

MARKET STUDY INTO THE RETAIL GROCERY SECTOR

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Thank you for the opportunity to participate in the Conference and to make these final points in response:

1 THE CRUCIAL IMPORTANCE OF THIS PROCESS

This issue is significantly bigger than most envisaged before the Conference. The continued range rationalisation, especially by Foodstuffs, shows a failure by the supermarkets to comprehend any notion of community responsibility arising from their economic power. Instead, they appear have a sole focus on short term profit. The outcome of their range consolidation and vertical integration could be complete obliteration of many independent brands, leaving consumers with the choice of only Pams or Woolworths brands across the entire range. Even more importantly, New Zealand's hundreds of innovative and boutique suppliers would have no way to market their products domestically due to a distribution trade focused solely on paddock to plate integration as a means to maximise short term profit.

2 FOODSTUFFS AND WOOLWORTHS ORIGINATED AS WHOLESALERS

When the supermarkets repeatedly protest that they cannot adapt their business models to accommodate wholesaling to independent outlets, history does not support their argument. Foodstuffs and Woolworths both originated as independent wholesalers. In the 1980s the then NZ Wholesale Grocery Distributors Federation was chaired by the CEO of Woolworths and supported by the CEO of Foodstuffs Auckland. Meanwhile the owner of a New World in Upper Hutt Chaired the equivalent retail organisation, NARGON. There was a clear separation of functions and views between wholesale and retail. Even today Four Square describes on its home page how in the 1920s Foodstuffs was a buying cooperative formed by a group of independent grocers. Somehow over time the power balance has shifted with the wholesalers taking control of the retailers who founded them. Much as the duopoly might argue about the challenge of introducing independent wholesaling, it is in their DNA and easily capable of being reverse-engineered under regulatory supervision.

3 OPTIONS FOR ACTION

Operational separation will not work, as evidenced by the Telecom experience and Woolworths and Foodstuffs stonewalling the Commission's questions during the conference. At best a move in that direction will herald 5 years of frustrating gaming until the regulator/government runs out of patience. The two best solutions are divestment of hundreds of stores carefully selected having regard to suburban monopolies, and/or structural separation of Foodstuffs and Woolworths buying functions to provide totally independent wholesaling.

4 APPOINTMENT OF A COMMISSIONER

Given the complexity of the issues ahead, and the significant sector expertise now residing in the Commerce Commission, it makes sense to create a Grocery Commissioner role. The incumbent should have a wide brief to immerse themselves in the sector and deal with not only the industry structure issues, but also other dominance-enabled behaviours that may emerge as the process works through.

5 INTIMIDATION

It was appalling to hear at the Conference from the Food and Grocery Council – a respected advocacy group acting for supermarket suppliers – that following an earlier Commission investigation the supermarket concerned refused to engage for several years, at one point demanding that the Council replace its Chairman and CEO and provide the supermarket with a seat on its Board as a prerequisite to re-engagement.

Such intimidatory tactics have no place in a country like ours. In 3 decades of working across a wide range of business advocacy groups I have never before heard of a commercial entity interfering openly in the domestic affairs of an allied group. This is the kind of ugly response that the new Commissioner must be empowered to stamp out as the process moves ahead.

6 SUPERMARKETS' FINANCIALS

The ability of Woolworths to transfer-price, and the labyrinth of businesses within Foodstuffs, makes discovery of the profits incredibly challenging, opening the suspicion of a considerable amount of profit within the system that the ComCom has failed to uncover. Further work should continue to expose any hidden profit centres within individual store structures or related party transactions.

7 INTERNATIONAL PRICE COMPARITORS

It's unfortunate but understandable that the Commission was unable to arrive at more definitive price comparisons. However, New Zealand is a world renowned, leading edge efficient global food supplier with low production costs and the capability to get both basic and premium food products into highly competitive international markets. Therefore, we should expect prices here to be close to the bottom end of the OECD. Counterarguments about isolation, challenging topography and sparse population don't stack up – the telecommunications experience disproved these.

8 NEW ZEALAND'S REPUTATION AS A PLACE TO INVEST

The argument made by legal counsel that harm will be done to our reputation by legislating is illogical. Harm will occur only if no meaningful action is taken – that would send a signal to investors in this and other industries that our regulator is not watching out for them. The only investors who will be harmed by a strong response are those whose business model depends on monopoly rents – investors who New Zealand can do without.

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