



Woolworths New Zealand Limited's submission on the New Zealand Commerce Commission's preliminary issues paper regarding the market study into the retail grocery sector

4 February 2021

(1) Introduction and Executive Summary

(a) Introduction

- Woolworths New Zealand Limited (**WWNZ**) welcomes the opportunity to provide comments on the Commerce Commission's (**Commission**) preliminary issues paper (**Issues Paper**) regarding the market study into the retail grocery sector (**Market Study**).
- The main body of this submission is broken into a number of sections below, each outlining key information about WWNZ's business and the wider sector WWNZ operates in. We trust that this information will help inform the Commission's approach to the Market Study. In Appendix One, we also provide responses to each of the specific questions posed in the Issues Paper (sometimes with reference to points made in the main body of our submission).
- WWNZ looks forward to continuing to assist the Commission in the Market Study, and we are happy to provide more detail to the Commission on any of the points raised in this submission.

(b) Executive Summary

- WWNZ owns and operates 180 Countdown supermarkets, two Metros, and three "eStores" across Aotearoa New Zealand (which account for over [] of WWNZ's sales). We are also the franchisor for 71 SuperValue and FreshChoice supermarkets, which are locally owned and operated businesses. We employ more than 20,000 team members throughout the country in our supermarkets, distribution centres, and central support offices. We partner with 1,400 suppliers, including 120 produce growers and 900 small suppliers,¹ to on-sell food and other grocery products.
- In our experience, the New Zealand retail grocery sector is both highly dynamic and intensely competitive. We compete with a range of retailers of grocery products

¹ Suppliers that account for sales to WWNZ of less than \$1 million per year.

operating a number of different business models in a total food market worth \$29 to \$40 billion, in which our share is 26% to 19%. See Figure [4] on page [18].

- This includes competing intensely on a daily basis with the 56 PAK'nSAVE, 138 New World, and 245 Four Square individually owner-operated supermarkets, as well as numerous other supermarkets (including Farro Fresh, which continues to expand), convenience stores, speciality grocers, fruit and vegetable shops, butchers, general merchandise retailers, and other retailers of grocery products. Reflecting this:
 - more than half [] of New Zealanders will shop at speciality grocers and non-supermarkets for grocery retail products in a given month, and if we just look at Kiwis who shop at Countdown, PAK'nSAVE, and New World, more than half [] will “cross shop” (meaning they will shop at more than one of these banners) in a given month;
 - independent “fruit and vege” retailers are estimated by Horticulture NZ to represent 60% of sales of fresh fruit and vegetables in Auckland;² and
 - consumers spend [] on food and grocery products at other retailers within 30 minutes either-side of a shopping trip to Countdown (where the average shopping basket at Countdown is itself [] (including GST)).³
- There are also a range of new competitors, changing consumer trends, and innovative business models that further intensify this competition, such as:
 - the significant growth of online grocery retailing - which has been, and will continue to be, a significant factor in our market (more than 12% [] of Countdown's sales are already online, and that has increased by over 350% [] from FY2014 to FY2020, with online likely to exceed [] of our sales by the end of FY2023);
 - the significant uptake of meal kits - including My Food Bag and HelloFresh (the world's largest meal kit provider).⁴ This channel is estimated to be worth over [], and growing at more than [] per annum in New Zealand,⁵ with competitors offering a nationwide delivery presence (covering 86% of

² (12 August 2020). Open Letter: Horticulture | Recognise Independent Fruit & Vegetable Retailers As Essential Services. Horticulture NZ. Retrieved from: <https://www.scoop.co.nz/stories/BU2008/S00204/open-letter-horticulture-recognise-independent-fruit-vegetable-retailers-as-essential-services.htm>

³ []

⁴ 27 February 2020. HelloFresh, World's Largest Meal Kit Service Set for Significant Expansion in NZ. Press Release: HelloFresh. Retrieved from: <https://www.scoop.co.nz/stories/BU2002/S00414/hellofresh-worlds-largest-meal-kit-service-set-for-significant-expansion-in-nz.htm#:~:text=HelloFresh%2C%20World's%20Largest%20Meal%20Kit%20Service%20Set%20For%20Significant%20Expansion%20In%20NZ,-Thursday%2C%2027%20February&text=The%20world's%20largest%20meal%20kit,of%20their%20new%20distribution%20centre.>

⁵ Indeed, HelloFresh is reported to have grown 159% in the last year. See: (4 February 2021). HelloFresh's bumper year of New Zealand growth revealed. NZ Herald.

New Zealanders in the case of My Food Bag, and 84% in the case of HelloFresh);⁶

- the expansion of The Warehouse (one of New Zealand's largest retailers with 90 stores nationwide) into online grocery retailing through TheMarket, which The Warehouse's CEO has stated is intended to become "the Amazon of New Zealand",⁷ and is already selling a range of food and grocery products among the two million products offered on that platform;
 - the entry and expansion of Chemist Warehouse into New Zealand (Australia's sixth largest retailer,⁸ and largest pharmacy retailer,⁹ with 16 stores in New Zealand since its entry in 2017, and plans to expand to 70 stores nationwide);¹⁰ and
 - the imminent entry of Costco into New Zealand (the second largest food/grocery retailer in the world,¹¹ with more than 700 stores worldwide).¹²
- Kiwi consumers are benefiting from the intensity and dynamism of this competition, and there is strong evidence that the market is operating effectively. Demonstrating this:
 - **Retail grocery food prices have fallen in real terms:** Over the last decade general inflation in New Zealand has, on average, grown at a rate of 1.58% per annum, whereas food inflation (excluding restaurant and ready-to-eat meals) in New Zealand has only on average grown at 1.30%. This means retail grocery food prices in New Zealand have decreased in real terms.¹³ Countdown's own "retail inflation", at 0.7% per annum, has been lower again, demonstrating an even greater decrease in real terms. We have achieved this despite our input costs increasing over this period (for example, WWNZ's wage costs per hour have increased by 3.7% per annum), and export prices for key New Zealand grocery exports increasing over this period (dairy, meat, fish, and fruits and vegetables have increased by 3.6% per annum). See Figure [8] on page [30]. The fact we have achieved this despite our input costs increasing has, in large part, been due to the investments we have made in making our business more efficient in

⁶ (4 February 2021). HelloFresh's bumper year of New Zealand growth revealed. NZ Herald.

⁷ (2 August 2019). New market realities and The Warehouse Group's TheMarket. The Register. Retrieved from: <https://theregister.co.nz/2019/08/02/new-market-realities-and-warehouse-groups-themarket/>

⁸ (6 September 2020). BNPL fintech Fu rules off funding round, Chemist Warehouse takes stake. Australian Financial Review. Retrieved from: <https://www.afr.com/street-talk/chemist-warehouse-takes-stake-in-bnpl-fintech-fu-20200906-p55ssv>

⁹ <https://www.chemistwarehouse.com.au/aboutus>

¹⁰ See: (5 March 2020). Australian pharmacy giant Chemist Warehouse to open in Christchurch. Stuff. Retrieved from: <https://www.stuff.co.nz/business/120003495/australian-pharmacy-giant-chemist-warehouse-to-open-in-christchurch>

¹¹ (10 September 2019). The 10 largest food retailers in the world by sales. Canadian Grocer. Retrieved from: <https://www.canadiangrocer.com/top-stories/the-10-largest-food-retailers-in-the-world-by-sales-89478>

¹² 11 June 2019. Costco's coming: World's second-largest retailer unveils NZ stores. The New Zealand Herald. Retrieved from: <https://www.nzherald.co.nz/business/costcos-coming-worlds-second-largest-retailer-unveils-nz-store/643MACPDEYEVXW5ZA37IJA2L6Y/>

¹³ i.e. any increases have been lower than general inflation.

other areas over this time in order to absorb these cost pressures (for example, by reducing our stock loss, improving supply chain productivity, and improving in-store processes).

- **Expenditure on food in New Zealand has fallen as a proportion of household income:** Over the last decade food expenditure in New Zealand has decreased as a share of household income (from 12.5% in 2010 to 11.5% in 2019). See Figure [9] on page [31].
- **We are a low-margin business (2.4 cents in every dollar spent in our stores):** Reflecting the competitive prices we offer to Kiwis, we are a low-margin business. WWNZ's margin is 2.4 cents in every dollar spent at our supermarkets. This is because, for every \$1 spent in a supermarket, we pay 63 cents directly to our suppliers, 19 cents relates to the costs of running our supermarkets, supply chain and paying our team, 13 cents is GST, and 2 cents is interest and other tax costs.¹⁴ See Figure [10] on page [31].
- **New Zealand retail grocery prices do not appear high by global standards:** While there are significant difficulties in making international comparisons, analysis undertaken by NERA of Economist Intelligence Unit (EIU) data would suggest that New Zealand retail grocery prices are not high compared to other OECD countries (with retail grocery prices in Auckland in the lower half of OECD cities it is measured against). See Figure [13] on page [34].
- **Our customer satisfaction levels are high and continuing to increase:** Customer satisfaction with our Countdown offering is increasing over time (reflected in significant increases in our 'Net Promoter' and 'Voice of Customer' scores).
- **We continue to innovate to deliver high quality and service levels:** The sector continues to show strong levels of innovation and the demonstrated ability to successfully adapt to rapidly evolving consumer preferences - as reflected in significant investments in enhanced online and digital sales channels (with Countdown's online sales penetration amongst the highest in the world), new bricks-and-mortar format innovation (for example, our new Metro stores), and enhanced in-store experience (for example, "Scan&Go").
- **We continue to invest in delivering an efficient and resilient supply chain:** We continue to make significant investments in our supply chain to ensure it is efficient and resilient - as demonstrated by our ability to continue to supply New Zealanders during the recent COVID-19 challenges, and the fact that our retail food prices have fallen in real terms despite us facing higher input costs (see above). Investments we have made, or partnered with others to make, in our supply chain in recent years include:

¹⁴ Figures are for FY2020.

- Developing a new purpose-built 38,000m² distribution centre in Palmerston North to service the lower North Island (approximately three times bigger than the existing distribution centre);
 - Partnering with Hilton Food Group, to underpin establishment of a brand new, state-of-the-art, \$54 million meat processing plant in Auckland;
 - Partnering with Americold to underpin establishment of a \$65 million expanded temperature-controlled warehousing facility in Auckland;
 - Developing a new state-of-the-art 20,000m² produce distribution centre in Auckland to help service all of Countdown's North Island stores with fresh fruit and vegetables direct from local growers.
- It is not just our customer satisfaction levels that are improving; our suppliers, farmers, and growers also continue to report positively on the way we engage with them and those satisfaction levels are also continuing to improve over time (reflected in our supplier ratings - our suppliers now rate Countdown as the number one retailer to deal with in New Zealand in the two major grocery industry surveys). See Figure [15] on page [36].
 - We are proud to be part of communities throughout Aotearoa New Zealand. We have continued to increase our commitment to, and investment in, community, charity and sustainability initiatives, including our 2025 Sustainability Plan *Kia pai ake te āpōpō - A Better Tomorrow*.
 - We are also proud of the role we played in delivering a safe, secure, and resilient supply chain and shopping environment for the benefit of New Zealanders during the recent COVID-19 challenges.
 - Accordingly, in our experience, the New Zealand grocery sector is very much delivering outcomes consistent with intense competition, and Kiwi consumers (and suppliers) are well served by that competition and the role we play for New Zealand.
 - We look forward to assisting the Commission to understand these dynamics. Despite the magnitude of the task facing the Commission in completing its Market Study within 12 months, we nonetheless believe it is important that the Commission does not unduly narrow its focus due to this challenging time frame. The market reality that we operate within every day is that the New Zealand grocery retail sector is highly dynamic and rapidly changing, and we consider it to be very important that the Commission takes all those competitors and dynamics into account to obtain a complete view on the way in which competition works in this sector.

(2) About WWNZ - committed to “Making Kiwis’ lives a little better every day”

(a) We have a team of more than 20,000 Kiwis in communities right across New Zealand.

- Across our business, our united purpose is to “make Kiwis’ lives a little better every day,” and we are proud to have been serving New Zealanders for more than 90 years since the first *Woolworths* store was opened in Cuba Street, Wellington.
- Since that time, we have grown to 180 Countdown supermarkets, two Metros, and three “eStores” across New Zealand (which account for over [] of WWNZ’s sales), and to be the franchise coordinator for 71 owner-operated FreshChoice and SuperValue supermarkets. In serving New Zealanders, we are supported by more than 20,000 team members in our in-store teams, our distribution teams, our processing plant and our central support offices, making us one of the largest employers in New Zealand.
- While our parent company Woolworths Group Limited is listed on the Australian stock exchange (**ASX**), our long-standing and deep-community presence in New Zealand means we are a Kiwi business at our core, with a commitment to delivering for New Zealanders. Not only that, many New Zealanders have an ownership stake in our company - including more than 13,000 front-line team members across our stores and distribution centres in recognition of their contribution to WWNZ during the extraordinary events of the first half of 2020, as well as a number of other Kiwis - either directly as share owners or through Kiwisaver and other New Zealand superannuation and investment funds.

(b) We operate a fair and efficient business model, designed to deliver for our customers

- In serving New Zealanders, we welcome everyone no matter how they shop with us. So whether it is our rapidly growing online grocery shopping service, or in-store, we aim to provide our customers with choice, convenience and great prices nationwide regardless of where they work, live, or play.
- To do this, we operate a national business model guided by our purpose to “make Kiwis’ lives a little better every day”. We apply an approach to our pricing in Countdown that is almost exclusively consistent nationwide. The effect of this is that, overall, [] of products have the same shelf price at all Countdown stores across New Zealand. The most significant categories where this is not the case are fresh products (meat, bakery, seafood, produce and deli) where different supply conditions and / or commercial models mean that there are price differences, predominantly between the North Island and South Island (although even in this case [] of products have the same shelf price nationwide). For packaged goods [] of products have the same standard shelf price nationwide. In relation to our

promotional prices, more than [] are the same nationwide.¹⁵ We also look at what products our customers want in a local area, and customise our range accordingly.

- We believe that this approach delivers an attractive proposition for our customers, ease of doing business with us for our suppliers (with product decisions based on data from across all our stores), efficiencies in our marketing, efficiencies in our transport network (with WWNZ taking on the bulk of deliveries to our stores), while at the same time still delivering tailored local offerings to meet the needs of our customers.
- We also work hard to deliver competitive outcomes for Kiwi consumers despite the New Zealand market presenting its own unique challenges, such as New Zealand being:
 - small;
 - geographically distant from other countries (which means more expensive freight costs, longer lead times, and the requirement for more extensive inventory management for imports);¹⁶
 - geographically dispersed with lower average vehicle freight loads than many other countries¹⁷ (which means more expensive distribution costs within New Zealand);
 - reliant on imports in some key areas (for example, bananas, the most frequently purchased item in our stores); and
 - subject to fluctuations in export markets (for example, meat) and commodity prices in others (for example, dairy, grains).

While these factors mean we often face higher costs, and cannot achieve the scale of some of our overseas counterparts, we are proud of the work we do on a daily basis to deliver an efficient and robust supply chain and consumer proposition for our customers.

(c) We make a broad contribution to New Zealand

- We are committed to making a broader contribution to New Zealand than just selling groceries - we have a long history of serving the community, looking after our most

¹⁵ Data is calculated for the period from 29 July 2020 to 17 January 2021. There are also some variations at WWNZ's two Metro stores - reflecting that it is a different format and consumer proposition.

¹⁶ The 2012 Productivity Commission inquiry into international freight transport found that the cost of container shipping prices for imports into Auckland were considerably higher than Sydney, with import shipping costs in Auckland from port to port 30% more expensive than Sydney in the Productivity Commission case studies. New Zealand Productivity Commission, *International Freight Transport Services Inquiry: Final report*, April 2012, p 4-5 and 84.

¹⁷ Data from the European Union and New Zealand on the average load carried by heavy road vehicles in 2017 show that New Zealand has relatively low vehicle loads when compared to average freight loads in EU countries. Data for New Zealand obtained from the Ministry of Transport, available at <https://www.transport.govt.nz/statistics-and-insights/fleet-statistics/sheet/heavy-vehicles>. Data for EU countries obtained from Eurostat, available at https://ec.europa.eu/eurostat/statistics-explained/index.php/Road_freight_transport_by_journey_characteristics#Average_vehicle_loads.

vulnerable New Zealanders, and protecting our environment for the long-term. By way of examples:

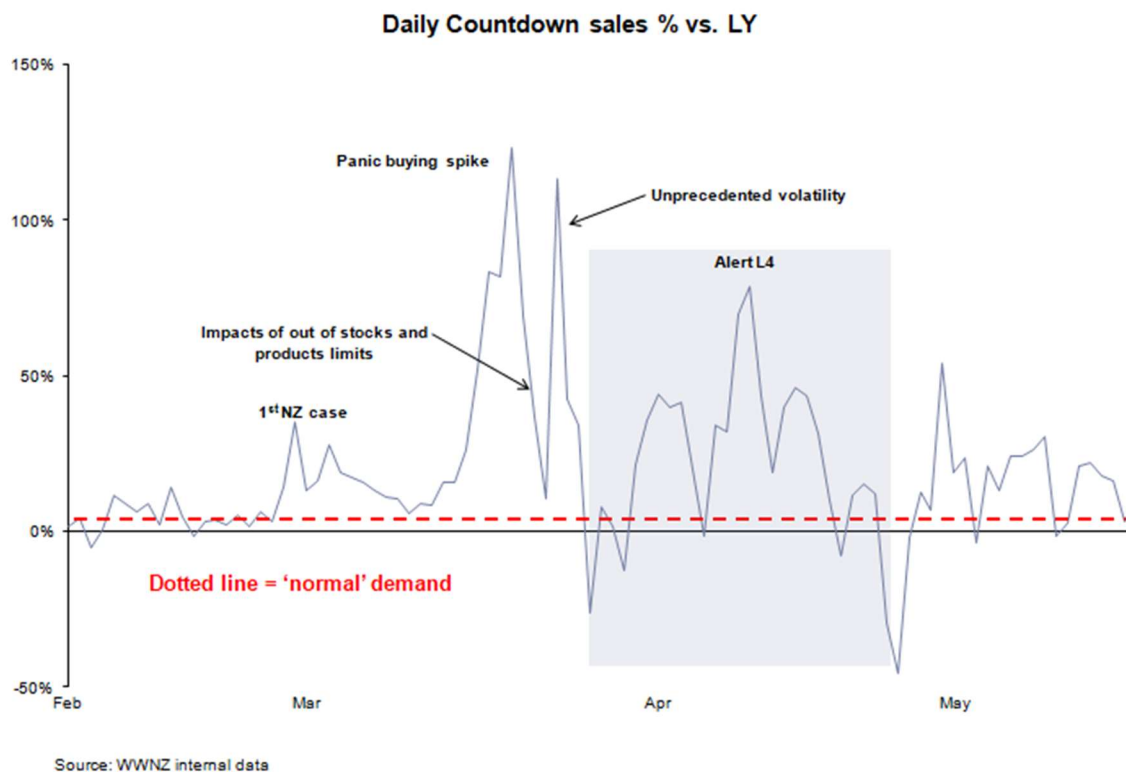
- We are committed to sourcing from New Zealand suppliers wherever possible. Currently 82% of our fresh produce, 84% of our fresh fish, and 99% of our fresh meat is sourced from local New Zealand suppliers. We purchase from 1,400 suppliers including 120 produce growers and (through our livestock buyers) 800 farmers, and where possible, we work to find opportunities to give our suppliers the ability to plan for the long-term. For example, in 2018, we announced that all our in-store baked bread and rolls would be made from Canterbury-grown wheat, giving New Zealand's local wheat industry a multi-year commitment to allow growers to reinvest in their businesses. Our nationwide footprint also provides opportunities for New Zealand businesses to grow. As our free-range egg supplier Otaika Valley has observed: “[w]ithout Countdown we couldn't have expanded the way we have. They've opened up distribution to the rest of the North Island for us and we're now stocked in about 70 stores”.¹⁸ Our links with Woolworths in Australia also provide opportunities (for example, [], a New Zealand based manufacturer [], will be expanding into supplying Woolworths supermarkets in Australia []. See further details on our commitment to developing positive long-standing relationships with New Zealand suppliers at Section (5) below.
- We have recently announced ambitious new sustainability goals that we have set to achieve by 2025 (*Kia pai ake te āpōpō - A Better Tomorrow*), including making a commitment on zero food waste to landfill from our stores by 2025; developing and building our supermarkets and distribution centres in more sustainable ways; and cutting carbon emissions dramatically (we have already reduced our emissions by more than 25% since 2016 through things like energy efficient refrigeration systems, LED lighting, and reducing food waste to landfill). We are also proud to be the only major supermarket chain in New Zealand supporting the Soft Plastics Recycling Scheme.
- We are committed to having a diverse and inclusive team in our business, including having received Rainbow Tick accreditation for our commitment to promoting diversity and a supportive workplace, and being the only retailer to make a commitment to having 20% Māori and Pasifika representation at store manager level and above by 2025.
- In our 2019/2020 financial year, we helped to donate more than \$7 million in food, funding and local sponsorship for our communities (for example, by donating more than \$4 million of food each year to The Salvation Army and other food rescue groups and foodbanks, providing \$1 million of Free Fruit for Kids, and \$650,000 in donations to various charities and local causes). To reinforce our contribution to the community, in 2020 we created the Countdown Food For Good Foundation, which aims to provide meaningful

¹⁸ [].

and long-lasting support to New Zealand communities, giving all Kiwis the opportunity to thrive, and helping to build a stronger, healthier New Zealand for future generations. Through the foundation, we donated \$1 million in immediate relief to our food rescue and food welfare charity partners around New Zealand to help them meet increased demand for food in the wake of the COVID-19 global pandemic. We have also committed to investing the equivalent of 1% of a three-year rolling average of WWNZ's Earnings Before Interest and Tax (**EBIT**) in community partnerships and programmes.

