



LIFE HEALTH FOODS/CHALMERS ORGANICS

CHALMERS ORGANICS LIMITED SUBMISSION ON SOI

4 APRIL 2022

INTRO/DOCUMENT SCOPE

This submission is provided in confidence to assist the Commerce Commission in its consideration of the clearance application lodged by Life Health Foods to acquire Chalmers Organics.

This document has been developed by Daniel Chalmers, who is currently the Managing Director Sales and Marketing and a member of the Chalmers Organic's Board. Daniel has been involved with the business for the last 25 years and has extensive hands on experience with selling and marketing our product over that time. The Chalmers Organics Board has reviewed this document and endorses it wholeheartedly.

TOFU SUBSTITUTABILITY

We were surprised to hear that tofu could be considered a category on its own. We have not heard of this perspective before. Growth in tofu consumption across the world in the last 2-3 years has given it a higher profile. This may lead to more of a spotlight on it for the Commerce Commission, even though tofu is not the highest growth product in the plant-based category.

The Chalmers family have been making tofu for close to half a century¹ and have a direct understanding of selling tofu as a family business. Tofu is by its very nature substitutable. It is the protein option on the plate for the plant-based eater, as are plant-based sausages, burgers, nuggets etc. and the large assortment of other plant proteins like TVP (soy protein) or pea protein etc. They are all used interchangeably by all plant-based consumers.

Conventional meat consumer might have lamb sausages one night and steak the next night. Tofu is in a similar position. Aside from people with very special dietary needs, no consumers would have the same protein option at every meal whether they are plant-based or not; they routinely swap it out for a different protein option.

There are countless articles that show that tofu is considered by consumers, researchers, and media to be part of the same category as plant-based sausages burgers and much, much more.

Here are some examples which we hope are useful:

<https://www.healthline.com/nutrition/vegan-meat-substitutes#TOC TITLE HDR 5>

This article has a simple summaries at the end of each section. These show clearly that tofu is included here with all the other options in the category.

¹ Elizabeth and Stephen Chalmers – both current directors of Chalmers Organics - began a small tofu manufacturing enterprise in 1980.

<https://proveg.com/plant-based-food-and-lifestyle/vegan-alternatives/vegan-meat-alternatives/>

Both these articles accord with our direct experience in selling and marketing tofu.

This next article includes tofu, seitan (wheat protein) and TVP (soy protein) in the same subcategory with the larger category which includes mushrooms, jackfruit, eggplant and lentils etc. All of these are regularly substituted for tofu as evidenced here:

<https://www.onegreenplanet.org/vegan-food/vegetables-that-can-substitute-for-meat/>

Some more examples from medical news sources:

<https://www.medicalnewstoday.com/articles/325608>

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Another example of substitutability is tofu in burgers, of which we have had direct experience. We have been supplying tofu to Burger Fuel NZ for their combustion tofu burger for over 15 years. Recently they have removed the tofu burger and replaced it with, of course, a plant-based burger patty. The versatility of tofu does often mean it is very substitutable not only for the consumer at home, but also in the food service industry.

The next two might even be more helpful as they have nice images to show the extent of the category to which tofu belongs:

<https://www.thekitchn.com/best-meat-substitutes-22977070>

<https://www.goodhousekeeping.com/food-recipes/g32733789/best-meat-substitutes/>



NEW ENTRANTS

We have seen a very large number of new entrants into the non-meat protein market over the last 12-24 months. The table below shows this.

VEGETARIAN CHILLED/FROZEN CATEGORY	
COMPANY / COMPETITOR	CHALMERS COMMENTARY/VIEW
Asian Supermarkets. There are too many to list here, but it is important to note these.	High tofu sales in Asian stores, brands exist specific to these stores but are coming to the western supermarkets now.
Private labels PAMS tofu and all PAMS meat alternatives (Foodstuffs) and MACRO tofu (Countdown)	Supermarkets moving to more private label - the merged entity will help slow this expanding market control that Foodstuffs and Woolworths have. Pam's has massive range and is growing quickly. [REDACTED]
Fry's (Meat alternatives) sausages, burgers etc, very extensive range)	Strong South African brand. Been around for a long time, great products. Massive international growth at 40% year on year. Here is an article on them: https://vegconomist.com/interviews/frys-family-food-we-can-see-from-our-own-sales-figures-the-growth-of-our-company-that-the-industry-is-changing-at-a-rapid-pace/
Inghams - Let's Eat brand (Burgers, tenders, nuggets, easy expansion into sausages)	Supply the large chain Burger King, growing fast, excellent products, \$2.67-billion-dollar company.
Leader Products (vegetarian bites, vegan burgers, toppers, hot dogs, riblets)	Big Australian corporate supplying alternative meat products internationally, massive range, do a hot dog so are easily able to expand into sausage category, \$93 million dollar company.
Hings (tofu)	Long-time #1 tofu provider for the lower North Island- has potential to expand nationwide as an existing supplier with the western supermarkets (see later photo)
Check (tofu)	Very cheap. Supplies Foodstuffs and is growing
Mori-nu (tofu)	Supplies shelf stable tofu not in chilled area so not sure of volume been around for a long time.
Beyond Meat (Vegan mince, meat balls and sausages)	Big international player, expanding in NZ currently, huge hype worldwide.
LHF (tofu, burgers, and sausages)	As mentioned already
Quern (vegan nuggets, mince, and vegan pieces)	UK based plant protein company- unique product, strong brand, estimated annual revenue of \$172 million.
Sunfed Limited (Vegan Boar Free Bacon, chicken & beef)	NZ based innovation, very successful, currently expanding, unique products and brand, strong following, Boar Free Bacon featuring high on sales data. Approximately \$5 million annual turnover. Growing fast.

