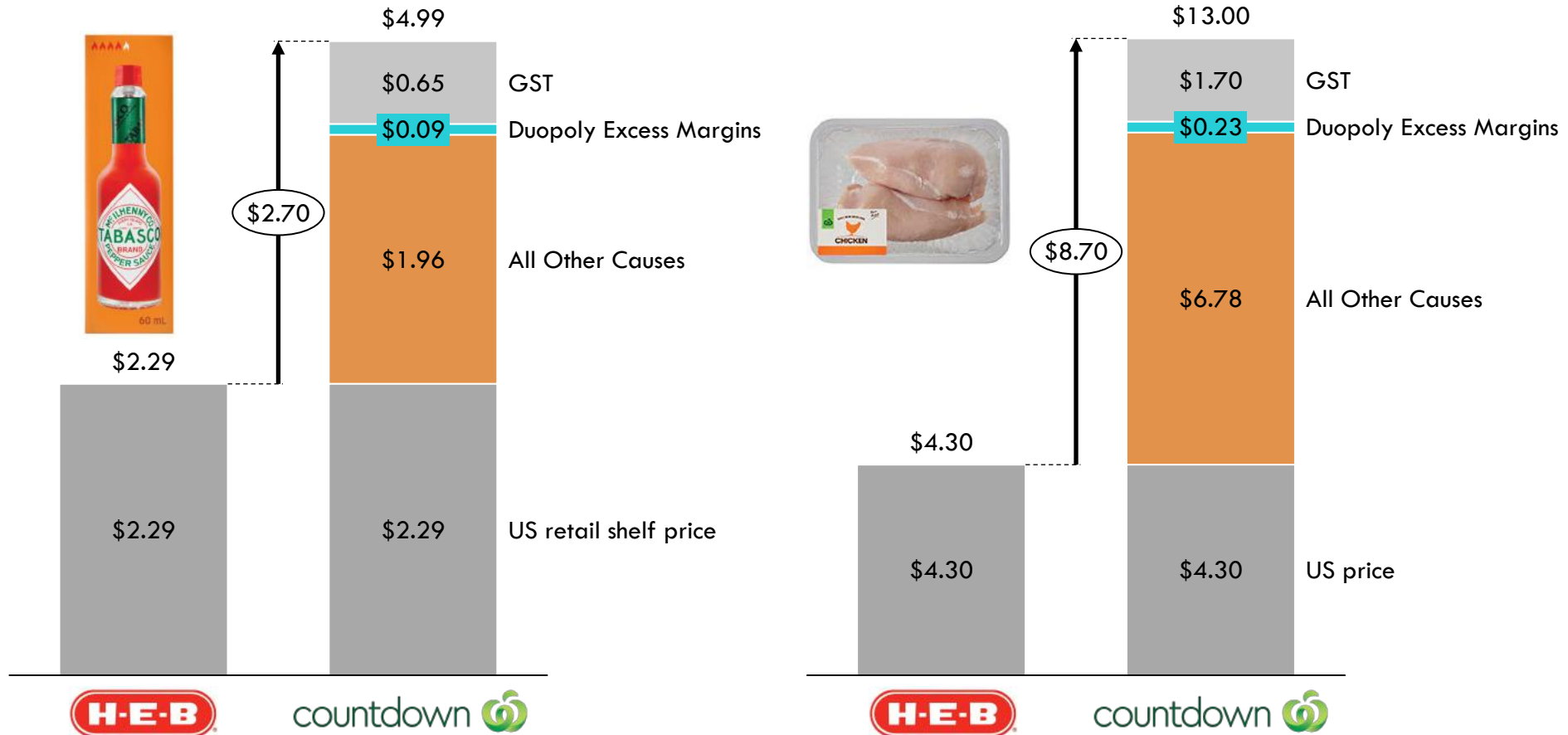
I am available to discuss, expand on or clarify any or all of the above if you would like more details.