- We are committed to giving New Zealanders the ability to make healthier food choices. As part of this, in 2017 we set a number of targets around the reformulation of Countdown's private label products to reduce sugar and salt. Currently 99% of Countdown's private label range displays the Health Star Rating, and 53% of these products have a Health Star Rating of more than 3.5 stars. More recently, we have completed a three year project to remove artificial colours and flavours from products produced in all of our in-store bakeries. We have also voluntarily introduced 16+ age restrictions on energy drinks in 2019 in response to advice and feedback from health and educational leaders, and limited paracetamol sales in 2020 to one pack per customer following coroner recommendations.
- We continue to work with charities and other organisations to understand how we can help them address issues facing New Zealand. For example, we are a founding member of Food Champions 12.3 to address food waste in New Zealand; we are part of the New Zealand packaging declaration; we continue to work with both The Salvation Army and KidsCan, as well as suppliers, on the issue of period poverty further to our initiative in 2018 to lower period product prices; we are actively helping grow The Foodbank Project (New Zealand's only online foodbank and a joint initiative between Countdown, The Salvation Army and Nelson-based developers Lucid, which has seen record public donations in the last year); and through our Growing for Good school and pre-school grants we aim to help encourage the country's next generation of passionate environmentalists.
- In addition to the ongoing initiatives above, we are proud of the role we played as an essential service to New Zealanders through the difficult COVID-19 periods of 2020. We are acutely aware of the privileged position we found ourselves in when many other Kiwi businesses were forced to close. As the Commission will be aware, starting in late February 2020, COVID-19 put extraordinary and unprecedented pressure on our - and other supermarkets' - supply chains. We were faced with unparalleled daily fluctuations in demand (which saw demand far in excess of seasonal peaks like Christmas, which supermarkets typically spend months planning for), with household demand on some days the equivalent of trying to feed 10 million people. This is reflected in Figure [1] below.

Figure [1] - Daily Countdown sales during COVID-19 panic buying and Level 4 Lockdown period



- Across all products, but particularly for staples such as flour, pasta and toilet paper, we needed to work harder than ever before to keep product on the shelves, and ensure all New Zealanders were able to access the food and groceries they needed (particularly front-line health workers, as well as lower income New Zealanders who could not afford to stock up their pantries). We are proud of the courage and commitment displayed everyday by our 20,000 plus team members, and that our supply chains were resilient and robust enough to continue to supply New Zealanders at such a critical time. We were pleased to not only keep our team and customers safe, but we also supported small suppliers with faster payments, offered rent relief to small businesses with shops inside our stores, provided emergency food support to the National Emergency Management Agency, our food rescue partners and other foodbanks, provided employment to impacted individuals (such as airline staff, travel agents and hospitality workers), rapidly scaled and prioritised online delivery capacity to 110,000 elderly and vulnerable New Zealanders through our Priority Assistance service, and provided special opening hours for emergency services and medical personnel.
- While the Issues Paper refers back to certain concerns that were raised during this time regarding perceived “price gouging”, in our stores, we firmly disagree with this suggestion and stand by our response to the time and situation we faced. In New Zealand’s level four lockdown, we safely served 13.4 million customers. Before, during and after lockdowns, we based every decision we made on keeping our team and communities safe, and ensuring we could best serve New Zealanders and manage demand against available product supply. This included setting up a

Priority Assistance service in a matter of days, sending email information to seven million customers, answering 72,000 calls to our customer care team, and safely on-boarding 2,400 new team members.

- In our stores and online, we made a commitment not to increase standard shelf-prices during this time. We did reduce opening hours in certain stores, converted some stores to online-only fulfilment stores, placed purchase limits on certain items, and very temporarily suspended promotions and specials (that did not include promotions and specials that had already been advertised and, in the most part, that was limited to just two weeks) to manage extreme demand fluctuations, avoid running out of stock, and stabilise our supply chains. All of those decisions were made to manage the often hourly or daily changes and challenges we faced at this extraordinary time with the aim of ensuring that all Kiwis had access to the food and groceries they needed.
- As the Commission will be aware, we were in regular contact with several government agencies including the Commission, MBIE, MPI, Ministry of Transport, the National Emergency Management Agency, the Police, and the Ministry of Health during that period in relation to the decisions we needed to make to maintain service and a functioning supply-chain for all New Zealanders.

(3) In our experience, the New Zealand grocery sector is intensely competitive and dynamic

- We understand from the Issues Paper and the Government's cabinet paper recommending the initiation of the Market Study¹⁹ (the **Cabinet Paper**), that grocery retailing has been identified for a Market Study because the sector is of strategic importance to New Zealand, and because there are said to be potential indications of competition problems in the sector, such as high prices or low levels of innovation.
- While we agree that the grocery retailing sector is of strategic importance to New Zealand, we do not agree there are indications of competition problems in the sector.
- Rather, as noted above, our experience is that the New Zealand retail grocery sector is intensely competitive (which can be seen by the huge array of choice that is available for customers) and dynamic (which can be seen in the constantly emerging new competitors and business models). The evidence demonstrates that this competition and dynamism continues to deliver positive outcomes for Kiwi consumers (see Section (4) below).
- These dynamics mean that if the Market Study were to focus just on WWNZ and Foodstuffs (as suggested at paragraph 49 of the Issues Paper), it will miss important aspects of the nature of competition in this sector, and therefore not give the Commission a complete picture of the market. As the Cabinet Paper noted, "[i]f

¹⁹ 13 November 2020. Cabinet Paper: Initiating a Commerce Commission market study into supermarkets. Office of the Minister of Commerce and Consumer Affairs.

the study is too narrow in its focus there is a chance that it will not be able to fully investigate these important lines of inquiry.”²⁰

- The important dynamics for the Commission to take into account are as follows.

(a) Intense competition between “traditional major supermarkets”

- We are aware of comments in the media from time-to-time suggesting the New Zealand retail grocery sector is a “duopoly” between WWNZ and Foodstuffs. As a participant in the market, that is not our experience. We live-and-breathe vigorous competition with the 56 PAK’nSAVE, 138 New World, and 245 Four Square individually owner-operated supermarkets across New Zealand on a daily basis, with those owner-operated supermarkets in turn members of two separate and independent Foodstuffs cooperatives, and the market outcomes described in Section (4) demonstrate this is the case.
- The reality is that in a market with more than 400 individual PAK’nSAVE, New World, and Four Square outlets, competition is intense. We not only need to compete with each of those three banners at a national level, we also need to compete at a North and South Island level to the extent each cooperative adopts different strategies, and with each and every store owner on a local level, with store owners often implementing their own specific local competitive initiatives that we need to react to.
- If we get things wrong, we will rapidly lose sales and market share, with the extensive promotional programmes run by both WWNZ and each of the Foodstuffs banners (for example, weekly specials, one-day-sales, collectibles campaigns, extensive marketing, and comparative advertising) demonstrating the vigorous competition that exists.
- This means we never take our customers or market share for granted. New Zealand consumers are highly price conscious, and very willing to shop around between any of the supermarket banners (or other options) to shop at the retailer that they consider is best meeting their needs on any given day. Reflecting this, even if we just look at Kiwis who shop at Countdown, PAK’nSAVE, and New World, more than half [] of these will shop at more than one of these banners in a given month. We need to continue to earn our customers’ trust and business on an ongoing basis.
- To do this, we are constantly reviewing our pricing and product propositions, and we need to have multiple different competitive initiatives to stay relevant to our customers. These include:
 - developing and implementing attractive discount and promotional offerings every week;

²⁰ 13 November 2020. Cabinet Paper: Initiating a Commerce Commission market study into supermarkets. Office of the Minister of Commerce and Consumer Affairs.

- significant advertising and marketing of our offering through television, radio, online, and print commercials;
 - constantly investing in upgrading our stores;
 - investments in community initiatives and local sponsorships;
 - constant monitoring of the competitiveness of our offerings, our sales performance, and an array of customer satisfaction metrics;
 - investment in collectibles programmes (such as our recent Super Insects campaign), and other sales campaigns (such as Trolley Dash, or summer giveaways);
 - investment in making our Onecard programme attractive; and
 - investment in tailoring our range and product offerings to local customer tastes, and developing new products as customer demands evolve (for example, increasing investment in ready-to-go meals, or dedicated health foods aisles).
- If our sector was not intensely competitive, we would not need to do the above. Our reality is that even a day of not listening and responding to our customers can result in significant loss in sales and market share to the many PAK'nSAVE, New World, and Four Square outlets, as well as the many other retailers and channels we compete against - see Section (3)(b) below.

(b) Intense competition with other retailer types

- In addition to the significant competition between us and the 400-plus PAK'nSAVE, New World, and Four Square owner-operated supermarkets, the products we sell are also readily available from many other retailers and channels.
- This means that while “traditional supermarkets” may be characterised in part by offering a wider range of products, our competitor set cannot be limited to other retailers that do the same. The other retailers and channels that also compete with us very effectively include:
 - **Other supermarkets** - such as Farro Fresh (with six retail stores across Auckland, plans for three more stores, an online shopping service,²¹ 300 staff, and revenue in excess of \$100 million),²² Huckleberry (with six retail stores across Auckland and Tauranga²³ and 240 staff, as well as offering online shopping),²⁴ Tai Ping (with eleven retail stores across Auckland),²⁵

²¹ <https://www.farro.co.nz/our-story/>

²² (27 January 2021). Three new Farro Fresh stores planned, \$100m revenue forecast to be topped this year. NZ Herald.

²³ <https://www.huckleberry.co.nz/pages/stores>

²⁴ (12 April 2018). Workers of Huckleberry grocery store pack up strike action following pay negotiations. NZ Herald. Retrieved from: <https://www.nzherald.co.nz/business/workers-of-huckleberry-grocery-store-pack-up-strike-action-following-pay-negotiations/Q6VSZUMARE7E3UV43GMOV2Y4C/>

²⁵ <https://www.taiping.co.nz/contact/>

Moore Wilson's (with three retail stores in Wellington, Porirua, and Masterton),²⁶ Raeward Fresh (with four retail stores across Christchurch, Nelson, and Queenstown).

- **Speciality stores** - such as butchers, green-grocers, bakeries, fishmongers, and other specialty retailers (including Fruit World, Couplands, Bakers Delight, Mad Butcher, and a large number of independents). Together these specialty stores are a significant part of the grocery sector. For example, independent "fruit and vege" retailers are estimated by Horticulture NZ to represent 60% of sales of fresh fruit and vegetables in Auckland.²⁷ The ACCC similarly recognised this dynamic in its grocery market study.²⁸

"Speciality stores command a significant share of retail sales in fresh groceries, and the ACCC recognises that they represent an important part of the grocery industry. Specialty retailers provide consumers with a significant alternative to supermarkets in purchasing fresh products. The vast number of specialty retailers and the lower barriers to setting up specialty grocery outlets mean specialty retailers provide a strong competitive force in retailing fresh products."

- **Convenience stores** - a category that includes more than 1,200 retail supported service stations and more than 4,000 dairies providing snacks, grocery staples and ready to eat food to local communities across New Zealand (including On The Spot, BP, Caltex, Z, Mobil, Gull, Night n' Day, Circle K). These competitors play a significant role in the supply of on-the-go snacks (such as crisps, soft drinks, and confectionery) and in many core pantry-fillers (such as milk, bread, and eggs). Convenience stores are very much a growth channel due to increasing consumer demand for convenience - see Section (3)(d) below.
- **General merchandise retailers** - such as The Warehouse, which offers a range of grocery products, such as packaged food products, health and beauty, baby, cleaning and household needs across 90 stores and online.
- **Liquor stores** - with around 1,000 outlets nationwide and significant online presence competing in the supply of wine, beer, cider, soft drinks and snacks, including SuperLiquor, Liquor King, Bottle-O and Liquor Centre.
- **Health and beauty retailers and pharmacies** - such as Chemist Warehouse, Bargain Chemist, Health 2000, and traditional pharmacies (including Unichem and Life Pharmacies) that compete to supply health and beauty, baby, household cleaning and pharmaceutical needs.

²⁶ <https://moorewilsons.co.nz/departments/fresh>

²⁷ (12 August 2020). Open Letter: Horticulture | Recognise Independent Fruit & Vegetable Retailers As Essential Services. Horticulture NZ. Retrieved from: <https://www.scoop.co.nz/stories/BU2008/S00204/open-letter-horticulture-recognise-independent-fruit-vegetable-retailers-as-essential-services.htm>

²⁸ ACCC. Report of the ACCC inquiry into the competitiveness of retail prices for standard groceries. (July 2008). Page 176.

- **Specialist pet retailers** - such as Animates, Petstock or Pet.co.nz (which has seen 20% year-on-year growth for the past four years),²⁹ which compete to supply pet food and other products.
 - **Online grocery specialists, and online platforms** - such as The Honest Grocer, Nappies Direct, TheMarket, MightyApe, online direct-to-customer (**D2C**) offerings, and many others where competition is rapidly accelerating as outlined further in Section (3)(c).
 - **Hardware retailers** - such as Placemakers, Carters, Mitre 10, and Bunnings Warehouse, which offer household cleaning products.
 - **Trade specialists that have developed consumer offerings** - such as Moore Wilson's (referred to above), FoodChain and Service Foods, as outlined further in Section (3)(c).
 - **Ready to eat delivery and meal kit players** - such as My Food Bag, WOOP, HelloFresh, Uber Eats, which are all in-home dining options that are growing rapidly and increasingly competing with "traditional supermarkets" (the meal kit channel is estimated to be worth over [] in New Zealand, and growing at more than [] per annum, even prior to any post-COVID acceleration).³⁰ See Sections (3)(c) and (d) for how the rise in online purchasing and consumer demand for convenience is creating increasing convergence and competition between these channels and "traditional supermarkets".
 - **Food and beverage services providers** - where competition is increasing for "share of stomach". Please see Sections (3)(c) and (d) for how the rise in online purchasing and consumer demand for convenience is creating increasing convergence and competition between these channels and "traditional supermarkets".
- This diverse competitive landscape is illustrated in Figure [2] below.

²⁹ The Full Download. 2020 New Zealand eCommerce Review. New Zealand Post.

³⁰ Indeed, HelloFresh is reported to have grown 159% in the last year. See: (4 February 2021). HelloFresh's bumper year of New Zealand growth revealed. NZ Herald.

Figure [2] - Examples of WWNZ's competitive landscape



- The evidence demonstrates that New Zealanders actively shop around across this variety of retailers. This means we face competition from a range of different competitors that compete with us in multiple different ways. For example:
 - Nielsen Homescan data for at-home consumption shows that in a given month, more than half [] of New Zealanders will shop at specialists and non-supermarkets for grocery retail products - see Figure [3] below. Furthermore, only 10% of Kiwis will shop exclusively at Countdown during the month.
 - Analysis []³¹ found that consumers spent [] on food and grocery products at other retailers within 30 minutes either-side of a shopping trip to Countdown (where the average shopping basket at Countdown is itself []).³² This means that even on the same shopping trip, consumers will visit other food and grocery retailers, reinforcing that these other retailers compete closely with “traditional supermarket” retailers for consumers’ food and grocery custom.

³¹ [].
³² [].

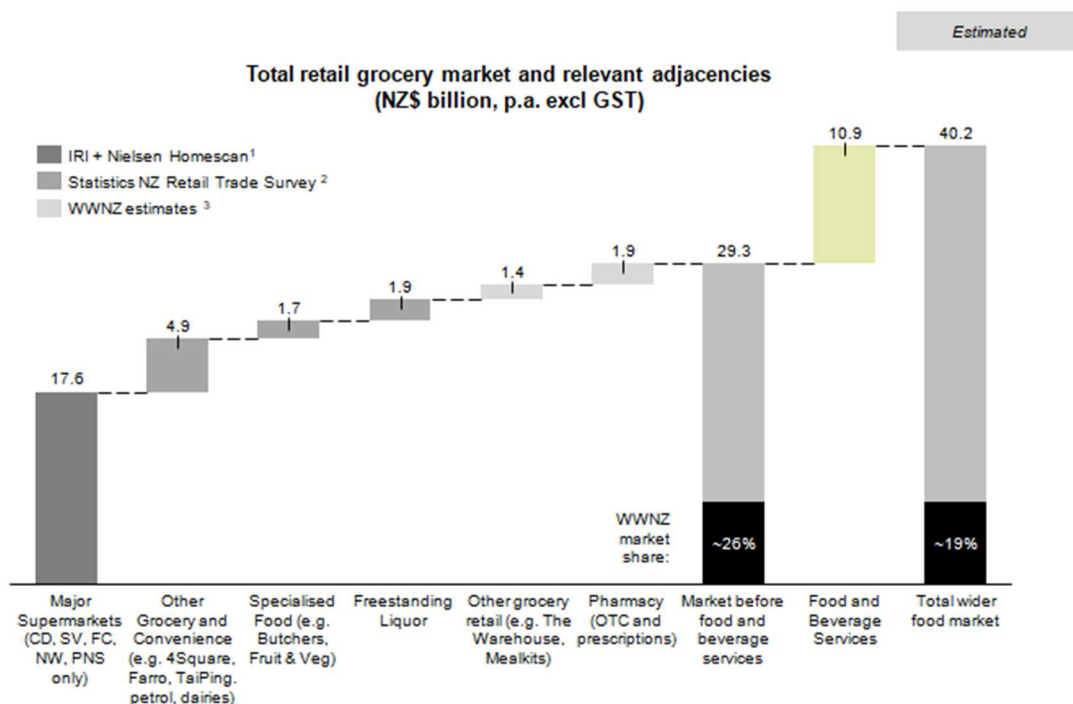
Figure [3] - Cross-shopping by New Zealand consumers

[]

- Overall, there is a significant number of different types of grocery retailers (including online-only players) that play a dynamic and competitive role in the New Zealand retail grocery sector - as illustrated in Figure [4] below. Any Market Study that focused only on WWNZ and Foodstuffs would not reflect the way that New Zealanders shop and would only provide the Commission with a partial and static “snapshot” perspective of the relevant market (and, as the ACCC noted in its grocery market study, “[i]t would be a mistake to see the grocery market in Australia as static”).³³

³³ ACCC. Report of the ACCC inquiry into the competitiveness of retail prices for standard groceries. (July 2008). Page 213.