VEGETARIAN CHILLED/FROZEN CATEGORY	
COMPANY / COMPETITOR	CHALMERS COMMENTARY/VIEW
Plantry- Goodman Fielder (plant-based meals)	Another big food company expanding into plant-based foods, illustrating there are no barriers for entry for the large corporates. ¾ Billion turnover. Competes with our Mac n Cheese.
Wildly Good (Vegan Burgers, sausages, bites, falafel)	Big Australian company supplies across Australia and is currently supplying and expanding in NZ supermarkets. Shows market entry is easy even for overseas companies.
Plan*t (Vegan Chicken, burgers, sausages, and mince)	Currently using Snowball to raise funds. Make sausages, chicken, mince, and burgers. New and doing well – great product and strong brand.
Linda McCartney (vegan sausages, pork, chicken)	Good brand with a strong financial backing. Strong and long history. Overseas turnover strong and already in NZ market. Good products.
Gardein (Vegan, chicken, pork, fish, meals, and jerky)	\$173 million annual turnover. Grew 200% in four years. Products are possibly the best in market. Big US company currently selling in NZ and expanding here.
Naturli' (Vegan sausages, burgers nuggets, pizza)	\$15 million annual turnover. Good products. Another company with a huge range not all yet available in NZ but we predict it will be shortly
Food Nation (patties, sausages, sauces)	In 20-30% of NZ supermarket stores. Another NZ start up making great progress with amazing branding and products, growing.

Finally, we think it is important to note also that even since this application for clearance was filed a new tofu product – JONGGA TOFU - has been launched in Foodstuffs' two chains across New Zealand.



Image 1 JONGGA tofu

JONGGA tofu has already achieved a serious market presence and has large displays in Pak n Save and New World. The retail price on this tofu (\$2.99) is less than our TONZU tofu. The photos below show the displays in New World Ilam and Pak n Save Northland taken in the last week:



Image 2 New World – Ilam, Christchurch



Image 3 Pak N Save - Northland

[REDACTED]

[REDACTED]

[REDACTED]

SIZE OF TOFU CATEGORY

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]



Image 4 Tai Ping and Countdown Supermarkets - Newmarket, Auckland

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

<i>Store</i>	<i>Approximate Total tofu sales all brands (in 300g units) monthly</i>	<i>Number of stores</i>	<i>Rate of Sale per store</i>
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[REDACTED]

[REDACTED]

[REDACTED]

There are many other retailers in New Zealand that should all be considered seriously as part of this market. The only reason a retailer might not be considered as part of this market is if they did not stock tofu or at least tofu related products like plant-based patties and sausages.



We want this point to be clear as it is completely unfair on the Asian manufacturers and retailers who are the leaders in tofu to ignore them. It would be completely wrong not to consider them. Tofu is after all an Asian food, not a western one.

In addition to Asian supermarkets, the number of corner fruit and vegetable shops and lower profile stores that sell tofu is vast. Here is a photo of a local fruit shop which we supply:



Image 5 Fruit World - tofu selection

A quick google shows about 19 Fruit Worlds in Auckland alone. They all stock tofu and most of them stock more tofu in their little stores than the larger western supermarkets. The shop shown above is no larger than a corner dairy, but their tofu selection is better than the Countdown across the road shown below.



Image 6 Countdown New Lynn, Auckland - tofu selection

The Countdown selection is smaller than the Fruit World and includes a large amount of Macro tofu.

While our sales rep was there, he also photographed the nearby New World, which now has a significant amount of Asian tofu on shelf, more even than when we previously checked at the end of last year:



Image 7 New World New Lynn, Auckland - tofu selection



Image 8 New World Island Bay, Wellington - tofu selection

At present, in a busy Foodstuff's New World such as Chaffer's in Wellington, we routinely observe multiple tofu suppliers in addition to ourselves and LHF. The photo below was taken in the last week and shows facings for six different tofu brands - Chalmers TONZU, LHF, Soy Works, Hings (multiple variants), a newly arrived Asian supplier, and Pams.

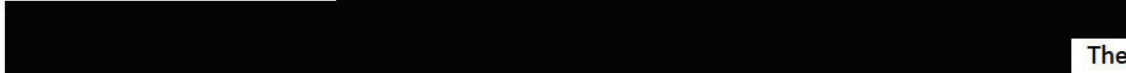


Image 9 Chaffers New World, Wellington - tofu selection



PRICING

Another interesting point that we understand has come up, is that somehow the combined new entity could increase prices.



The suggestion that even LHF and Chalmers combined could wield any significant market power in this situation seems far removed from our day to day reality.

Not only do the supermarkets control pricing, but they also control the products approved for stocking. New entrants are the first place they look to support to put pressure on existing suppliers. Often a new entrant has better opportunities because supermarkets are ALWAYS chasing better pricing and competitive quotes to pressure the incumbent suppliers. Anyone who has any experience with supermarkets knows that power of pricing and selection rests with the supermarkets and the supermarkets alone.

We are confident the Commission has heard this story many times before due to its own recent inquiry into the supermarket duopoly. Still, we think it is important to state the reality of dealing with the supermarket duopoly again here.



FURTHER INFORMATION

Chalmers Organics would be happy to discuss the contents of this submission further with the Commerce Commission and answer any questions to the best of our ability.

Please email the three named contacts on the application (Daniel Chalmers – dan@tonzu.co.nz, Jesse Chalmers – jesse@tonzu.co.nz, and Roland Sapsford – chair@tonzu.co.nz) to arrange a further discussion. Chalmers can then make available the appropriate people based on the topics you wish to cover.

**Chalmers Organics Limited
628 Swanson Road
Swanson, Auckland 0612**