



**23 November 2021**

**Submission to:** Commerce Commission New Zealand

**Submission From:** Supie

## **Submission on the Market Study into the Retail Grocery Sector**

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### **1. Introduction**

- 1.1. Supie is an online-only, membership-based supermarket owned and operated in New Zealand, currently supplying into the Auckland market.
- 1.2. Supie falls within the definition of 'Other Grocery Retailers' for the purposes of the Commerce Commission Draft Report 'Market Study into the Retail Grocery Sector' published on 29 July 2021 ("Draft Report").
- 1.3. Supie welcomes the opportunity to submit our comments on the preliminary findings set out in the Draft Report and on the discussion during the Commerce Commission Grocery Market Study Virtual Conference.

### **2. The nature of the grocery sector in New Zealand**

- 2.1. We believe meaningful and effective competition does not exist in the current grocery sector and this negatively impacts consumers, suppliers and the environment.
  - 2.1.1. The lack of choice for the 'main' grocery shop, in addition to the lack of choice within product categories (due to product rationalisation and gravitation towards ranging 'own-brand' products) has resulted in reduced product and price competition that would normally benefit consumers.
  - 2.1.2. If food producers in New Zealand are to access consumers at scale, they need to supply the major retailers. The current power imbalance in these relationships stifles supplier profits, expansion and innovation.
  - 2.1.3. The major retailers are slow to invest and innovate toward new food systems that positively impact the environment, such as reducing food waste across the supply chain.
- 2.2. The concentration of profits to just a few are driving outcomes that serve their self-interests, rather than the interests of New Zealand's food system. As food is a

necessity for life, we believe it is imperative consideration is given to New Zealand's food future, including:

- 2.2.1. Protecting New Zealand's food security;
  - 2.2.2. Reducing food waste;
  - 2.2.3. Reducing food poverty;
  - 2.2.4. Improving the household productivity dividend; and
  - 2.2.5. Improving the health of the population.
- 2.3. On that basis, we encourage the Government to initiate an industry reset that provides for the best food future for all of New Zealand.

### **3. Options to improve conditions for entry and expansion – wholesale**

- 3.1. Access to competitive wholesale supply of groceries does not currently exist in New Zealand.
- 3.1.1. New entrants are required to either:
    - (a) set up their own supply systems (requiring significant investment and time employed); or
    - (b) purchase via the major retailers.
  - 3.1.2. With each new grocery retailer, the cost to serve increases for suppliers (many of which are small food producers) forcing suppliers to assess the return of supplying new or small retailers.
- 3.2. The major retailers have vertically integrated businesses with concentrated wholesale market power. This makes it challenging for an independent grocery wholesaler to enter the market.
- 3.3. We believe there is a case for the promotion and facilitation of an independent wholesale supplier, or ownership separation of a current vertically integrated retailer, which will:
- 3.3.1. Encourage new entrants and enable the expansion of existing retailers by improving access to a significant range of products at more competitive prices;

- 3.3.2. Reduce the administrative costs placed on food producers incurred through supplying multiple retailers; and
- 3.3.3. Enable significant efficiencies across the supply chain, driving improved pricing to consumers.

#### **4. Options to improve conditions for entry and expansion – retail**

- 4.1. We believe that access to capital investment is a significant constraint for potential entrants or existing players seeking to expand.
- 4.2. To improve market conditions and to stimulate direct retail competition for the ‘main’ grocery shop, Government funding is appropriate. Such option could include funding through grants, loans or equity through Government agencies such as Callaghan Innovation, NZ Trade and Enterprise, and the NZ Super Fund.
  - 4.2.1. Government funding or equity investment is not uncommon, particularly for significant industries, with recent examples of funding toward reducing internet poverty (with the Rural Broadband Initiative) and equity investment in Kiwibank.
  - 4.2.2. The criteria of a funding should include like-for-like on customer reach, products and pricing such that consumers nationwide can access a product range that meets the requirements of a ‘main’ grocery shop.
- 4.3. To ensure competition and growth is not stifled by the significant market power of the major retailers, we believe that protection needs to be given to new entrants.
  - 4.3.1. We encourage the appointment of a Grocery Commissioner with the power to investigate any strategic behaviours that may impede or restrict competition.
- 4.4. As we noted in our previous written submission, we urge caution funding an international retailer (such as Aldi) into the New Zealand market. While an international retailer would introduce its own supply chains and presumably price competition, consideration needs to be given to:
  - 4.4.1. The health, safety and quality standards of internationally sourced products that are mass-produced using unethical supply chains and the resulting impact on the health and wellbeing of New Zealand's population;
  - 4.4.2. The comparative standard of New Zealand-produced food and grocery items with internationally sourced products, including minimum wage, animal welfare, climate impact and integrity of food safety and quality assurances;

- 4.4.3. New Zealand producers typically produce on a comparatively smaller scale and generally incur higher costs of production than their overseas counterparts. A significant contributor to the comparatively high costs of production is New Zealand's regulatory environment requiring higher standards of compliance including a high minimum wage and labour standards and various environmental regulations. As a result, New Zealand producers can rarely compete on price and therefore are likely to be detrimentally affected by the widespread introduction of cheap overseas products; and
- 4.4.4. Protecting New Zealand's food security through the support of our local producers must be a priority, particularly in light of the Covid-19 pandemic that has contributed to significant international supply chain issues for food supply.
- 4.5. We believe that New Zealand retailers are best placed to provide meaningful and effective competition that the market desperately needs in order to provide fair pricing to New Zealand consumers, support our food producers, maintain a healthy supply chain and ensure a world-class food future for New Zealand.

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*Supie is on a mission to create a better and fairer grocery alternative for New Zealand.*