Figure [4] - Total retail grocery market and relevant adjacencies (NZ\$ billion, per annum excluding GST)



1. Pre-packaged goods for CD/NW/PnS/SV/FC based on actual IRI scan data. Fresh estimated from known WWNZ fresh sales, and approximated 'at home spend' from Nielsen Homescan's 2,500 household shopper panel 2. Year-ending September 2020 Quarter. 3. WWNZ estimates based on a variety of sources and assumptions

(c) Rapid growth of online purchases of food and grocery products

- One of the most significant dynamics that must be considered in undertaking a Market Study into the New Zealand grocery retailing sector is the significant, and increasingly rapid, shift by consumers to purchasing food and grocery products online. This is true both globally and in New Zealand:
 - In Australia, Woolworths' online food sales rose 100% in the September quarter (compared to more than 40% growth in the 12 months ending June 2020), in the UK Tesco's online sales for the 26 weeks to 29 August 2020 surged 69% year-on-year (and the rate of growth increased further in the final three months to 90%),³⁴ in the USA Walmart's online sales increased 97% in the quarter ended 31 July 2020,³⁵ and in Canada from February to April 2020 online sales in the food and beverage sector increased 107%.³⁶
 - In New Zealand, Countdown's online penetration continues to rapidly grow, having increased from 3% of total sales in FY2014 to over 12% [] in the current financial year to date (i.e. an increase of over 350% [] from FY2014 to FY2020) - see Figure [5]. We now offer home delivery to more

³⁴ 7 October 2020. Tesco reports 69% growth in online sales as profits surge. EssentialRetail.

<https://www.essentialretail.com/news/tesco-growth-online-profits-surge/>

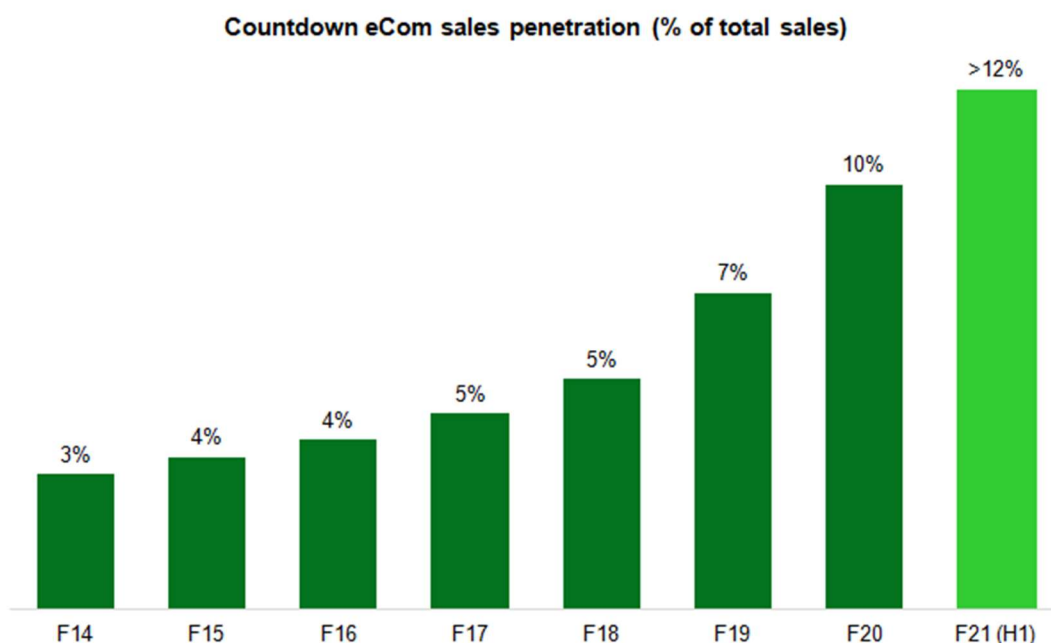
³⁵ 19 August 2020. Walmart's e-commerce sales nearly double as shoppers go beyond groceries in online orders. Fortune. <https://fortune.com/2020/08/18/walmart-ecommerce-sales-covid-doug-mcmillon/>

³⁶ 25 July 2020. Online shopping has doubled during the pandemic, Statistics Canada says. CBC. <https://www.cbc.ca/news/business/online-shopping-covid-19-1.5661818>

than 99% of the population, Pick Up (or “click and collect”) options are available nationwide across 180 Countdown stores, we have three online only e-stores, and we have a pipeline of other investments planned to meet this increasing demand. With online sales growth currently at more than 40% per annum, Countdown’s online sales are likely to exceed [] of our sales by the end of FY2023. This means that the size of Countdown’s current online business is already equivalent to [] physical supermarkets, and by the end of FY2023 would be as large as more than [] supermarkets.

- Giving context to Kiwis’ affinity for purchasing groceries online, and our investment in innovation, Countdown’s online sales are well ahead of most other western economies, including the UK (~9%), France (~7%), Western Europe (~5%), USA (~5%), Italy (~2%), and Germany (~2%) - see Figure [6] below³⁷ - albeit behind other markets such as South Korea ~20%.³⁸

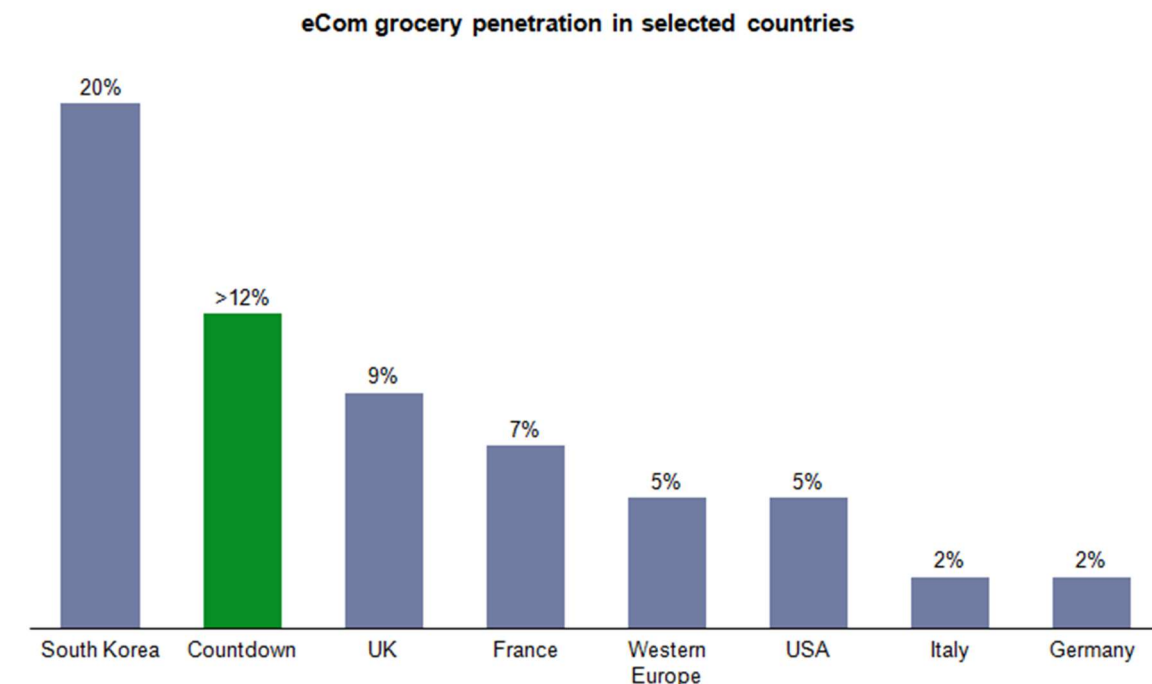
Figure [5] - Countdown online sales penetration (% of total sales)



Source: WWNZ internal data

³⁷ (9 June 2020). Brief: How to Ramp Up Online Grocery—without Breaking the Bank. Bain. Retrieved from: <https://www.bain.com/insights/how-to-ramp-up-online-grocery-without-breaking-the-bank/>

³⁸ FMCG online penetration: South Korea leads. Retrieved from: <https://ecommercedb.com/en/blogPost/2428/fmcg-online-penetration-korea-leads>

Figure [6] - Online grocery penetration in selected countries

- COVID-19 has undoubtedly accelerated this trend, but it was already a significant underlying trend, and even though many COVID-related shopping dynamics have now subsided, Countdown's online sales have remained structurally higher at over 12% [] of sales (compared to [] during the COVID-19 peak, and ~9% before COVID-19). Massey University Professor Jonathan Elms predicts that COVID-19 has accelerated the rate of online grocery shopping retail transformation by six years.³⁹

“We are seeing more and more consumers shopping online for a variety of things, things that they never thought they would shop for ever before. Covid has pushed retailers to do business differently. We are in a situation where we are probably six years ahead of where we would have been without Covid. Retailers have had to think about the interaction between their stores and online presence.”

- We anticipate that this will be permanent, as demonstrated in our forecasts. Comparisons with other sectors (such as online purchases of books, general merchandise, and electronics) reveal that there is significant growth still to occur (for example in the UK, online already comprises more than 30% of non-food retail sales).⁴⁰ In particular, young people and families have been the fastest to take-up online grocery options, and the uptake will only increase further as this cohort matures.

³⁹ (5 August 2020). Online shopping emerges as the big winner in the first six months of 2020. Stuff. Retrieved from: <https://www.stuff.co.nz/business/122349826/online-shopping-emerges-as-the-big-winner-in-the-first-six-months-of-2020>

⁴⁰ (17 September 2020). Australian Retail: Retail's eCommerce Renaissance. Citi Research.

- This is a significant factor for the grocery retailing sector in New Zealand. It means that competitors no longer need to access a “bricks-and-mortar” retail presence to be a significant competitor, and has led, and will lead, to the entry and expansion of new competitors. For example, in addition to “traditional supermarkets” such as Countdown offering online shopping, a plethora of other business models are rapidly emerging:
 - **Online-only marketplaces and retailers**, which are increasingly competing for the sale of grocery products. For example:
 - The Warehouse’s TheMarket has two million products from 3,500 local and international brands, more than 1 million monthly sessions (as reported in August 2020), and includes a significant number of food and grocery products - able to be delivered nationwide.
 - Mighty Ape offers a range of products on its platform, including a number of products in its “Food & Drink”, “Baby”, “Health & Beauty”, “Supplements & Vitamins” and “Pets” departments. Fishpond.co.nz similarly offers a range of such products.
 - The Honest Grocer is an online only supermarket that launched in December 2020 with the stated aim of being a “retail disruptor” and already delivering North Island-wide.
 - Service Foods, which has been a food service supplier for over 35 years, has recently launched its “Service Foods HOME” consumer offering to “[bring] our butchers, growers, wholefood specialists and makers to your place.”⁴¹
 - FoodChain, a long-standing food service supplier, has launched a consumer offering “FoodChain at Home”.⁴²
 - Bounty Box offers home delivery of a range of grocery products, described as “New Zealand’s freshest organic, spray free and gourmet grocery deliveries”.⁴³
 - My Food Bag already allows customers to add fruit boxes to their deliveries,⁴⁴ and is reported to be considering expansion into other food and grocery products through an online business model.⁴⁵
 - Fruit Guys, a long-standing supplier of fruit and vegetables to workplaces has launched a direct to consumer offering of fruit, vegetables, honey, and other beverage products.⁴⁶

⁴¹ <https://servicefoodshome.co.nz/about>

⁴² <https://foodchainathome.co.nz/>

⁴³ <https://bountybox.co.nz/>

⁴⁴ <https://www.myfoodbag.co.nz/extras/my-fruit-choices>

⁴⁵ (16 January 2021). Leading questions. My Food Bag chief executive Kevin Bowler on upcoming IPO. The New Zealand Herald.

⁴⁶ <https://www.fruitguys.co.nz/>

- Hypermeat is an online meat and other grocery products retailer formed as a collaboration between Hyper Ride (an online-only surf, skate, snowboard company) and Neat Meat.
- Ooooby now offers a range of grocery products from its website.
- **Ready-to-eat delivery and meal kit players**, such as My Food Bag, WOOP, HelloFresh and Uber Eats are capitalising on the convergence of online and convenience shopping trends (as outlined further in Section (3)(d) below). Meal kit providers are direct competitors to supermarkets and are seeing significant growth and uptake in New Zealand (see Section (3)(b) above). As HelloFresh has previously stated: “[i]n creating HelloFresh we wanted to disrupt the usual supermarket model and supply chain paradigm”,⁴⁷ and it now describes itself as “very close to the third-largest grocery retailer in the country, if not there already.”⁴⁸
- **Online-enabled direct-to-consumer (D2C) models** are increasingly seeing manufacturers supplying products directly to end customers. For example, Pic’s Peanut Butter, Garage Project and Ceres Organics all sell directly to consumers, and in New Zealand a number of meat suppliers have developed D2C propositions (for example, Greenlea Butcher Shop). These models allow manufacturers to supplement or reduce the use of wholesalers/retailers and hold a direct relationship with consumers.
- **Other large-scale online-enabled models** are also rapidly emerging overseas to supply groceries. We expect this will be seen in New Zealand in the near future. For example:
 - In Europe, tech company INS has developed a digital platform allowing food manufacturers to bypass the brick-and-mortar retail landscape and sell their products directly to their consumers.
 - In North America, Instacart (valued at more than US\$17 billion), operates a grocery delivery and pick-up service in the United States and Canada, offering its services via a website and mobile app and allowing customers to order groceries from participating retailers with the shopping being done by a personal shopper.
 - Ocado (valued at more than £21.7 billion) plays a significant role in the UK grocery market and is steadily expanding its influence globally (for example, in the USA - via Kroger, in Australia - via partnership with Coles).
 - Amazon, the world’s largest online retailer acquired *Wholefoods* in 2017, and has been steadily building scale in online grocery right across the globe, both in pantry staples and fresh. This includes the

⁴⁷ https://ir.hellofreshgroup.com/download/companies/hellofresh/Annual%20Reports/Sustainability-Report-2018_FINAL.pdf

⁴⁸ (4 February 2021). HelloFresh's bumper year of New Zealand growth revealed. NZ Herald.

launch of its food and grocery offer in Australia in 2018 (including launching its “Pantry Food & Drinks” offering⁴⁹ and Amazon “Subscribe&Save” for online purchase and home delivery of regularly purchased grocery products),⁵⁰ and expansion of new bricks-and-mortar supermarket offerings in the USA.

- The significance of these changes is evidenced by the investment that WWNZ continues to make into our own digital and online capabilities as we prepare for both today’s consumer environment and the future. In FY2021 alone we will invest over [] into digital and eCom-related capabilities.

(d) Long-term trend towards convenience and competition for ‘share of stomach’

- In our view, it is also important for the Market Study to reflect the significance of consumers’ increasing demand for “convenience”.
- In New Zealand, this convenience trend is leading to significant changes in Kiwis’ shopping behaviour, such as the following:⁵¹
 - shoppers are undertaking frequent, shorter in-store trips, versus large weekly shopping trips;
 - there is increasing consumer demand for ready-made meals; and
 - consumer expenditure on eating out and takeaway food is growing.
- This means that, whereas many years ago grocery retail shopping in New Zealand might have been a once-a-week-or-fortnight “single large basket” shopping trip, the average Countdown shopper’s checkout basket is now [] (including GST)⁵² and approximately [] items, with the average Onecard holder now visiting us [] times per week.⁵³
- There are a number of significant dynamics that are emerging from this trend towards convenience, namely:
 - increasing proliferation of “small format” grocery / convenience stores;
 - increasing offering of convenience initiatives and “ready-to-eat” options within large format grocery stores, such as more express and self-serve checkouts and layout changes (for example, to bring ready-to-eat food closer to the front of the store); and

⁴⁹ <https://www.amazon.com.au/b?ie=UTF8&node=5547635051>

⁵⁰ <https://www.amazon.com.au/Subscribe-Save/b?ie=UTF8&node=6871596051>

⁵¹ International industry research by TCC Global has also noted this trend globally: “*The basket size and product mix of this ‘big-shop’ is changing. Instead of solely carrying out weekly shopping trips, consumers are supplementing the ‘bigshop’ with smaller and more frequent trips to discounters and convenience stores*”, meaning that globally only 30% of trips to supermarkets are now for “big stockup shops”, with the other 70% being for “small topup shops”, “quick shop urgent need”, or “shop for instant need” trips. See: TCC Global. Loyalty Report 2019. Retrieved from: <https://www.tccglobal.com/wp-assets/uploads/2019/03/Loyalty-Report-2019.pdf>

⁵² [].

⁵³ Excluding some temporary COVID-19 disruption during the panic buying / stock-up period.

- increasing competition (channel convergence) between grocery stores, meal kits, food service providers, and meal delivery platforms (such as Uber Eats).
- These dynamics are described as follows:
 - **Increasing proliferation of “small format” grocery / convenience stores:** Consumer demand for convenience is leading to increased proliferation of “small format” grocery / convenience stores. For example, industry research by TCC Global has noted:⁵⁴

“Around the world, the ongoing expansion of the c-store model means that specialists like 7-Eleven and Couche-Tard are proliferating. The net effect for consumers has seen the level of choice available to grocery shoppers reach unprecedented levels.”

This dynamic can be seen both globally, and in New Zealand:

- In the UK, a number of supermarkets (for example, Aldi, Tesco, Sainsburys) have been investing in the development and expansion of smaller format grocery stores, and in Australia both Woolworths and Coles have been scaling up their Metro and Local (respectively) store networks.
- In New Zealand, we are seeing many responses to this trend - for example, WWNZ has launched our Metro format and Foodstuffs North Island has launched its New World Fresh Collective, New World Metro, and PAK'nSAVE Mini formats. Also, Farro Fresh has now established six of its smaller format grocery stores, and Circle K (one of the largest convenience store brands in North America)⁵⁵ has expanded into New Zealand.⁵⁶
- **Growth in ready-to-eat products:** Ready-to-eat products are seeing significant growth. For the period FY2016 to FY2022, sales of chilled ready-made meals in Australia and New Zealand are anticipated to increase at a compound annual growth rate (**CAGR**) of 11.3% per annum.⁵⁷
- **Growth in meal kits and food boxes:** Providers of meal kits, such as My Food Bag, HelloFresh and WOOP, have seen significant growth and there are now a number of competing retailers in this portion of the retail grocery sector. IRI 2019 research shows that 7% of Kiwis have tried meal kits, with 3% regularly using them,⁵⁸ with this number likely to have increased

⁵⁴ TCC Global. Loyalty Report 2019. Retrieved from: <https://www.tccglobal.com/wp-assets/uploads/2019/03/Loyalty-Report-2019.pdf>

⁵⁵ <https://www.circlek.com/ca/western/about-us-0>

⁵⁶ (20 November 2018). Circle K enters convenience store competition in Auckland, with plans for petrol too. Stuff. Retrieved from: <https://www.stuff.co.nz/business/108723359/circle-k-joins-the-convenience-store-competition-in-auckland>

⁵⁷ <https://www.investors.youfoodz.com/site/PDF/b13fb830-3e81-490f-8bf3-a0e0d97b2ca1/Prospectus>

⁵⁸ (24 April 2019). Conveniently Convenient. Supermarket News. Retrieved from: <https://supermarketnews.co.nz/features/conveniently-convenient/>

significantly as this channel is estimated to be growing at [] per annum even prior to any post-COVID acceleration (see Section (3)(b) above).⁵⁹ No contract subscriptions mean switching and trial costs for consumers are low / non-existent. My Food Bag (perhaps New Zealand's best known meal kit company) has a delivery network that reaches 86% of New Zealanders,⁶⁰ and is reported to have had a strong year and is now planning again for an initial public offering (**IPO**). It is also said to be considering expansion into other retail grocery products.⁶¹ HelloFresh has grown 159% in New Zealand in the last year (describing New Zealand as "one of its fastest growing markets"), and now has a delivery network that services 84% of New Zealanders.⁶² Food box competitors have also proliferated in recent years, as they similarly capitalise on convenience and online shopping trends - with examples including Ooooby, Foodbox.co.nz, Fruit Guys, Kiwi Fresh Direct, Molesworth Fruit. The success of these meal kit and food box providers has been at the expense of traditional grocery retailers as these providers sell produce and ingredients to customers that they would otherwise source from a grocer. As a survey by HelloFresh has found "Kiwis using meal kits were less likely to need to go to the supermarket with almost three quarters (72%) saying they now only need to buy supplementary groceries once a week".⁶³

- **Growth in competition with food service providers and meal delivery platforms:** This greater demand for convenience means New Zealanders are more likely than ever to eat out, buy food on the way home from work or order food through a delivery app such as Uber Eats. For example, IRI research shows that amongst 18 to 44 year olds in New Zealand who claim to have Uber Eats in their area, 39% have used that service.⁶⁴ This means that "traditional" grocery retail channels are steadily losing 'share of stomach' to the food and beverage services sector at cafes, restaurants, pubs and quick service restaurants (**QSRs**) (up from ~27% in 2010, to over 30%), as illustrated in Figure [7] below.

⁵⁹ Indeed, HelloFresh is reported to have grown 159% in the last year. See: (4 February 2021). HelloFresh's bumper year of New Zealand growth revealed. NZ Herald.