Timothy Morris
Managing Director
Coriolis Australia Pty. Ltd. / Coriolis Limited (NZ)

EXHIBIT 04: SIMPLE PRICE COMPARISON

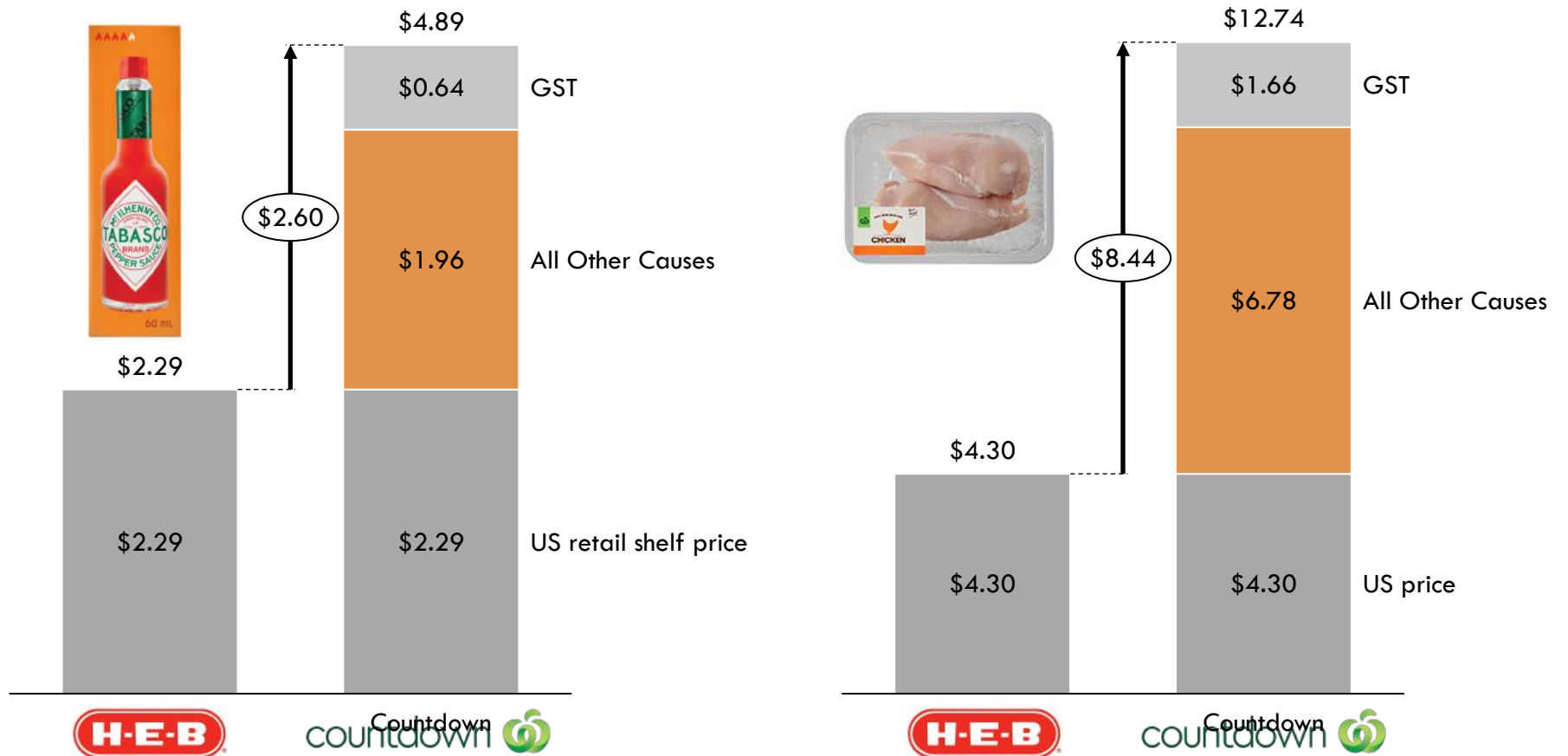
PRICE COMPARISON: TEXAS VS. NEW ZEALAND NZ\$; Nov 2021



Source: HEB Online (Texas); Countdown Online (New Zealand); Oanda (current exchange rate)

EXHIBIT 05: SIMPLE PRICE COMPARISON WITHOUT DUOPOLY PREMIUM

PRICE COMPARISON: TEXAS VS. NEW ZEALAND NZ\$; Nov 2021



Source: HEB Online (Texas); Countdown Online (New Zealand); Oanda (current exchange rate)

EXHIBIT 06: DRIVERS OF HIGHER NEW ZEALAND PRICES

ESTIMATED DRIVERS OF HIGHER NEW ZEALAND FOOD/FMCG PRICES

Model; 2021