⁶⁰ <https://help.myfoodbag.co.nz/hc/en-nz/articles/360015286794-Where-do-you-deliver-to->

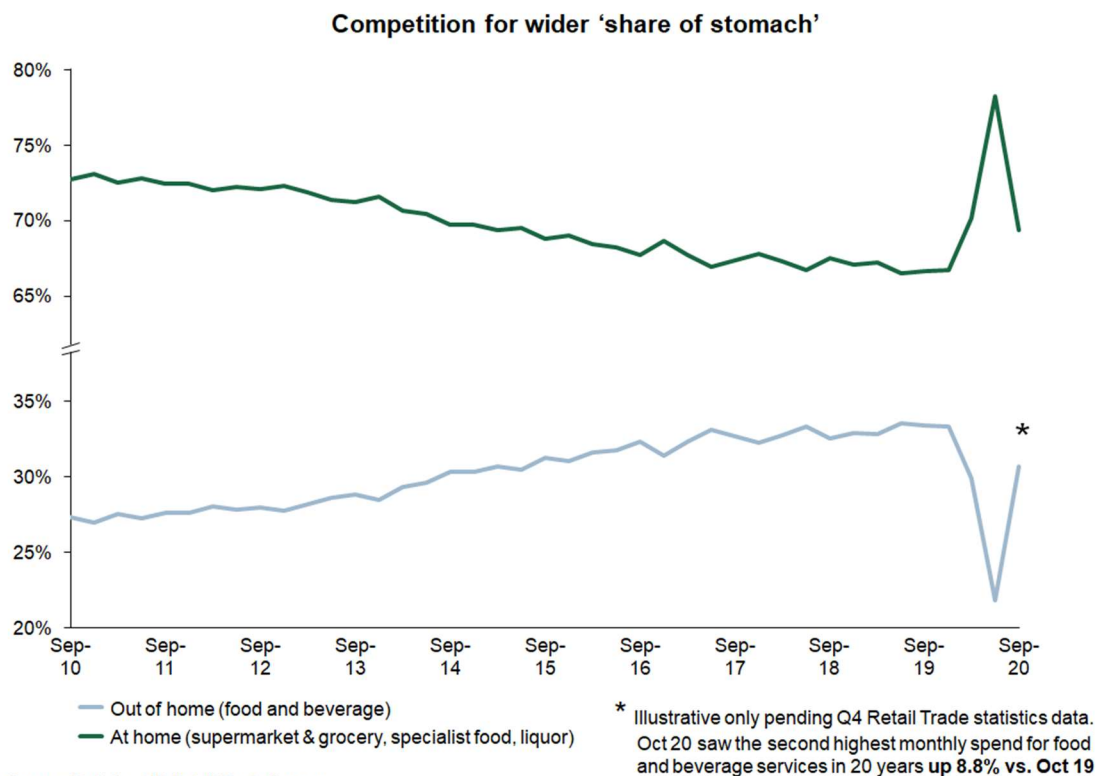
⁶¹ For example, the My Food Bag CEO has noted "[a]s more and more Kiwis are buying their food online, we'll be exploring what else people would like with their My Food Bag orders and trialling a range of delicious ideas. The business is well placed to expand into the wider food and grocery market". See: (16 January 2021). Leading questions. My Food Bag chief executive Kevin Bowler on upcoming IPO. The New Zealand Herald.

⁶² See: (4 February 2021). HelloFresh's bumper year of New Zealand growth revealed. NZ Herald.

⁶³ 25 September 2019. Kiwis Using Meal Kits to Spread Cooking Workload. Press Release: HelloFresh. Retrieved from: <https://www.scoop.co.nz/stories/BU1909/S00646/kiwis-using-meal-kits-to-spread-cooking-workload.htm>

⁶⁴ (24 April 2019). Conveniently Convenient. Supermarket News. Retrieved from: <https://supermarketnews.co.nz/features/conveniently-convenient/>

Figure [7] - Share of ‘food’ and ‘at home retail’ purchases



- In summary these dynamics are rapidly changing the purchasing habits of Kiwis, proliferating the competitive options open to them and “blurring” any distinctions that used to exist between different grocery, convenience and food service channels. As IRI has observed:⁶⁵

“Competition for share of mouth continues to evolve and intensify for supermarkets and pre-packaged food manufacturers. Foodservice continues to develop and accelerate at a faster rate than pre-packaged grocery, as it offers variety, experimentation, speed, ease and flexibility. When we asked New Zealanders what they did in the past week, four-in-ten of us have eaten out in a restaurant or café making this a popular past time... New Zealanders are extending their search across channels for convenient meal solutions that suit all occasions. It is only logical therefore, that channel blurring between foodservice and convenience continues”.

(e) Entry and expansion of competitors

- In addition to online and convenience trends discussed above, there are numerous examples of other competitors entering and expanding to compete in grocery retailing in New Zealand. For example:
 - **The Warehouse:** The Warehouse is increasing its sales of grocery items through its traditional brick and mortar retail outlets noting, for example, in its

⁶⁵ (24 April 2019). Conveniently Convenient. Supermarket News. Retrieved from: <https://supermarketnews.co.nz/features/conveniently-convenient/>

2018 Annual Report that “[t]he grocery and apparel categories in The Warehouse have performed particularly well. Sales of affordable essentials in grocery have increased with a 14.0% uplift”.⁶⁶ It obviously continues to see the potential for success in grocery retailing having launched into food and drinks as part of its latest proposition online, TheMarket, in 2019, and has said it wants to be the “Amazon of New Zealand”⁶⁷ (presumably replicating Amazon’s combination of online and bricks-and-mortar retail offerings across general merchandise and grocery products).

- **Chemist Warehouse**: Chemist Warehouse, the Australian-based discount chemist and grocery non-food retailer, expanded into New Zealand in 2017 and already has 16 stores in New Zealand, with statements that it wants up to 70 stores across New Zealand.⁶⁸ Chemist Warehouse competes directly in the New Zealand grocery market supplying a large range of health, beauty / body, pharmacy products, and domestic cleaning products both instore and online.
- **Costco**: Costco, the US-based multinational grocery chain with ~800 stores globally (including 12 in Australia) is currently in the process of developing its first New Zealand store (at Westgate, Auckland), and (as the Issues Paper notes) has publicly announced intentions to open in Wellington and Christchurch. Costco has had significant success in Australia since first launching in Melbourne in 2009, with it now having stores in Brisbane (2), Sydney (3), Canberra, Melbourne (4), Adelaide and Perth, and achieved record sales of AUD\$2.59 billion in Australia in 2020 (up from AUD\$2.16 billion in 2019).⁶⁹ As Australian media has noted “the US retailer is seen as a “destination shop” and lives on its shoppers travelling long distances to shop at the store”⁷⁰ (indeed, WWNZ has seen analysis suggesting that Costco stores have in-person catchments of ~25km). WWNZ expects Costco to offer nationwide services in New Zealand once fully operational, and Costco has extended into grocery deliveries in other countries.⁷¹
- **Other international retailers**: In addition, there is the constant likelihood of other international grocery retailers entering/expanding into New Zealand - such as Aldi or Amazon. Indeed, Aldi, for example, has opened over 500 stores across Australia since its arrival in Sydney in 2001 (opening on average 25 stores per year). In 2016 Aldi expanded into Western Australia,

⁶⁶ The Warehouse Group. 2018 Annual Report.

⁶⁷ (2 August 2019). New market realities and The Warehouse Group's TheMarket. The Register. Retrieved from: <https://theregister.co.nz/2019/08/02/new-market-realities-and-warehouse-groups-themarket/>

⁶⁸ See: (5 March 2020). Australian pharmacy giant Chemist Warehouse to open in Christchurch. Stuff. Retrieved from: <https://www.stuff.co.nz/business/120003495/australian-pharmacy-giant-chemist-warehouse-to-open-in-christchurch>

⁶⁹ (25 December 2020). Australia’s love for Costco sends its sales to \$2.6bn. The Australian.

⁷⁰ (25 December 2020). Australia’s love for Costco sends its sales to \$2.6bn. The Australian.

⁷¹ (6 October 2017). Costco just launched a grocery delivery service. Market Watch. Retrieved from: <https://www.marketwatch.com/story/costco-just-launched-a-grocery-delivery-service-2017-10-06>

and is said to have plans to open 70 stores in that state⁷² (currently at 46).⁷³ Structurally, there is little difference between Perth and Auckland (in terms of population, and Auckland is in fact closer to other cities, such as Hamilton and Tauranga), pointing clearly to the prospect that Aldi's expansion into Western Australia may be easily replicated in New Zealand. Given Aldi's roll-out across Australia appears to now be complete, we expect expansion to New Zealand to be next on its horizon. Furthermore, while the Issues Paper refers to a newspaper reporting Aldi saying it does not have plans to enter New Zealand, we note Aldi similarly made statements in September 2009 and October 2012 denying plans to expand to Western Australia⁷⁴ before announcing its expansion into Western Australia in February 2013.⁷⁵ Amazon has similarly expanded into grocery retailing in Australia (see Section (3)(c) above), and expansion into New Zealand would be a logical extension. Accordingly, we regard the entry and expansion of Aldi and Amazon in New Zealand as real and imminent possibilities.

- In summary, in our experience there is a significant and growing range of retailers and other suppliers of food and grocery products in New Zealand that compete directly and successfully with the "traditional supermarket" grocery retailers. Kiwi consumers have many options when it comes to where, how and who to buy their groceries from (or put dinner on the table) and new competitors are constantly emerging (especially via online enabled business models).
- We agree with the Commission's view in the Issues Paper that "the threat of entry and expansion can significantly constrain the behaviour of existing firms, leading to better outcomes for consumers",⁷⁶ and consider it important that the Market Study take a forward looking and dynamic view of those competitors that already, or may imminently, impose very significant competitive constraint (as the Commission does in conducting merger analysis) in order to accurately assess competitive dynamics in the New Zealand retail grocery sector.

(4) Key indicators demonstrate that the New Zealand retail grocery sector is intensely competitive and delivering competitive outcomes for consumers and suppliers

- The Cabinet Paper requesting that the Commission conduct a Market Study cited one of the reasons for the Market Study being possible concerns that "there are

⁷² (19 April 2016). Aldi reveals WA expansion plans. IGD. Retrieved from:

<https://retailanalysis.igd.com/markets/australia/news/-news-article/t/aldi-reveals-wa-expansion-plans/i/11123>

⁷³ <https://storelocator.aldi.com.au/Presentation/AldiSued/en-au/Start>

⁷⁴ See for example:

- (19 September 2009). Reforms not enough to attract discount supermarket to WA. WA Today. Retrieved from: <https://www.watoday.com.au/national/western-australia/reforms-not-enough-to-attract-discount-supermarket-to-wa-20090918-fv7a.html>
- (25 October 2012). ALDI Continues to grow along the east coast. Australian Food News. Retrieved from: <https://www.ausfoodnews.com.au/2012/10/25/aldi-continues-to-grow-along-the-east-coast.html>

⁷⁵ (12 February 2013). Western Australia and South Australia's cries for ALDI have been heard. Australian Food News. Retrieved from: <https://www.ausfoodnews.com.au/2013/02/12/western-australia-and-south-australia%E2%80%99s-cries-for-aldi-have-been-heard.html>

⁷⁶ Paragraph [87].

existing indications of competition problems in the market (such as high prices or low levels of innovation)".⁷⁷

- That is not our experience - we experience intense competition. We acknowledge that if you apply a static and narrow lens of the number of "traditional supermarket" banners in New Zealand, the sector would appear concentrated by international standards. However, as the ACCC observed in its grocery market study "a finding that an industry is concentrated is not itself determinative of competition issues".⁷⁸ Nor, as we have stated above, would we consider that such an approach would be reflective of the New Zealand grocery sector given the individual owner-operated models adopted by the SuperValue, FreshChoice, New World, Four Square, and PAK'nSAVE outlets, and the way that Kiwis themselves cross-shop across multiple different retailer types (as outlined above).
- Rather, it is important to look at a range of measures (not just banner concentration) to assess whether the sector is delivering competitive outcomes. Our perspective is that the many dynamic factors set out above are delivering outcomes consistent with intense competition.
- The measure of these intensely competitive outcomes can be seen in the following:

(a) Retail grocery prices across the sector have decreased in real terms over the last decade (despite input costs and export prices increasing)

- Over the last decade,⁷⁹ general inflation⁸⁰ in New Zealand has on average grown at a rate of 1.58% per annum. During this time, food inflation in New Zealand has on average grown at 1.60% per annum,⁸¹ or 1.30% excluding "restaurant meals and ready-to-eat food".⁸² This means grocery food prices across New Zealand (i.e. excluding restaurant meals and ready-to-eat food) have decreased in real terms over the last decade. In fact, our own retail prices at Countdown have, in real terms, decreased by even more. This is because Countdown's own "retail inflation", our measure of the price we sell goods for in our Countdown stores, has been lower again, at 0.7% per annum over this period. We have achieved this despite our input costs increasing over the last decade (with input costs increasing at a faster rate than retail food prices),⁸³ and export prices for key New Zealand grocery exports (dairy, meat, fish, and fruits and vegetables)⁸⁴ generally increasing over the last decade (which inevitably puts additional upward pricing pressure on our input costs

⁷⁷ 13 November 2020. Cabinet Paper: Initiating a Commerce Commission market study into supermarkets. Office of the Minister of Commerce and Consumer Affairs.

⁷⁸ ACCC. Report of the ACCC inquiry into the competitiveness of retail prices for standard groceries. (July 2008). Page 45.

⁷⁹ June 2010 - June 2020.

⁸⁰ Consumer Price Index ("CPI"). According to Statistics NZ data.

⁸¹ Food Price Index ("FPI").

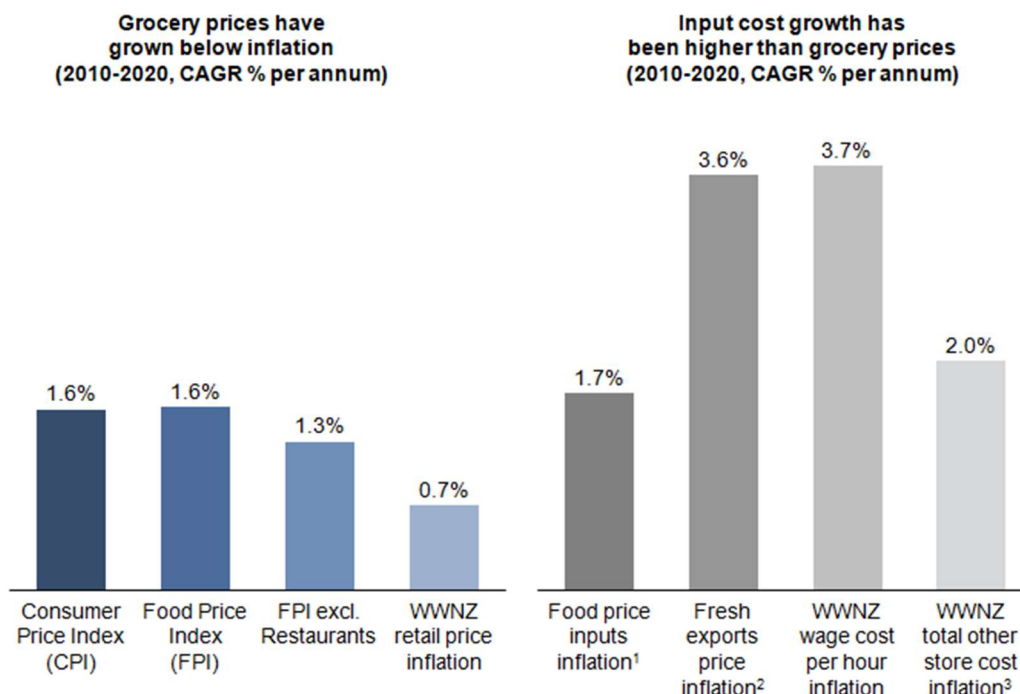
⁸² "Restaurant meals and ready-to-eat food" is a sub-index used by Statistics NZ within the FPI. The other sub-indices are: "fruit and vegetables", "meat, poultry and fish", "grocery food", and "non-alcoholic beverages".

⁸³ Based on the "Supermarket, Grocery Stores and Specialised Food Retailing" input portion of the producers price index ("PPI") from Statistics NZ.

⁸⁴ Which, according to Statistics NZ data, comprise 39% of New Zealand's estimated household grocery expenditure in the year ending June 2019.

given New Zealand is a significant exporter of food products). This is shown in Figure [8] below.

Figure [8] - New Zealand retail grocery prices, input costs, and export prices



Source: NERA analysis of Statistics NZ data; WWNZ internal data; Data period Jun 2010 - Jun 2020. 1. Annual inflation from the Statistics NZ 'Supermarket, Grocery Stores and Specialised Food Retailing' production input index. 2. Unweighted average of the CAGR for 'dairy products' (2.96%), 'fish and fish preparations' (3.56%), 'fruit and vegetables' (3.25%) and 'total meat' (4.72%) export price indices. 3. e.g. Occupancy & Depreciation, Electricity etc (normalised for IFRS16 and COVID costs)

- Our view is the fact that our retail food prices have fallen in real terms over this period, and that this has been achieved despite us facing higher input costs and while export prices have been increasing, demonstrates the intensely competitive nature of the New Zealand retail grocery sector. It is also testament to the investments we have made in making our business more efficient in other areas over this time in order to absorb these cost pressures (for example, by reducing our stock loss, improving supply chain productivity, and improving in-store processes).

(b) Expenditure on food is falling as a proportion of household income

- Over the last decade expenditure on food has decreased as a share of household income - from 12.5% in 2010 to 11.5% in 2019 - see Figure [9] below. When restaurant meals and 'ready-to-eat' food expenditure is excluded, this decrease is even larger - from 9.5% in 2010 to 8.1% in 2019. This means that today a smaller portion of households' income is being spent on retail grocery food than 10 years ago (despite the cost pressures on retailers). In our view, this further demonstrates that consumers are continuing to benefit from the intensely competitive nature of the New Zealand grocery sector.

Figure [9] - Food expenditure as a proportion of household income

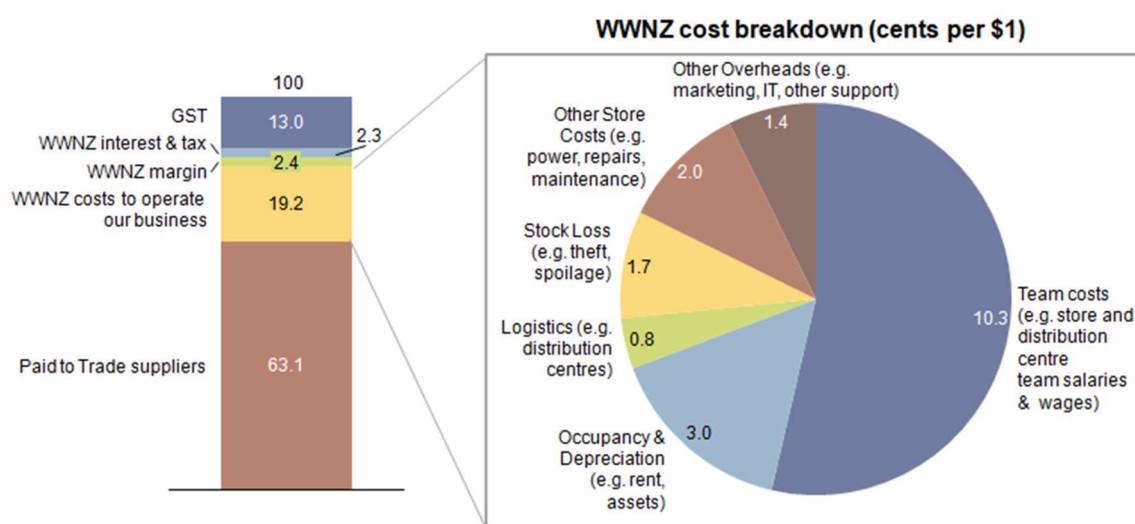
	2010	2013	2016	2019
Food expenditure as a proportion of household income ⁸⁵	12.5%	12.5%	11.8%	11.5%
Food expenditure (excluding restaurant meals and ready to eat food) as a proportion of household income ⁸⁶	9.5%	9.3%	8.5%	8.1%

Source: NERA analysis of Statistics NZ Household Economic Survey (HES) and Labour Force Survey (LFS).

(c) We are a low-margin business - lower than many other retailers in other sectors in New Zealand

- Reflecting the competitive prices we offer our customers, we are a low-margin business. This is because, for every \$1 spent in a supermarket, we pay 63 cents directly to our suppliers; 19 cents relates to the costs of running our supermarkets, supply chain and paying our team; 13 cents is GST; and 2 cents is interest and other tax costs. This means only 2.4 cents in every dollar spent with WWNZ is margin to us - see Figure [10] below.⁸⁷

Figure [10] - Component breakdown of consumer grocery price at WWNZ (cents per \$1)



Source: WWNZ internal data

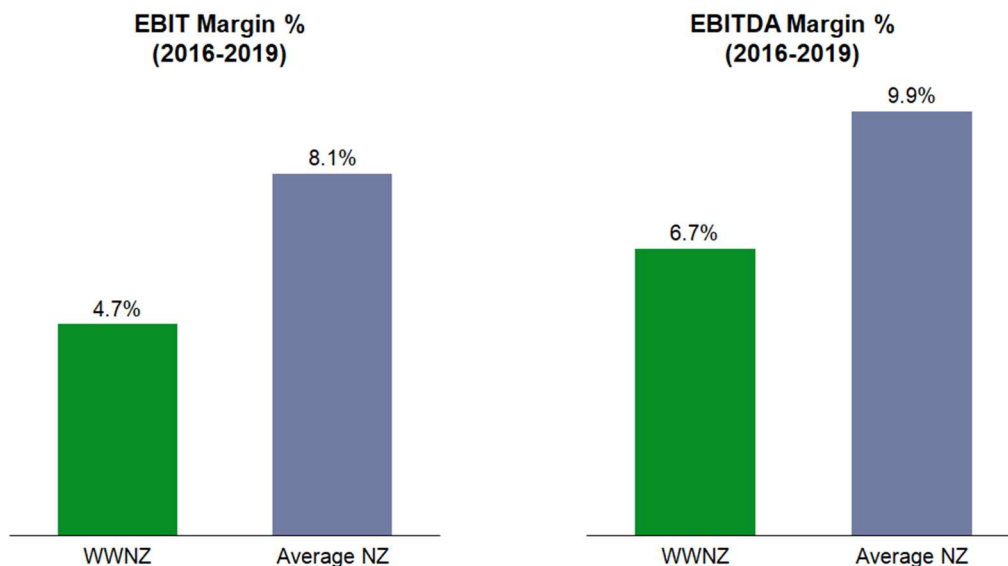
⁸⁵ Food: The general food category, which includes restaurant and 'ready-to-eat' meals.

⁸⁶ Non-restaurant food: The food category excluding restaurant and 'ready-to-eat' meal expenditure.

⁸⁷ Figures are for FY2020.

- This is illustrative of the highly competitive retail grocery sector we operate in. We also note that our EBIT / EBITDA margins (which have been relatively consistent over the last decade) are lower than the average of other large retailers in New Zealand in other retail sectors, as reflected in Figure [11] below.

Figure [11] - Average EBIT/EBITDA margin by New Zealand retailers (2016 - 2019)



Source: NERA analysis of the FactSet financial data for publicly listed New Zealand retailers

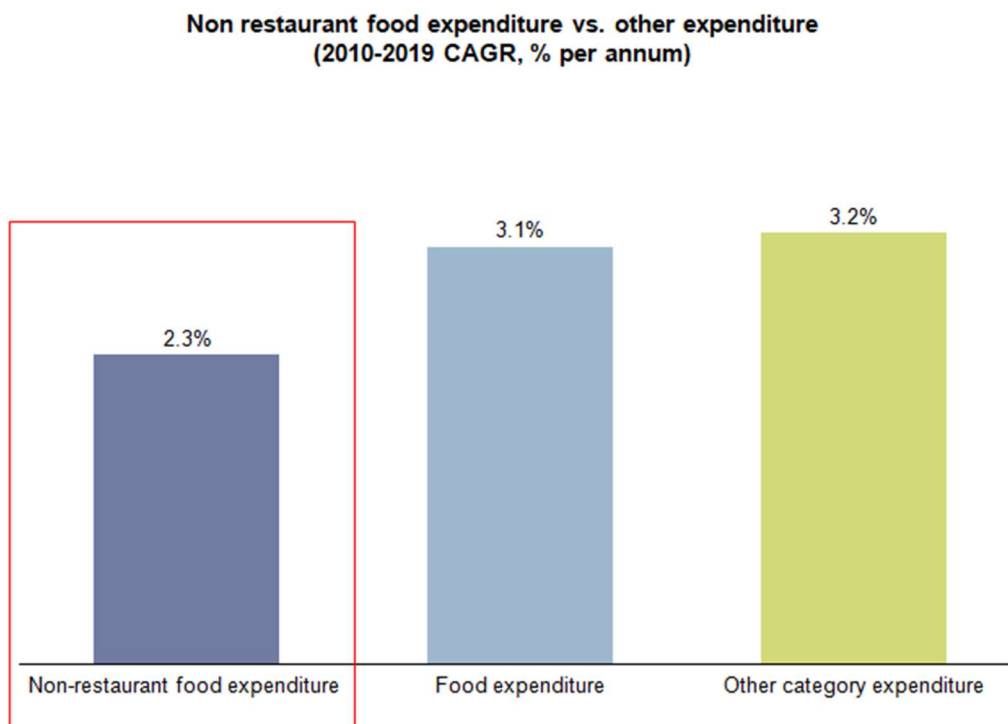
(d) Other expenditure is increasing more than food expenditure

- The Cabinet Paper initiating the Market Study⁸⁸ noted that the 2019 Household Expenditure Survey (**HES**) showed average weekly household expenditure on food increased by 9.2% in three years to 30 June 2019 compared with an increase of 6.5% for other categories, and referred to that as indicative of a potential competition problem in the sector. However, we note that:
 - the “food” category in the HES includes expenditure on “restaurant and ready-to-eat” meals; and
 - the last three years is a short time period to make inferences about the state of competition (as was recognised both by the Commission’s fuel market study and by regulators’ market studies overseas, it is necessary to look at a longer period of time to draw any insights into the state of competition in a sector).
- When “restaurant and ready-to-eat” meals are excluded and expenditure is considered over a longer time frame (2010 – 2019), expenditure on other categories

⁸⁸ At paragraph 18.2.1.

has in fact increased at a greater rate than expenditure on non-restaurant food - see Figure [12] below.

Figure [12] - Non-restaurant food expenditure compared to other expenditure (2010-2019 CAGR)



Source: NERA analysis of Statistics NZ data

- Accordingly, we do not consider that the metric referred to in the Cabinet Paper is an indicator of lack of competition in the retail grocery sector - to the contrary, it reflects the highly competitive nature of the sector.

(e) New Zealand retail grocery prices do not appear high by global standards

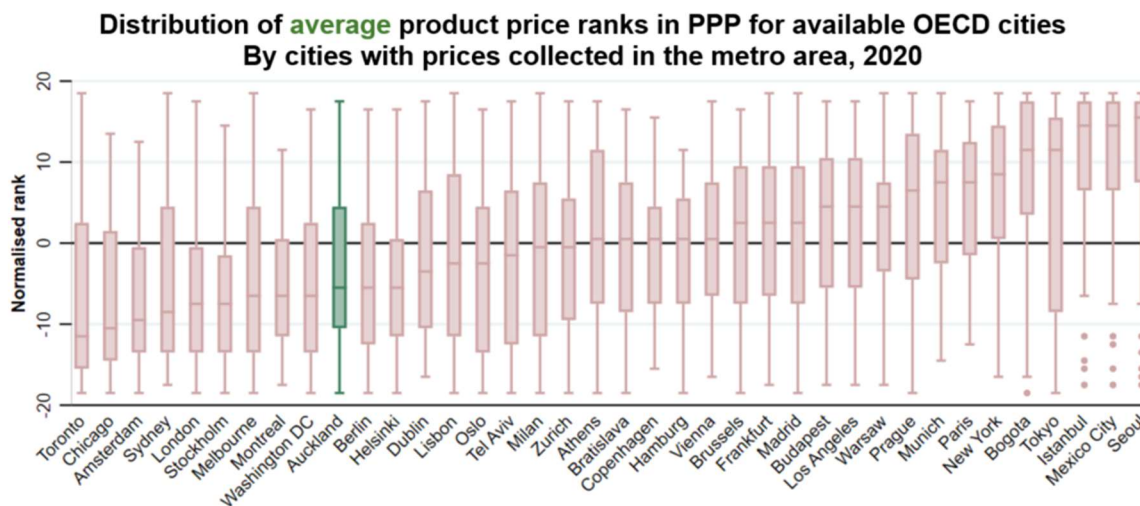
- In our experience, there are significant difficulties in making international comparisons of grocery prices (and comparisons between the profitability of retailers). This means that such comparisons are unlikely to be meaningful or informative (for the reasons outlined in response to Question 20). This was recognised by the UKCC in its 2007 grocery market study:⁸⁹

“International comparisons of prices are difficult to make as a result of exchange rate issues, comparability of products and pack sizes, the role of tax in food prices, and different property markets and planning regimes. For these reasons, we consider that the value of any extensive cross-country comparison would be limited.”

⁸⁹ UK Competition Commission (2007), The Supply of Groceries in the UK market investigation, Provisional findings report, October, page 27.

- Nevertheless, we asked NERA to conduct analysis of the EIU’s retail pricing data to compare retail grocery prices across countries. NERA’s analysis of that data is **enclosed**. That analysis, whilst subject to the limitations above, indicates that retail grocery prices in New Zealand are not high compared to other OECD countries (with retail grocery prices in Auckland in the lower half of OECD cities it is measured against). An extract from that NERA analysis is outlined in Figure [13] below.

Figure [13] - Distribution of average product price ranks in PPP for available OECD cities by cities where prices were collected in the metro area, 2020



Source: NERA analysis of EIU CityData.

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(f) Countdown’s customer satisfaction levels are high and continuing to increase

- Another measure of whether competition is delivering for consumers is customer satisfaction. We have been working hard over a number of years to improve outcomes for consumers, and our customer satisfaction ratings continue to improve - as shown in Figure [14] below (showing significant increases in our ‘Net Promoter’ and ‘Voice of Customer’ scores). This again demonstrates that consumers are continuing to benefit from the intense competition in the sector.

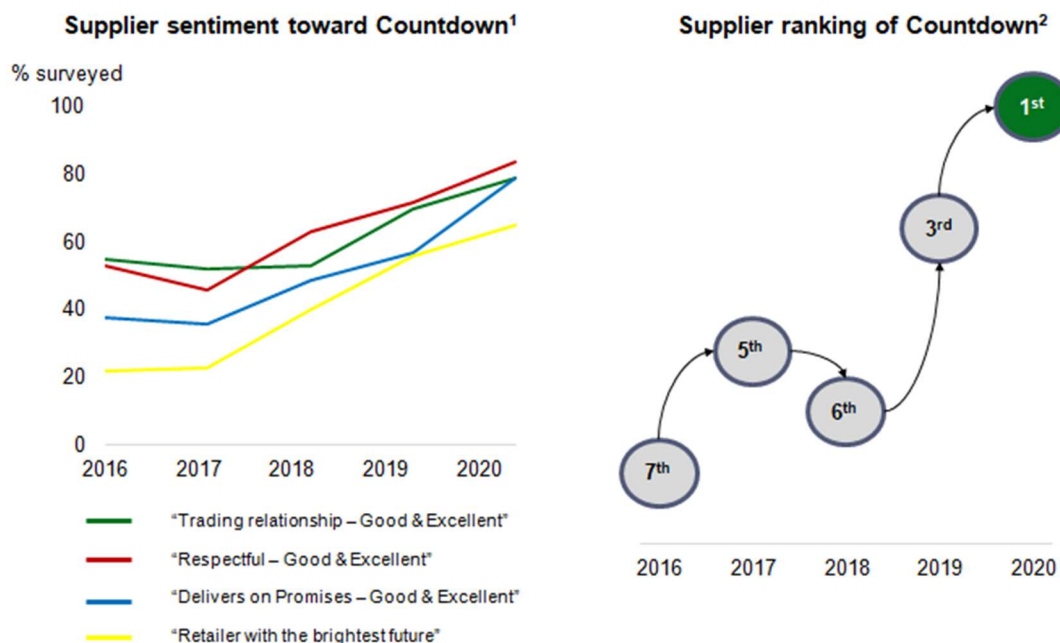
Figure [14] - WWNZ Brand Net Promoter Score and Voice of Customer Score

[]

(g) Countdown's supplier satisfaction levels are high and continuing to increase

- The Cabinet Paper requesting that the Commission conduct a Market Study stated that one of the factors that may suggest there are lower levels of competition than the Minister “would expect in a workable competitive market” is the bargaining relationship between stores and suppliers.
- We are proud of the hard work and progress we have made in building positive relationships with our supplier community, and in contrast to the Cabinet Paper suggestions, we consider that the data demonstrates that our relationships and interactions with our suppliers are delivering outcomes that are consistent with competition - namely, supplier satisfaction levels that are high and continuing to increase. We are the number-one ranked retailer - as assessed by suppliers - in the two major grocery industry surveys - see Figure [15] below.
- This reflects a sustained focus by WWNZ on a number of areas including: clear data-driven decision making, clarity of WWNZ strategy, better communication and more. Our approach to supplier relationships are further outlined in Section (5).

Figure [15] - WWNZ Supplier Sentiment Retailer Scorecard and WWNZ AdvantageInsights retailer performance as assessed by suppliers (2016 to 2020)



1. Nielsen Retail Barometer. 2. Advantage Insights' Report

(h) The sector continues to show strong levels of innovation and the demonstrated ability to successfully adjust to rapidly evolving consumer preferences

- In addition to low prices and high customer satisfaction, we continue to deliver high levels of innovation, consistent with both meeting evolving customer needs, and an intensely competitive and dynamic market.
- In grocery retailing, it's often the little things that count, and so our innovations span both large and small developments. Those investments reflect the highly competitive nature of the sector - consumers can (and do) rapidly switch their custom to any of the many other options they have, so we need to continue to innovate to encourage them to shop with us.
- The following are some examples of recent investments that we have made in innovation:
 - **Innovations to deliver improved in-person shopping experiences:** We invest over [] per annum in building new stores, upgrading our existing stores and launching new formats. Some of our recent innovations include: launching our small-format Metro stores to meet customers' demand for convenience; launching dedicated health food sections to meet our customers' demand for health & wellness; implementing new checkout configurations to reduce queuing; adding pharmacy offerings to our stores (both in-store and online), and new technological innovations, such as

launching a dispensing robot for greater speed and accuracy in our in-store pharmacy, launching an in-store grocery robot to notify the team of any spills and hazards and identify gaps in the shelves to help improve product availability, and launching our contactless “Scan&Go” service where hi-tech scales can detect what our customers are buying so that customers can skip the regular checkout for an easier in-store shopping experience.

- **Innovations to deliver improved digital shopping experiences:** To reflect our customers’ growing demand for online shopping, we have invested in three dedicated eStores including New Zealand’s first semi-automated fulfillment units (including only the second semi-automated “Takeoff Unit”⁹⁰ in the Southern Hemisphere, and the ninth in the world); Pick Up, Drive Through, and Delivery experience innovations []; and enhancements to our mobile app (including in-app transactional capability, digital Onecards, and store aisle-locator finder).
- **Innovations to deliver improved value for money:** We recently relaunched an enhanced and simplified Onecard rewards programme to deliver rewards and savings that best reflect what our customers want and how they shop with us.
- **Innovations to deliver better products:** We continue to develop new private label brands and products that bring new variety and innovations for our customers, such as our Macro private label brand that has introduced new organic and wholesome product offerings across a range of categories (see response to Question 37). We have also launched our online reviewer community, The Bunch, which includes over 10,000 Bunchees to provide feedback on our private label products to best ensure we are meeting our customers’ needs. We have also made ongoing investment in improved nutritional information online and on-pack, and investments in enhancing the healthiness of our products - such as removing artificial additives from our in-store bakery products, and investment increasing the health star ratings of our private label products (see Section (2)).
- **Innovations to enhance our relationships with our suppliers:** We recently launched the Compass app, which is free for our suppliers, to provide them with real-time data about their products to assist them to make decisions about their supply chain (see Section (5)).
- **Investments in our team, sustainability, and our systems:** We have invested in a number of sustainability, team, community, and systems innovations, including our share grant to over 13,000 employees; cloud-

⁹⁰ Countdown has partnered with Boston-based eGrocery startup Takeoff Technologies to introduce a partially-automated micro fulfillment unit at its Penrose eStore. The unit means personal shoppers can easily access packaged goods without having to walk up and down store aisles. This innovative technology picks and moves the most popular grocery items to our personal shoppers on a conveyor belt meaning to enhance efficiency and timeliness of fulfilment of our customers’ orders. See more at: Countdown Opens Country’s First 24-hour e-Store To Service Massive Online Shopping Demand. Countdown press release. Retrieved from: <http://auckland.scoop.co.nz/2020/04/countdown-opens-countrys-first-24-hour-e-store-to-service-massive-online-shopping-demand/>

based data platforms to improve resilience and analytical enablement; improved portals to support supplier ease of doing business, and team and customer engagement initiatives.

(i) We continue to invest in delivering an efficient and resilient supply chain

- In addition to investments in innovation to enhance customer experience, we also continue to make significant investments in our supply chain to ensure it is efficient and resilient to deliver a safe and secure grocery supply chain for New Zealand.
- The following are examples of other investments we have made, or partnered with others to make, in recent years to enhance the efficiency and resilience of our supply chain (in addition to our investments in our eStores, as referred to above):
 - **New lower North Island distribution centre**: Developing a new purpose-built 38,000m² distribution centre in Palmerston North to service the lower North Island (approximately three times bigger than the existing distribution centre);⁹¹
 - **New meat processing plant**: Partnering with global meat processing experts, Hilton Food Group, to underpin establishment by Hilton Food Group of a brand new, state of the art, \$54 million meat processing plant in Otahuhu, Auckland;⁹²
 - **New temperature-controlled warehouse facility**: Partnering with Americold to underpin a \$65 million investment by Americold in expanding its temperature-controlled warehousing facility in Auckland;⁹³
 - **New North Island produce distribution centre**: Developing a new state-of-the-art 20,000m² produce distribution centre in Auckland to help service all of Countdown's North Island stores with fresh fruit and vegetables direct from local growers.
- The investments we have made in the efficiency of our supply chain is reflected in the fact that our retail food prices have fallen in real terms over the last decade despite us facing higher input costs (see Section (4)(a) above), and the resilience of our supply chain was demonstrated by our ability to continue to supply New Zealanders despite the extraordinary pressures of 2020. These outcomes further demonstrate that the intensely competitive nature of the New Zealand retail grocery sector is delivering outcomes that benefit New Zealanders.

⁹¹ (19 June 2020). Construction to start on Countdown's brand new distribution centre - big boost to local jobs during construction and when open. Countdown press release. Retrieved from: <https://www.countdown.co.nz/news-and-media-releases/2020/june/construction-to-start-on-countdown-s-brand-new-distribution-centre-big-boost-to-local-jobs-during-construction-and-when-open>

⁹² (17 October 2017). Countdown and Hilton Food Group announce \$54 million investment in South Auckland meat plant. Countdown press release. Retrieved from: <https://www.countdown.co.nz/news-and-media-releases/2017/october/countdown-and-hilton-food-group-announce-54-million-investment-in-south-auckland-meat-plant>

⁹³ (19 June 2020). Americold to invest over \$60 million into NZ grocery market. MHD Supply Chain. Retrieved from: <http://mhdsupplychain.com.au/2020/06/19/americaold-to-invest-over-60-million-into-nz-grocery-market/>

(j) The key takeaway from these measures and outcomes

- In summary, we believe these measures (Sections (4)(a) to (i)) demonstrate that the New Zealand grocery retailing sector is intensely competitive and is delivering outcomes consistent with that intense competition for the benefit of New Zealand consumers.
- As such we respectfully disagree with the statement in the Cabinet Paper (and the reference to the 2019 Productivity Hub work) suggesting that competition measures for supermarkets, grocery stores, and specialised food retailers have been trending downwards. The evidence above demonstrates the opposite.
- In respect of the Productivity Hub work, we also specifically note that:
 - the data it is based on is outdated, finishing in 2016. Accordingly, the data will not properly capture the more recent competitive dynamics described in this response;
 - even before 2016, the HHI measure will not pick up important competitive features such as the fact that Foodstuffs North Island and Foodstuffs South Island are independent, the cooperative nature of each of those separate Foodstuffs businesses which means that there are individual owners of the 400-plus PAK'nSAVE, New World, and Four Square supermarkets, and the independence of SuperValue and FreshChoice franchisees. Furthermore, HHI is not generally used by the Commission, and when it is used by overseas regulators, it is largely as an initial screening device for mergers – rigorous competition analysis requires an assessment of more revealing factors and metrics;⁹⁴ and
 - as far as we are aware, the “profit elasticity” measure is not used by competition authorities to analyse potential competition problems, and we are unsure of the economic rationale for this. Furthermore, the Productivity Hub paper is clear that the statistically significant estimate of the profit elasticity measure (being the “OLS” one, which according to the paper deteriorates over time)⁹⁵ is conceptually inferior to the “fixed effects” estimate, which “has remained relatively constant”.⁹⁶
- Accordingly, in our experience the 2019 Productivity Hub work cannot be relied upon to suggest that competition measures for supermarkets, grocery stores, and specialised food retailers have been trending downwards over time.

⁹⁴ For example, the Australian Competition Tribunal stated in the *Tabcorp* case that: “The Tribunal accepts the HHI is a useful tool for identifying mergers of *prima facie* concern, however, as noted in both the [U.S. Department of Justice and the Federal Trade Commission] *Horizontal Merger Guidelines* and the ACCC’s own *Merger Guidelines*, further assessment will rely on exploring the other dimensions of the competitive dynamics of the market such as trends in pricing and market shares, barriers to entry and differences in rivals’ strategies, cost structures and technologies.” Applications by Tabcorp Holdings Limited [2017] ACompT 5, at [121].

⁹⁵ “OLS” is an acronym for ordinary least squares.

⁹⁶ “The PE (FE) measure controls for firm-specific differences in the relationship between profits and costs, and so should get closer to what PE is intended to capture at the firm level. This suggests that the PE (FE) measure should be preferable to the PE (OLS) measure.” (Page 3).

(5) We have positive relationships with our suppliers, and those relationships deliver for both our suppliers and our customers

- We are aware of the concerns raised by the Food & Grocery Council (**FGC**) relating to the treatment of suppliers by some participants in the grocery retail sector (as referred to in the Cabinet Paper and paragraph 118 of the Issues Paper).
- While we cannot comment on the relationship between suppliers and other grocery retailers, for our own part we are proud of the positive relationships we have developed with our suppliers, and the investments we make in training our staff to ensure a consistent and constructive culture in our buying teams. We are confident that we do not overstep “the line between robust negotiation and bullying” (being a concern that was referred to in the Cabinet Paper). Rather, we consider that the fact that our supplier satisfaction ratings are improving over time is a positive measure of the hard work we put into fostering long-term, fair, and enduring relationships with our supplier community.
- We also consider that the fact we have achieved improving supplier satisfaction ratings, while at the same time achieving improved customer satisfaction ratings and lower retail prices (in real terms) shows that we are achieving the right balance between delivering the products our customers want at competitive prices and supporting the success of our suppliers. Achieving that requires balancing three key dynamics - namely, that our customers’ tastes evolve but our shelf space is limited, that we need to deliver competitive prices to consumers, and that we need our suppliers to be successful:
 - **Our customers’ tastes evolve but our shelf-space is limited:** The reality of being a retailer is that our shelf space and supply chain capacity is not infinite, and so we only have room for a certain number of products. This means that as consumers’ preferences evolve and new products emerge (think kombucha or paleo bread, for example), other products that are no longer meeting customers’ needs must be removed. As a result, from time-to-time we will need to have difficult conversations with our suppliers. We know that any time a product does not sell well and is removed, that this will be disappointing for the impacted suppliers. However, this is the reality of needing to meet the changing needs of our customers, and we do not take such steps arbitrarily or lightly. Our decisions are based on what our customers want (informed by extensive sales data and market research), and we look to have early conversations with impacted suppliers in a transparent way - including by actively sharing data with suppliers on their products’ performance so that they can work with us to improve performance and better understand the decisions we make. We believe this is the fairest and most effective way to make decisions on the approximately 26,000 SKUs we stock in our supermarkets to deliver the best outcome for Kiwis.
 - **Our pricing negotiations are based on delivering value for our customers:** In addition to offering the products our customers want, we need to work hard to keep prices low and deliver value for money for Kiwis.

Naturally, this means that, like many business relationships, our relationships with our suppliers will have a healthy level of commercial tension. We can't shy away from that - it is our job to negotiate on behalf of Kiwi customers for fair prices, and often we are negotiating with some of the largest FMCG companies in the world (who are in turn many times larger than us - see further below).

- **We need our suppliers to be successful:** If our suppliers are not successful, we cannot offer our customers the quality, variety, and innovative product offerings they expect from us. This means that to be successful we need our suppliers to be successful. To achieve this we negotiate what we believe are fair prices with our suppliers (including accepting cost increases where we are satisfied that a justified rationale exists);⁹⁷ we work to find opportunities to give our suppliers the ability to plan for the long-term; we help smaller New Zealand suppliers to expand nationwide (or even into overseas markets), and our support office provides training and resources to foster a consistent and constructive approach to our suppliers across our business.

- In achieving the right balance, the way we partner with our suppliers necessarily reflects that we deal with a diverse range of suppliers - from large multinational corporations to small family owned New Zealand businesses (including 120 produce growers).⁹⁸ We, therefore, tailor our approach accordingly to reflect the differences between our suppliers and achieve the best outcomes for our customers. For example:
 - **We actively support our smaller suppliers:** Smaller suppliers often bring substantial amounts of innovation, energy, and additional competition to their product categories. We proactively support the entry and expansion of smaller suppliers, and try to minimise barriers to them supplying us. Reflecting this, in the last three years we have on-boarded more than 400 new suppliers and we currently have more than 900 suppliers with retail sales in Countdown of less than \$1 million per annum. While those suppliers account for a small proportion [] of our total sales,⁹⁹ they account for 20% of our new products, which shows the benefits of the work we do to give those suppliers opportunities to introduce new products. The steps we have taken to support our smaller suppliers include:
 - **Implementing our own Supplier Charter:** To cement our commitment to working with our suppliers fairly, honestly, and transparently we have implemented our own Supplier Charter. This Supplier Charter frames the expectations we have for our team and

⁹⁷ [].

⁹⁸ Reflecting this the Issues Paper noted “[t]here is a diverse variety of suppliers who sell to major grocery retailers”, ranging from small family owned businesses to large multinationals (at paragraph [104]). Similarly the ACCC noted in its grocery market study, “[i]t has become evident that the supply chain for each grocery category vary considerably”. ACCC. Report of the ACCC inquiry into the competitiveness of retail prices for standard groceries. (July 2008). Page 218.

⁹⁹ Over the 52 weeks to the end of January 2021.

outlines our commitment to be open, transparent, and data-based in our buying decisions, and to have clear processes for any disputes that arise.¹⁰⁰ This Supplier Charter also specifically records our commitment to supporting our smaller suppliers, including by acknowledging that smaller suppliers may sometimes need additional support and assistance from us, and by setting out our commitment to assist them to understand our processes and to make available additional support and assistance to ensure that is the case.

- **Providing a real-time sales app for our suppliers:** We have launched an app, called Compass, that is free for our suppliers and enables them to more closely monitor sales of their products in any Countdown store. This app enables suppliers to see planograms in every store, stock on hand, stock on order, stock in transit, price information and presentation levels, and it is a valuable tool for suppliers to help assist them to make decisions about their supply chain. We have received very positive feedback from our suppliers in relation to this innovation.¹⁰¹
- **Implementing shorter payment terms for small suppliers:** To further assist our small suppliers we offer them the ability to choose 14 day payment terms under our Small Supplier Payment Policy. This applies to New Zealand suppliers from whom we buy less than \$250,000 of goods each year and whose total annual turnover is less than \$1 million per annum.

The steps we have taken to support our smaller suppliers is reflected in the fact that our smaller suppliers give us our highest supplier satisfaction ratings.

- **We negotiate robustly with some of the largest FMCG companies in the world to achieve competitive prices for New Zealand:** In many instances our business here in New Zealand is negotiating with some of the largest FMCG companies in the world, including businesses that are many, many times larger than we are. []. These suppliers have very significant countervailing bargaining power in dealing with us because New Zealand is only a very small part of the global market that they operate in, and additionally, because - as the Commission noted in the Issues Paper - many supply us with products that consumers view as “must have”, and so

¹⁰⁰ A copy of our Supplier Charter is available at: <https://www.countdown.co.nz/media/9959/wnz-supplier-charter-180618.pdf>

¹⁰¹ (12 March 2020). Countdown launches first real-time sales app for suppliers. Countdown press release. Retrieved from: <https://www.countdown.co.nz/news-and-media-releases/2020/march/countdown-launches-first-real-time-sales-app-for-suppliers#:~:text=Countdown%20has%20today%20launched%20a,products%20in%20any%20Countdown%20store>

us not stocking their products would lead customers to shopping elsewhere.¹⁰² Accordingly:

- in negotiating with these large FMCG suppliers, we negotiate robustly to keep input costs as low as possible (the price we pay to the supplier) in order to obtain competitive prices for New Zealanders, and we actively look to bring in other suppliers to ensure the best competitive outcomes to benefit our customers; and
 - our Supplier Charter sets out that we have the same high expectations of conduct from our suppliers when they deal with us that we place on ourselves (i.e. that we expect that they will act ethically, fairly and honestly in their dealings with us, just as we expect of our own team).
- Finally, we note that the Issues Paper is seeking to explore whether there is “imbalance in bargaining power” between suppliers and “traditional supermarkets” and, if so, whether that is limiting investment and innovation by suppliers. That is not our experience of the New Zealand grocery sector:
 - **Suppliers have many “outside options”**: As the ACCC noted in its grocery market study, “size alone does not, in and of itself, confer buyer bargaining power, but rather that the bargaining power may be more closely related to the size/value of the relative outside options than it is to the respective size of the firms alone”.¹⁰³ Our experience is that our suppliers have a number of options, and that is true across supplier types. For example:
 - **Packaged grocery suppliers**: Many of our packaged product suppliers are multinational FMCG businesses that manufacture their products overseas []. For these suppliers, New Zealand is only a very small part of the global market that they operate in, and therefore WWNZ represents only a very small proportion of their total sales. As the ACCC noted in its grocery market study in relation to packaged grocery suppliers: “many of the companies that dominate this sector of the market are multinationals with strong brands that often have significant consumer loyalty. Buyer power, in particular when increased by the use of private label products, may drive down margins and retail prices on branded products to the benefit of consumers.”¹⁰⁴ In addition, our packaged grocery suppliers also have many other options just in New Zealand, including PAKn’SAVE, New World, Four Square, and Farro Fresh, as well as The

¹⁰² Paragraph 115. The ACCC similarly noted in its grocery market study that “certain specific brands command such brand loyalty that their absence from the shelves would be reason enough to induce some consumers to change retailers”. See: ACCC. Report of the ACCC inquiry into the competitiveness of retail prices for standard groceries. (July 2008). Page 313.

¹⁰³ ACCC. Report of the ACCC inquiry into the competitiveness of retail prices for standard groceries. (July 2008). Page 314.

¹⁰⁴ ACCC. Report of the ACCC inquiry into the competitiveness of retail prices for standard groceries. (July 2008). Page 383.

Warehouse, Chemist Warehouse, service stations, dairies, convenience stores (all of whom are significant stockists of packaged grocery products in their own right, as are hardware stores, such as Mitre 10, with respect to household cleaning products), as well as numerous online channel options (such as TheMarket, Mighty Ape, and D2C channels).

- **Fresh product suppliers:** In its grocery market study, the ACCC considered that fresh product suppliers (such as fruit and vegetable suppliers) had “significant outside options in the form of the central markets, direct supply to customers and export channels”,¹⁰⁵ as well as supply to food processors.¹⁰⁶ This is consistent with our experience of the New Zealand sector. For example, in New Zealand, export options are by far the biggest market for many of our farmers and growers, with the local consumer market being only a small proportion of their supply:¹⁰⁷
 - 95% of lamb and mutton production is exported;¹⁰⁸
 - 95% of dairy production is exported;¹⁰⁹
 - 94% of kiwifruit production is exported;¹¹⁰
 - 90% of onion production is exported;¹¹¹
 - 88% of beef and veal production is exported;¹¹²
 - 77% of wine is exported;¹¹³
 - 73% of venison production is exported;¹¹⁴

¹⁰⁵ ACCC. Report of the ACCC inquiry into the competitiveness of retail prices for standard groceries. (July 2008). Page 383.

¹⁰⁶ ACCC. Report of the ACCC inquiry into the competitiveness of retail prices for standard groceries. (July 2008). Page 330. In particular the ACCC noted that “the outside option of supplying export markets rather than domestic retail markets is likely to be a viable alternative that enhances the seller’s negotiating position”.

¹⁰⁷ The ability of suppliers to export also means that export prices have a material impact on WWNZ’s costs, and ultimately the retail prices to New Zealand consumers (see further at Section (4)(a) above).

¹⁰⁸ <https://beeflambnz.com/sites/default/files/news-docs/NZRM-Industry-summary.pdf>

¹⁰⁹ <https://www.dcanz.com/about-the-nz-dairy-industry/#:~:text=Being%20the%20world's%208th,than%20100%20different%20countries%20worldwide.>

¹¹⁰ https://apps.fas.usda.gov/newgainapi/api/report/downloadreportbyfilename?filename=New%20Zealand%20Kiwi%20fruit%20-%20A%20Sector%20Report_Wellington_New%20Zealand_1-23-2013.pdf

¹¹¹ <https://www.tupu.nz/en/fact-sheets/onions>

¹¹² <https://beeflambnz.com/sites/default/files/news-docs/NZRM-Industry-summary.pdf>

¹¹³ ANZ. New Zealand Wine Industry: Full Bodied Growth. June 2016.

¹¹⁴ <https://www.deernz.org/about-deer-industry/deer-industry-new-zealand/deer-industry-statistics/venison-production#.YAVGL9gzaUk>

- 66% of apple production is exported (just 13% is consumed domestically in unprocessed form, with ~20% used for on-processing);¹¹⁵
- 54% of avocado production is exported;¹¹⁶
- 45% of seafood production is exported;¹¹⁷
- 44% of honey production is exported;¹¹⁸ and
- 37% of pear production is exported.¹¹⁹

In addition, suppliers can also supply alternative channels, such as “fruit and vege” shops (estimated by Horticulture NZ to account for 60% of sales in Auckland),¹²⁰ food service and other food processors, meal kit providers (such as My Food Bag and HelloFresh), and increasingly they can also choose to supply direct-to-consumers using meat, fruit, and vegetable boxes.

Our experience is, therefore, that our suppliers have a number of alternative options to supplying WWNZ.

- **There is a lot of innovation in the New Zealand grocery sector:** It is also certainly not our experience that any inequality in bargaining power between supermarkets and suppliers is impeding investment and innovation by suppliers. We consider that New Zealand-based suppliers are some of the most innovative and dynamic suppliers in the world. Examples of that include:
 - The Collective, a New Zealand founded yoghurt company, which has now launched its products in Europe and Australia;¹²¹
 - Whittakers Chocolate, a highly successful and innovative New Zealand business that now exports its chocolate to Australia, Canada, Malaysia, Singapore, Indonesia, China, Hong Kong, South Korea, Japan, the Middle East, Kenya and many Pacific Islands.¹²²

¹¹⁵

https://apps.fas.usda.gov/newgainapi/api/report/downloadreportbyfilename?filename=Fresh%20Deciduous%20Fruit%20Annual_Wellington_New%20Zealand_11-1-2018.pdf

¹¹⁶ <http://www.hea.co.nz/2012-05-11-03-05-28/avocado-trade>

¹¹⁷ <https://www.seafoodnewzealand.org.nz/industry/key-facts/#:~:text=The%20New%20Zealand%20seafood%20industry,seafood%20were%20exported%20in%202018.>

¹¹⁸ <https://www.mpi.govt.nz/dmsdocument/34329/direct>

¹¹⁹

https://apps.fas.usda.gov/newgainapi/api/report/downloadreportbyfilename?filename=Fresh%20Deciduous%20Fruit%20Annual_Wellington_New%20Zealand_11-1-2018.pdf

¹²⁰ <https://www.scoop.co.nz/stories/BU2008/S00204/open-letter-horticulture-recognise-independent-fruit-vegetable-retailers-as-essential-services.htm>

¹²¹ (2 May 2018). Equity investment sweetens plans for yoghurt maker. NZ Herald. Retrieved from:

<https://www.nzherald.co.nz/business/equity-investment-sweetens-plans-for-yoghurt-maker/7B7SMGXCAM7I27EALZ262GWSUU/>

¹²² https://www.whittakers.co.nz/en_NZ/frequently-asked-questions/

- Earthwise, a highly successful New Zealand manufacturer of environmentally friendly cleaning products, which launched into supplying grocery retailers in New Zealand in 2011 and now “operates in over eight grocery categories and is sold globally in over 5,000 stores across Australia, Asia, USA, Europe and New Zealand.”¹²³

The reality is that to continue to best-serve our Kiwi customers, we need to partner with our suppliers to foster innovation and meet changing consumer preferences and demand for variety. In this respect, our experience of the market is consistent with the observation of the ACCC that grocery purchasers such as WWNZ “have strong incentives to develop long-term relationships with suppliers and to co-sponsor investments with these long-term suppliers, and that this may in fact enhance the incentives of such suppliers to invest and innovate”. Contrary to potential concerns raised in the Cabinet Paper, we see our role in the New Zealand grocery sector, and our commitment to long-term relationships with our suppliers as underpinning investment in the New Zealand grocery sector.

(6) Concluding comments

- We hope this response has been helpful to further the Commission’s understanding of the New Zealand retail grocery sector.
- It is our experience that we operate in a dynamic and highly competitive market, with a range of existing, new and innovative competitors, and that the market continues to deliver outcomes for Kiwi consumers that are consistent with intense competition.
- We look forward to assisting the Commission to understand these dynamics. Despite the magnitude of the task facing the Commission in completing its Market Study within 12 months, we nonetheless believe it is important that the Commission does not unduly narrow its focus due to this challenging time frame. The market reality that we operate within every day is that the New Zealand grocery retail sector is highly dynamic and rapidly changing, and we consider it to be very important that the Commission takes all those competitors and dynamics into account to obtain a complete view on the way in which competition works in this sector.

¹²³ <https://earthwise.co.nz/our-story/>

APPENDIX ONE

WWNZ RESPONSES TO THE COMMISSION'S QUESTIONS

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?

We are concerned that both the proposed scope on just certain grocery products, and the proposed focus on just WWNZ and Foodstuffs, is too narrow and could negatively impact the robustness of the Market Study, namely:

- There is an inconsistency in the proposal to focus the Market Study “primarily on Woolworths NZ and Foodstuffs”¹²⁴ on the basis that other retailers each have a more limited range of products, but then limit the range that the Commission considers in analysing WWNZ and Foodstuffs.
- Looking at Countdown’s sales, we estimate more than [] of customers’ baskets include products that are outside the proposed scope. The Wine/beer/cider, Pharmacy, Pet, Ready-to-Eat Food, and Non-food General Merchandise categories stand out as particularly notable omissions:
 - Wine, beer and cider products feature in [] of customers’ baskets at Countdown, representing up to [] of a typical store’s retail footprint. Liquor stores are important competitors to “traditional supermarkets” in this space.
 - Countdown has 36 in-store pharmacies across our network, which enables us to offer Kiwis low prices on pharmacy products at convenient times. There are a number of important competitors to “traditional supermarkets” in this space, including Chemist Warehouse, which is growing rapidly and offers an integrated range of personal care products (in-scope), household cleaning products (in-scope), many packaged food products, such as nuts, protein blends, shakes, and bars (in-scope) and pharmacy products (out of scope) to Kiwis, as do other pharmacy chains (for example, Unichem and Life Pharmacies). We see all these products and categories as closely related.
 - Pet food products feature in [] of customers’ baskets at Countdown, and it is a core category for many New Zealand consumers. Pet shops, vets and rural supply stores are among our key important competitors in this space.
 - It is unclear whether the Commission intends to include or exclude ready-to-eat or quick-to-prepare food, however, we consider it an important part of our, and many of our competitors’, offering. Hot chickens, deli salads, sandwiches, sushi (in some stores), easy to prepare meals and a range of fresh bakery items are just some of the foods our customers can enjoy and eat right away (or nearly), if they walk into a typical Countdown. There are

¹²⁴ Paragraph [49].

many other suppliers of ready-to-eat or quick-to-prepare food that compete directly with us, including meal kit providers such as My Food Bag and HelloFresh (among many other options).

- General merchandise (pots, pans, sunhats, socks, jandals, toys, light bulbs, batteries, stationery, etc) is also an important part of Countdown's offering. This category is intertwined with food and traditional grocery, and takes up significant aisle space in a typical supermarket. This category is also important for the Commission to best understand competitive dynamics. For example, while The Warehouse Group's primary offer is general merchandise, it also sells food, beverages, pet food, personal care products, household cleaning products, and some pharmacy products through The Warehouse and TheMarket (and liquor via TheMarket), presumably using shared supply chains and infrastructure, similar to WWNZ, and is a direct competitor to us.
- The way we run our business is fundamentally based on the range we offer - from the size of our stores, to the number of team members we employ, to the number of trucks and distribution centres that move and store our products. If our Countdown stores stocked fewer products, our business would be organised differently and so would the offer for our customers. Operationally and financially, Countdown's product range is interdependent. Similarly, the way that shoppers choose to shop with us is informed by the full range of products that we offer. This means that an approach that excludes certain products will not provide the Commission with a complete picture of our operations, the competition we face, the reasons shoppers choose to shop with us, or the reasons we make the decisions we do about our business.

Overall, our view is that it will not be possible to narrow the scope of products in the way suggested without risking a significantly distorted perspective of profitability, business models, competition and the way grocery products (and food more generally) are actually purchased and consumed by New Zealand consumers.

However, even more important than the product categories in-scope, our view is that it is fundamental that the Commission does not narrowly focus its scope on WWNZ and Foodstuffs at the outset, to the exclusion of other retailers and competitors. For the reasons outlined in the main body of our response, those other retailers and competitors are a significant part of the competitive and dynamic grocery retailing sector. The total New Zealand food and grocery market in New Zealand is worth \$29 billion annually, or \$40 billion including wider food and beverage services adjacencies. If the Commission were to narrowly focus its scope on WWNZ and Foodstuffs at the outset, it risks missing a number of the key dynamics that drive competitive outcomes in our industry.

Q2 Does Table 1 appropriately reflect how products are categorised in the grocery sector?

Product categorisation across tens of thousands of SKUs is complex. For example, is a bag of fresh peanuts a packaged snack, or part of produce, and should they be categorised differently if the peanuts are being sold loose instead of in a packet?

As a result, to best streamline its process, we strongly recommend that the Commission align the category definitions that it uses with the way that data is collected and measured within the sector (for example, in accordance with our own product hierarchies, or as tracked by IRI). In particular, given WWNZ alone has approximately 26,000 SKUS, and classifications can be subjective and will inevitably differ between retailers, using a pre-existing categorisation or industry standard (such as IRI) will save the Commission significant time in developing its own categorisations and then trying to map those across industry participants. Adopting this approach will also make it more efficient for industry participants to engage with the Commission without the need to translate or cross-reference specifically for the purpose of the Market Study.

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.

Our experience is that each product category is highly competitive and dynamic in its own way and that Kiwis have many options when it comes to where, how and from whom to buy their groceries or to put dinner on the table. Each product category may have a different range of competitors and competitive dynamics (for example The Warehouse in packaged grocery products; Chemist Warehouse in health, beauty, and domestic cleaning products; Fruit World or “vege box” subscriptions for fresh produce; mealkit providers for dinner options; and convenience stores and petrol stations for soft drinks, milk, bread, and eggs, and other such products).

See Section (3) of the main part of our response for further information on the competitors that we face.

Q4 Are there any product categories we should consider in greater detail than others? If so, which ones and why?

We reiterate our comments in response to Question 1 that any narrowing of the set of products that the Commission focuses on risks providing an unrepresentative or inaccurate picture of competition in the sector. Accordingly, we look forward to consultation with the Commission if/when categories are selected for any particular focus to support the Commission to form fair, accurate, and nuanced interpretations of particular category dynamics.

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?

We reiterate our comments in response to Question 1 that any narrowing of the set of products that the Commission focuses on risks providing an unrepresentative or inaccurate picture of competition in the sector.

We further note the following in relation to the Commission's proposed factors in paragraph 34 of the Issues Paper:

- If the Commission does narrow its focus on particular products based on consumer expenditure (paragraph 34.1), it is fundamental that the Commission take into account other retailers and channels that play an important role in the competitive dynamics associated with such products.
- If the Commission uses price changes as a relevant factor in selecting focus products (paragraph 34.2), it is important that the Market Study recognises that prices change for many reasons that are not related to the nature or extent of competition. For example, produce is always subject to seasonal variations and weather that impact prices and availability; global commodity prices rise and fall (for example, milk, wheat, etc - including with flow-on impacts into packaged goods, such as muesli bars); input costs change over time (for example, minimum wage increases will disproportionately impact more labour-intensive products); consumer taste changes and product innovation may also transform product categories from low price to high (for example, Himalayan salt), or vice versa if the category falls out of favour.
- In relation to the Commission's proposal to use sales revenue or profit margins to identify products of focus (paragraph 34.3), in our experience other metrics such as basket penetration (how popular or frequently an item is in a customer's basket) would be a better way to help illustrate those items most commonly purchased. Retailer margins on any one product do not provide meaningful information on their own. This is because some products may be lower margin but faster moving (higher unit sales); some products may be subject to more promotions; some products (for example, fresh fruit and vegetables, or service-counter seafood) may have higher in-store labour or associated costs and therefore require higher margin; or different retailers and suppliers may have lower margins on some products vs. higher margins on other products. These and other factors add significant complexity when it comes to interpreting margin on individual product categories and do not necessarily reflect the nature or extent of competition in a particular product category.
- In relation to paragraph 34.4, our experience is that we face competition for all our products via channels other than "traditional supermarkets". Irrespective of which products the Commission ultimately focuses on, it is important that the Market Study take those other channels into account, and that the Commission does not adopt an overly narrow definition of "retail grocery store" which does not reflect the route to

market for products or how New Zealand consumers shop (what, where, how and when).

In summary, our view is that a representative assessment of competition in grocery retail needs to reflect a broad view of the products in scope, the routes or channels to market, and the competitors who supply these goods to New Zealand consumers both now and into the future.

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?

We consider that excluding any types of customers that are supplied by retailers in the grocery sector risks distorting the Commission's findings and will likely provide conclusions that are not representative of the way grocery products, and food more generally, is purchased and consumed by New Zealanders.

Questions on New Zealand's major grocery retailers

Q7 Is our description of New Zealand's major grocery retailers accurate?

In our view, the description of a two-player grocery retailer market is inaccurate and does not give a clear picture of the fact that there are more than 400 individual owners/operators of the various PAK'nSAVE, New World, Four Square, SuperValue and FreshChoice supermarkets.

There are also a number of other businesses that we would regard as major competitors in many grocery retail categories (Section 3 of the main part of our response), and it is important the Market Study takes into account the full range of competitors, and the role that they play in the New Zealand grocery retail sector.

Q8 What are the key characteristics of a supermarket, compared to other retail grocery stores?

New Zealand consumers' retail grocery needs (and food more generally) are met by a large range of retailers (bricks-and-mortar and online), including but not limited to "traditional supermarkets". Each retailer competes across a range of dimensions, making generalisations difficult. The idea of supermarkets being a 'one-stop shop' for New Zealand consumers (paragraph 44) should be weighed against the reality that the average basket size at Countdown (for example) is [] (including GST).¹²⁵ Most New Zealanders are shopping around and shopping multiple times per week, across a range of retailers. Accordingly, while supermarkets may have a broader range than other retailers, it would not be a complete or accurate picture of the competitive context to only consider

¹²⁵ [].

competition from other “traditional supermarkets”. See Section (3) of the main part of our response for further information on the competitors that we face.

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?

Our view is that the Commission’s description of other grocery retailers provides only a partial, and static “snapshot”, perspective of the relevant market. See Section (3) of the main part of our response for further information on the competitors that we face.

In particular, we agree with the Commission’s view in the Issues Paper that “the threat of entry and expansion can significantly constrain the behaviour of existing firms, leading to better outcomes for consumers”,¹²⁶ and consider it important that the Market Study take a forward looking and dynamic view of those competitors that are likely to increasingly impose competitive constraint in the near future (as the Commission does in conducting merger analysis) in order to accurately assess competitive dynamics in the New Zealand retail grocery sector and reflect the reality of how Kiwis shop.

Q10 Are there any other grocery retailers or types of retailers we should have regard to in the study?

See Section (3) of the main part of our response for further information on the range of different competitors in the New Zealand retail grocery sector.

Questions on the supply chain in the New Zealand grocery sector

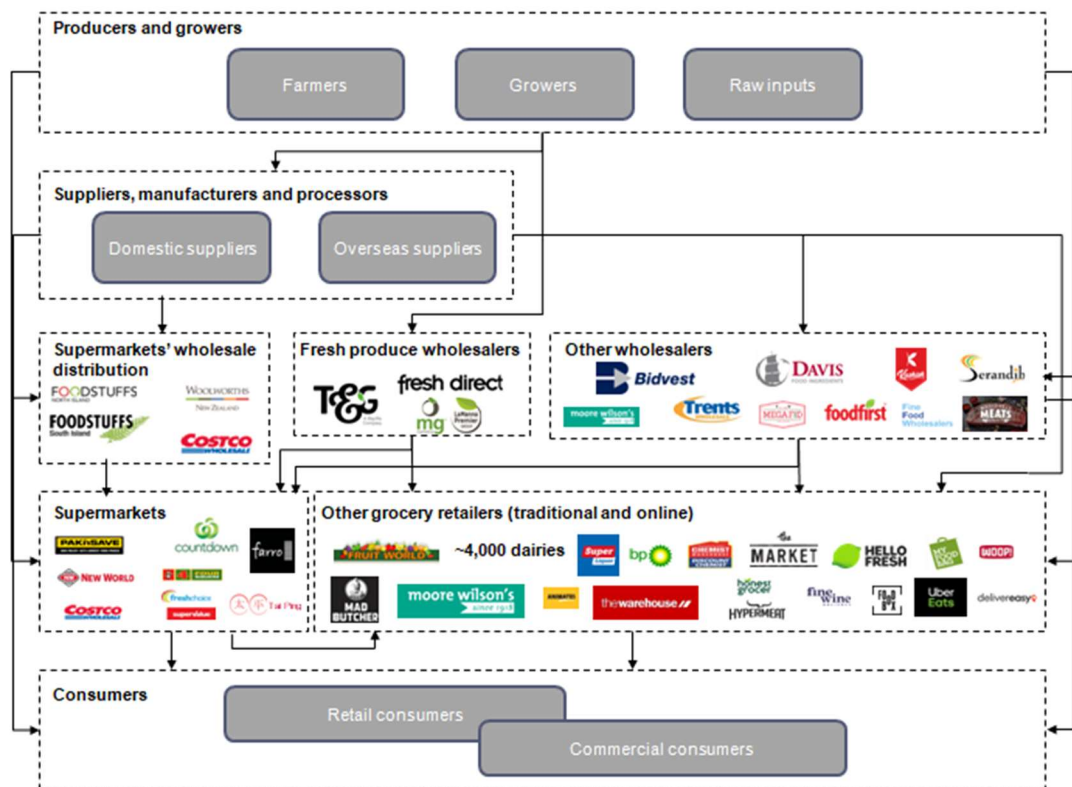
Q11 How does our high-level summary of the supply chain in the New Zealand grocery sector (as shown in Figure 3 above) fit with your understanding of the sector?

Our view is that the Commission’s summary provides only a partial view of the supply chain as it excludes important relationships between participants as well as key players.

Figure [16] below provides our view of the supply chain.

¹²⁶ Paragraph [87].

Figure [16] - The New Zealand grocery supply chain



Our specific comments are as follows:

- The Commission’s summary should include the large and rapidly growing online sector, which includes a number of significant and rapidly growing online supermarkets and specialists, ready-to-eat delivery providers and meal kit providers (such as My Food Bag and HelloFresh).
- The Commission’s category for other grocery retailers should include butchers, “fruit and vege” shops, ethnic supermarkets, convenience stores, liquor stores, health and beauty stores (including Chemist Warehouse), pet specialists, and general merchandise retailers.
- The Commission’s summary excludes a large number of wholesalers who play key roles in supplying many grocery stores and online players - for example, Davis Food Ingredients, Foodfirst, Kashish Foods, Serandib, Wholesale Meats Direct, and Amalgamated Food Distributors.
- The Commission’s summary suggests producers and growers only directly supply some wholesaler and retailer categories. However, we understand that producers and growers supply all wholesale and retail categories.
- The Commission’s summary did not include D2C sales by suppliers, manufacturers and processors (for example, by wineries, and other D2C suppliers).

- The Commission's summary did not include Costco. Given Costco is currently developing a site in Auckland and is the world's second largest food/grocery retailer, applying a forward looking approach, Costco should be included. Aldi should also be considered a significant factor.

Q12 Are there any other key steps or participants in the supply chain which should be included?

See Section 3 of the main part of our response for further information on the range of different competitors in the New Zealand retail grocery sector, and our response to Question 11 above.

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?

Rapidly growing online shopping and ranges of convenient meal formats, including meal kits, have already fundamentally changed the competitive landscape in the New Zealand grocery sector, and will continue to do so, creating opportunities and challenges for a range of market participants and more options for New Zealand consumers. See Section (3)(c) and (d) of the main body of our response for further details on our views on this.

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?

See Section (3) of the main body of our response for further details on our views on this.

Q15 Do you agree that the study should primarily focus on traditional retail grocery stores?

No. As set out in Section 3 of the main body of our response, the New Zealand food and grocery sector encompasses a wide array of competitors with different business models including "traditional supermarkets", speciality stores, convenience stores, online specialists, meal kits, health and beauty, trade suppliers, liquor stores and D2C businesses. Traditional grocery stores are only one type of player within this large, complex and dynamic sector, and they represent only one part of how New Zealanders shop. The Commission should consider the total New Zealand food and grocery sector, and take a forward looking approach, in order to obtain a complete and representative view of the nature of competition.

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?

As set out in Section (3) of the main body of our response, the significant and sudden acceleration of demand for online shopping, and the supply-side response in the form of new D2C competitors and expanded e-commerce capacity across many existing and emerging operations, is the most notable change due to COVID-19. This has intensified the already competitive grocery retail sector and unlocked a new wave of innovation and opportunity for businesses in response to consumer demand. As noted in Section 3, we consider the consumer shifts to online channels are permanent, and should be factored in by the Commission.

In terms of other COVID-19 related impacts on the retail grocery sector, we note that there was a significant but temporary shift toward larger basket size and fewer shopping trips, with average basket size temporarily increasing from [] before COVID-19 to as high as [] during the COVID-19 peak, albeit now back to []. We believe this impact will not be sustained as it runs counter to fundamental shifts in lifestyle and behaviour (and counter to the ongoing macro trend in the opposite direction). Already, sales patterns show evidence Kiwis are reverting to pre-COVID-19 behaviour on this dimension (albeit that we expect to continue to see some sales spikes, and larger basket sizes, from time-to-time in response to local/international news about COVID-19). Similarly, as per Figure [7] we note a short but significant temporary channel shift between supermarket and out-of-home food channels - that likewise has already quickly reverted back to pre-COVID levels (albeit again, we expect to see some fluctuations from time-to-time in response to specific news about 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?

See our response to Question 16 above.

Q18 Has COVID-19 had any long-term impacts on other retailers (including specialist retailers) and their suppliers?

See our response to Question 16 above.

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?

We have no comments on the proposed high-level approach as outlined in paragraphs 66 to 70 of the Issues Paper, but we reiterate our comments made elsewhere about the factors that we consider important and informative for the Market Study.

We agree with the Commission's statement in paragraph 69 that "the potential issues identified under each of these headings do not pre-suppose that there are competition problems in the sector", and welcome the opportunity to contribute to the Market Study.

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?

Our perspective and experience is that there are significant difficulties in trying to make international comparisons of grocery prices and profitability of retailers, which mean that such comparisons are unlikely to be able to be made in any meaningful or informative way and risk being misinterpreted. This was recognised by the UKCC in its 2007 grocery market study:¹²⁷

"International comparisons of prices are difficult to make as a result of exchange rate issues, comparability of products and pack sizes, the role of tax in food prices, and different property markets and planning regimes. For these reasons, we consider that the value of any extensive cross-country comparison would be limited."

Some of the issues include the following:

- Difficulty in standardising the non-price dimensions of products whose prices are being compared - for example, differences in quality between produce products and differences in pack sizes. This was recognised by the ACCC in its grocery market study, noting that "differences in quality of goods are not sufficiently reflected across countries".¹²⁸
- Differences in the availability of products, and the distance to market for products, in different jurisdictions. For example, grapes may be domestically grown in the USA and imported in New Zealand (or vice versa), which impacts the underlying costs of bringing products to market.
- Difficulty in standardising the period of measurement, for example differences in seasons and availability of products and when the period of measurement commences. This was recognised by the ACCC in its grocery market study, noting that "international comparisons are 'highly susceptible to price level variations at the commencement of the period under study, since it is easier to make percentage gains off a low base than a high one'".¹²⁹
- Differences in economic performance and inflation rates in different jurisdictions;

¹²⁷ UK Competition Commission (2007), The Supply of Groceries in the UK market investigation, Provisional findings report, October, page 27.

¹²⁸ ACCC. Report of the ACCC inquiry into the competitiveness of retail prices for standard groceries. (July 2008). Page 25.

¹²⁹ ACCC. Report of the ACCC inquiry into the competitiveness of retail prices for standard groceries. (July 2008). Page 25.

- Differences in input costs such as:
 - Differences in transport costs due to different physical geography, population density and population dispersal;
 - Differences in minimum wages and employee entitlement costs;
 - Differences in electricity costs.
- Differences in seasonality, demand, and weather events or supply issues in relation to the supply of certain products (for example, a hail storm at harvest time or drought in New Zealand).
- Exchange rate issues.
- Differences in tax rates, including:
 - Differences in GST rates and the application of GST to food products.
 - Differences in fuel taxes, and road user charges.
- Differences in accounting treatments between different grocery retailers mean that it is not possible to make a meaningful or informative comparison of metrics such as gross profit rates.
- Differences in regulatory settings, including differences in subsidies (or lack thereof) on different products, differences in import/export restrictions on certain products, and/or differences in the need for quarantining or other biosecurity treatment of products (for example, irradiation or chemical treatment of imported produce into New Zealand).
- Differences in business models - for example, whether retailers own or lease their premises. The ACCC recognised in its grocery market study that “[t]he issue of leasing versus owning buildings may also affect international EBIT comparisons”.¹³⁰
- Differences in the range of activities, in addition to grocery retailing, conducted by retailers will impact factors such as pricing and margins. This was recognised by the ACCC in its grocery market study, noting that for this reason “[l]ike-for-like comparisons are not straightforward”.¹³¹

Accordingly, we consider that it is unlikely that pricing or profitability comparisons across jurisdictions are able to be made in any meaningful or informative way, and without the proper caveats and understanding of the differences between jurisdictions could be misinterpreted.

¹³⁰ ACCC. Report of the ACCC inquiry into the competitiveness of retail prices for standard groceries. (July 2008). Page 112.

¹³¹ ACCC. Report of the ACCC inquiry into the competitiveness of retail prices for standard groceries. (July 2008). Page 110.

While we have asked NERA to conduct the analysis of EIU retail pricing data to compare retail grocery prices across countries (as **enclosed** with this response), in so doing we are conscious of these caveats and limitations in making such comparisons across countries.

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?

See Section 2 of the main body of our response.

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?

As outlined at Section 3 of the main body of our response, smaller retailers in all their diversity (including online-only competitors) play a dynamic and significant competitive role across the product categories that “traditional supermarkets” supply.

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?

See Section (2) of the main body of our response.

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?

There are many different factors that a consumer may take into account in deciding which grocery retailer to purchase from. These include:

- Value for money - for example, prices, rewards, specific promotions;
- Shopping experience and convenience - for example, location of store, availability of parking, trading hours, cleanliness, ease of entry / exit, timing of delivery / pick-up (if shopping online), layout of store, layout of website, speed of checkout, in-store experience, availability of trolleys / baskets, helpfulness / friendliness of personnel;
- Product range and quality - for example, preferred brands / products in stock, quality of fresh produce, availability of healthy / organic products, availability of prepared meal options, availability of local products; and
- Reputation of the retailer - for example, social responsibility, environmental credentials, food safety.

The preferences and requirements of New Zealand consumers are diverse, and that diversity is increasing, meaning that each consumer will place different weight on each of the factors outlined above. Furthermore, each consumer (or household) has a range of shopping “missions” within any given week or month (for example, main shop, top-up, last-minute, specialist, special occasion) that they need to fulfil. For each, the most important factors for a consumer in deciding which grocery retailers to shop at, and which brands to purchase, will naturally differ. This means that, in effect, each consumer is their own “niche”, which creates opportunities for different retailers to best serve that consumer’s requirements. For example:

- For some shopping missions, convenience will be most important and before deciding where to go (or alternatively whether to shop online) a consumer might ask themselves where their nearest store is, whether it is a store that they like, whether the store has good car parking, or who offers the best grocery delivery service?
- For other shopping missions, quality, range or price might be more important and a consumer may instead ask themselves where they can get that special ingredient, or where they will save the most money across their total shop? Similar principles apply to brand selection - which shopping problem is the consumer trying to solve, and therefore which brand best meets these needs (weighing price, quality, taste, and quantity, among other factors)?

Given there is a diverse range of factors that can drive each and every shopping mission, there is no clear-cut answer as to how far consumers will travel for groceries. Online shopping has rendered travel distance largely irrelevant for many customers. With a click of a button, consumers can arrange for food and grocery items delivered to their doorstep, and many increasingly choose to do so (and online deliveries may be supplied from across the country, not necessarily just from nearby stores). It would also be inaccurate to generalise when it comes to in-person shopping missions. For example, top-up missions for milk or bread will mean a short trip from home or work (or on the way home from work), while for “big basket” or specialty items consumers may travel further to save money or find exactly what they need, or alternatively they may prefer to purchase online.

Where people live also makes a difference to the distance they are prepared to travel. Someone living in an urban area may make more smaller shopping missions throughout a week and frequent a larger diversity of retailers. Consumers living in rural areas, on the other hand, may be more likely to make longer journeys, buying more, less frequently and combining multiple shopping missions into one.

We are happy to discuss further with the Commission any research or information we have on this, including in relation to any information that we have already provided the Commission.

Q25 Should we compare grocery prices across regions within New Zealand? If so, how should we undertake these comparisons?

Any regional comparisons should be done on a like-for-like basis, with idiosyncrasies and complexities inherent in the data understood and interpreted correctly. We can support the Commission in this regard.

Q26 Do you have any other views on competition in New Zealand's retail grocery sector which you would like to share?

Nothing further in addition to our comments elsewhere in this response.

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.

The New Zealand grocery sector is intensely competitive, and there is no evidence of accommodating behaviour. Indeed, our perspective is that the New Zealand grocery sector contains many features that mitigate the potential for there to be accommodating behaviour, including the following:

- Grocery retailers sell a wide range of differentiated products (WWNZ alone has approximately 26,000 different SKUs). The sheer number of different, and differentiated SKUs (including SKUs that are not common between competitors, such as private label products), means there is no realistic prospect of reaching or monitoring any tacit understanding on pricing. Not only that, pricing can be volatile (due to seasonality and weather factors that affect produce, and FX rate changes for imported/exported products), and retailers compete over a number of different aspects of competition, such as location of stores, frequency of promotions, provision of car parks, range, availability of staff in-store.
- Furthermore, while the Commission has indicated it intends to focus its Market Study on WWNZ and Foodstuffs, the reality is that even within those groups there is a significant number of different decision makers all of whom are making decisions about many aspects of competition. In relation to Foodstuffs, there are two separate and independent cooperatives (Foodstuffs North Island and Foodstuffs South Island) that operate different strategies on a number of aspects of their respective cooperative businesses, and then within each of those separate cooperatives there are hundreds of separate cooperative members, franchise store owners, as well as category managers within each of Foodstuffs North Island and Foodstuffs South Island themselves. In the case of WWNZ, there are a large number of team members (Category Managers, Merchandise Managers, Heads of Business) all of whom are involved in the decision making process. Again this further reinforces there is no realistic prospect of any tacit coordination.
- The Commission's standard approach to assessing the potential for accommodating behaviour recognises that differences in business models between competitors is an important factor in mitigating the possibility of such behaviour.¹³² In this industry, WWNZ and Foodstuffs operate very distinct business models, with WWNZ operating a national business model for its Countdown stores, while Foodstuffs is two separate cooperative buying groups, one in the North Island and one in the

¹³² See for example: Paragraph 54.3 of *Verifone New Zealand and Smartpay Holdings Limited* [2020] NZCC 13.

South Island, that each in turn supplies hundreds of individually owned stores. Beyond that, there are a number of other differences between the businesses, including different approaches to issues such as property holding. These differences further reinforce that it would not be possible to achieve or sustain any tacit coordination.

- The New Zealand grocery retailing sector is highly dynamic, with a range of different competitors each with different business models and competitive strategies (see Section (3)), which further reinforces that there is no prospect of any tacit coordination.

Finally, the fact that there is not accommodating behaviour in the New Zealand grocery sector is demonstrated by the sector delivering outcomes that are consistent with intense competition - see Section (4) of the main body of our response.

Q28 Which, if any, aspects of grocery retailers' offerings may be subject to accommodating behaviour (for example, location of store openings, prices, promotional schedules)?

For the reasons set out in response to Question 27 above, WWNZ does not consider that any aspect of grocery retailers' offerings are currently subject to accommodating behaviour or are vulnerable to being subject to such behaviour in the future.

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?

As set out in Section (3) of the main body of our response, we compete intensely with a range of competitors, and to ensure we continue to earn our customers' trust and business, we are constantly reviewing our pricing, promotion performance, product offerings, range, service offerings, innovation, customer satisfaction, supplier satisfaction, and other propositions against the many competitors that we face. We are happy to discuss further with the Commission any questions it may have on this, including in relation to any information that we have already provided the Commission.

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?

As outlined in Section (3) of the main body of our response, there are a significant number of different competitors, with different business models, in the New Zealand retail grocery sector. Different business models face different requirements for entry and expansion. For example:

- Small format convenience and/or specialty bricks and mortar grocery offerings have lower build, fit-out and leasing costs than larger format stores.

- Online purchasing is now mainstream in New Zealand, and our view is that there are no material barriers to servicing this demand, as evidenced by the proliferation of online marketplaces and start-ups selling meal kits, food boxes, ready-to-eat food delivery, and D2C offerings. Such businesses do not need a bricks-and-mortar presence or their own logistics network to service consumers, and can operate using third party logistics providers from “dark stores” (warehouses) without the need to find a prominent retail site or incur the costs of fitting-out a retail location.
- While larger format bricks-and-mortar offerings will incur higher upfront build, fit-out and leasing costs, there are numerous examples of big-box retailers in New Zealand (including retailers that have expanded their footprint over the last 10 years) that demonstrate that entry/expansion in large format retailing is readily achievable (for example, Costco, The Warehouse, Kmart, Mitre10, Bunnings).

Given the variety of new and expanding entrants, adopting a variety of different business models, WWNZ does not consider that there are any material barriers to entry or expansion by grocery retail competitors.

Q31 To what extent does the size and geography of New Zealand affect the possibility of entry and expansion?

The New Zealand market does present its own unique challenges, such as it being small (smaller than the population of Sydney), geographically dispersed across several islands, and geographically distant from other jurisdictions.

However, despite these challenges, there is a range of large international retailers that are increasingly announcing expansion into New Zealand in recent years, including Costco, Chemist Warehouse, Ikea, Sephora, Zara, H&M, Mecca, Nick Scali and Tiffany & Co. While New Zealand may have initially been a lower priority for such international retailers, it is apparent that it is increasingly on the radar for entry and expansion as these retailers reach maturity in other markets (and the examples of those that have already arrived demonstrates there are no barriers to further retailers coming).

In addition, as set out in Section (3)(e), our view is that there is the constant likelihood of other international grocery retailers entering and expanding into New Zealand. We regard the entry of either, or both, of Aldi or Amazon as a real and imminent possibility (and, as set out in Section (3), we note that Aldi has previously made statements denying plans for market entry into other territories before then entering those territories). The Warehouse Group has also previously commented on these dynamics:¹³³

Our predictions of increased competition are being realised, with a number of fashion and lifestyle retailers having arrived or committed to come here. The presence of competitors such as Zara, H&M and the upcoming arrival of Costco, along with Amazon’s growing maturity in Australia which we think will start to affect us too, point to our need as a Group to make the most of our advantages as a New Zealand-based retailer with a significant footprint, loyal customers and deep relationships within communities.

¹³³ The Warehouse Group Integrated Annual Report 2019:
https://www.thewarehousegroup.co.nz/application/files/8815/6935/9728/AR_2019_Full_Report-spreads.pdf

Q32 Are there recent examples of actual or potential entry or expansion in the sector that we should aware of? What are these?

There are many examples of entry and expansion into New Zealand's retail grocery market - see Section (3) of the main body of our response.

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?

In addition to the wholesale operations referred to in the Issues Paper, there are a number of other participants in the sector that perform a wholesale function. These include:

- A number of New Zealand grocery suppliers perform their own wholesale function, by having their own transport/distribution/merchandising functions, and/or marketing themselves as supplying their products at wholesale - for example, Goodman Fielder,¹³⁴ Heinz-Watties,¹³⁵ Coca-Cola Amatil,¹³⁶ Frucor Suntory.¹³⁷
- Wholesalers focused on particular product categories (for example, Moore Wilsons (~4 stores), Food HQ, Allied Liquor, T&G, MG marketing & The Produce company, Megafood, Wholesale Meats Direct, JR wholesale meats, Premium Meats and West meat, among many others).
- Wholesalers focused on the high growth ethnic grocery store segment (for example, Enso International, Soungyueen, Tai Ping, Kashish foods, MZ Holdings, AB International).
- Online wholesalers - for example, The Warehouse's online TheMarket platform has a range of grocery products available in wholesale quantities.
- Wholesalers focused on the food service category, such as BidFood, Davis Trading, Service Foods, FoodChain, Nelson Food Distributors, Fresh Direct Wholesale, and many others.
- Costco's entry into New Zealand will provide another, significant, cash-and-carry option for retailers, and Metcash (Australia's largest independent grocery wholesaler) already has a sizable presence in New Zealand via its liquor business (Tasman Liquor, Bottle-O)), which would provide a basis on which to expand in New Zealand, if it so wished.

¹³⁴ <https://www.getfood.co.nz/>

¹³⁵ <https://www.wattiesfoodservice.co.nz/>

¹³⁶ <https://www.ccamatil.com/nz/Supplier-information/Trade-customers>

¹³⁷ <https://www.frucorsuntory.com/my-frucor/help-and-support/help-support-deliveries/>

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?

Our assessment is that there are no material barriers to entry or expansion in wholesale grocery (or no more than setting up any other kind of business in New Zealand), as demonstrated by the range of different wholesale business models referred to in response to Question 33 above.

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?

Nothing further in addition to our comments elsewhere in this response.

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?

We consider that competition is working effectively at the supplier level for the reasons outlined at Sections (3) and (4) of the main body of our response.

Q37 What impact, if any, do private label products have on competition at the supplier level?

We are proud to offer New Zealand consumers more choice with over 3,000 private label products across more than 250 sub-categories. These products have been specifically chosen and designed to meet the needs and tastes of New Zealand consumers while offering them excellent value. Our view is that private label products have a positive effect on competition at the supplier level and in turn deliver lower prices and increased choice for New Zealand consumers as they:

- are priced very competitively, providing great value and increased choice for New Zealand consumers,
- provide a value benchmark that suppliers need to be cognisant of when pricing their own products and, therefore, enhance price competition, and
- enhance competition on innovation, quality, and variety between suppliers. For example, at WWNZ we continue to innovate and evolve our private label offering to ensure it is attractive to our customers. As we noted when we revamped our private label offering:¹³⁸

“The Countdown [private label] range is a dynamic brand that will evolve and change according to customer tastes to ensure we’re always exceeding expectations with our own brand range”.

¹³⁸ (7 April 2016). Countdown set to wave goodbye to Homebrand, Select and Signature Range as it revamps its in-house products. StopPress. Retrieved from: <https://stoppress.co.nz/news/extreme-makeover-countdown-begins-two-year-journey-revamp-its-own-product-range/>

A good example is our Macro private label range of products, which has introduced new organic and wholesome product offerings across a range of categories:

“Our customers also live busy lives which is why we work closely with our team of nutritionists to ensure our new range features an assortment of healthier on-the-go foods at affordable prices. These include our nutritious adult snack packs and healthy heat-and-eat soups... We always keep a close eye on what’s going on in the world of health and wellness to seek out the latest trends, so we can bring all these benefits to our customers shopping at Woolworths as soon as possible.”

We have also worked with nutritionists to reduce the salt, fat and sugar across our private label range, to expand the range of healthier products available to our customers. As noted at Section (2) above, currently 99% of Countdown’s private label range displays the Health Star Rating, and 53% of these products have a Health Star Rating of more than 3.5 stars. More recently, we have completed a three year project to remove artificial colours and flavours from products produced in all of our in-store bakeries.

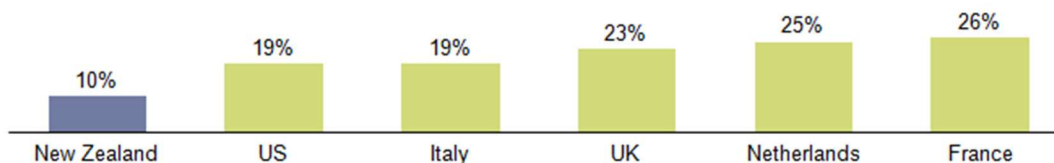
- Create growth opportunities for new suppliers to enter or expand by producing private label products on our behalf. Good examples include:
 - [].
 - [].

Accordingly, we agree with the Commission’s statements at paragraph 107 of the Issues Paper that consumers benefit from private label products through lower prices, greater choice, and the facilitation of entry by new suppliers. Given these significant benefits, we continue to invest in private label products [].

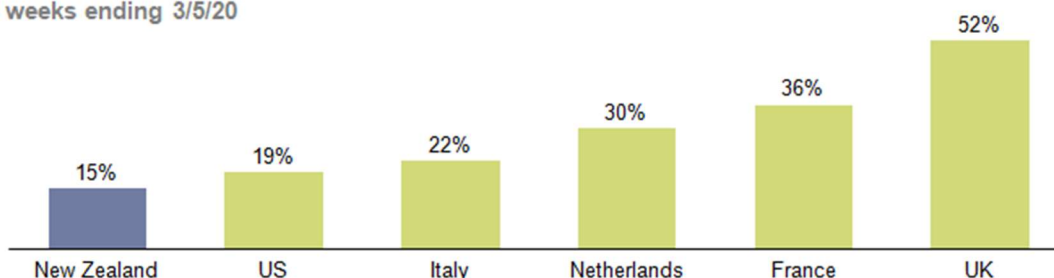
Finally, we note that the Commission referred in the Issues Paper (at paragraph 108) to 2015 Nielsen data suggesting that \$14 out of every \$100 spent on groceries in New Zealand is on private label products. BCG IRI data on private label penetration from May 2020 suggests that private label penetration in New Zealand packaged goods is 10% in non-edibles and 15% in edibles - see Figure [17] below (which also includes private label penetration data for other countries for the Commission’s context).

Figure [17] - penetration of private label products by jurisdiction

Non Edible Private Label \$ Share
4 weeks ending 3/5/20



Edible Private Label \$ Share
4 weeks ending 3/5/20



Source: IRI, BCG. Note: Channels Covered UK: Aggregated sales across major grocery retailers. France: Hypermarkets, supermarkets, discount, convenience stores, e-shopping. Netherlands: Data collected for supermarket including online. Spain: Includes hypermarkets & supermarkets >100M and modern drug stores. Italy: Excludes open air markets. US: Represents transaction POS data, data collected in MULO channels. NZ: IRI data packaged goods only

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?

Nothing further in addition to our comments elsewhere in this response.

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?

Our views on competition at the supplier level, and the relative bargaining power of retailers and suppliers is outlined at Section (4) of the main body of our response. In summary:

- We consider that competition is working effectively at the supplier level for the reasons outlined in Section (4). In particular, we consider that the fact we have achieved improving supplier satisfaction ratings, while at the same time achieving improved customer satisfaction ratings and lower retail prices (in real terms), shows that we are achieving the right balance between delivering the products our customers want at competitive prices and supporting the success of our suppliers.
- The way we deal with our suppliers necessarily reflects that we deal with a diverse range of suppliers - from large multinational corporations to small family owned New

Zealand businesses. We tailor our approach accordingly to reflect the differences between our suppliers and achieve the best outcomes for our customers.

- In particular, in many instances our business here in New Zealand is negotiating with some of the largest FMCG companies in the world, including businesses that are many, many times larger than we are. These suppliers have very significant countervailing bargaining power in dealing with us because New Zealand is only a very small part of the global market that they operate in and because, as the Commission noted in the Issues Paper, many supply us with products that consumers view as “must have”, and so us not stocking their products would lead customers to shopping elsewhere. Accordingly:
 - in negotiating with such large suppliers, we negotiate robustly to lower input costs (the price we pay to the supplier) in order to obtain competitive prices for New Zealand, and we actively look to bring in other (smaller) suppliers to ensure the best competitive outcomes to benefit our customers; and
 - our Supplier Charter sets out that we have the same high expectations of conduct from our suppliers when they deal with us that we place on ourselves (i.e. that we expect that they will act ethically, fairly and honestly in their dealings with us, just as we expect of our own team).
- In relation to smaller suppliers, we proactively support their entry and expansion, and take steps to try and minimise any barriers to them supplying us, and this is reflected in the fact that our highest supplier ratings come from our smaller suppliers. The steps we have taken to support our smaller suppliers include:
 - **Implementing our own Supplier Charter**: To cement our commitment to working with our suppliers fairly, honestly, and transparently we have implemented our own Supplier Charter. This frames the expectations we have for our team and outlines our commitment to be open, transparent, and data-based in our buying decisions, and to have clear processes for any disputes that arise.
 - **Providing a real-time sales app for our suppliers**: We have launched an app, called Compass, that is free for our suppliers and enables them to more closely monitor sales of their products in any Countdown store. This app enables suppliers to see planograms in every store, stock on hand, stock on order, stock in transit, price information and presentation levels, and it is a valuable tool for suppliers to help assist them to make decisions about their supply chain. We have received very positive feedback from our suppliers in relation to this innovation.¹³⁹

¹³⁹ See: (12 March 2020). Countdown launches first real-time sales app for suppliers. Countdown press release. Retrieved from: <https://www.countdown.co.nz/news-and-media-releases/2020/march/countdown-launches-first-real-time-sales-app-for-suppliers#:~:text=Countdown%20has%20today%20launched%20a,products%20in%20any%20Countdown%20store>

- **Implementing shorter payment terms for small suppliers:** To further assist our small suppliers we offer them the ability to choose 14 day payment terms under our Small Supplier Payment Policy. This applies to New Zealand suppliers from whom we buy less than \$250,000 of goods each year and whose total annual turnover is less than \$1 million.

Q40 Is the relative bargaining power between retailers and suppliers impacting competition in the New Zealand grocery sector? If so, how?

See our response to Question 39 above.

Q41 Is there any specific behaviour or conduct between retailers and suppliers we should consider in our study?

See our response to Question 39 above.

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?

For the reasons set out in response to Question 43, we consider that consumers have ready access to numerous information sources to enable them to compare offerings and prices both in Countdown stores and between the various competitors in New Zealand's retail grocery sector.

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)?

We recognise the importance for New Zealand consumers to have access to clear and useful information to help them make informed purchasing decisions. For this reason, we have a focus on providing clear information about the prices and quantities of our products. For example, Countdown provides information to consumers on price ticketing (both in-store and online) about (a) the standard price, (b) any special pricing, and (c) for most products, the price per unit, to assist consumers to make informed decisions.

In addition, we have made a concerted effort over a number of years to simplify our pricing by having a greater focus on providing every day low prices to customers, not just when they are on special. Not only has this initiative delivered savings for Countdown's customers by reducing the standard prices on thousands of products, it also helps shoppers to best understand the value that Countdown offers on key grocery items on an everyday basis. As a result, the proportion of products that are sold on promotion in Countdown, at [], is lower than the 2017 Nielsen data referred to in Figure 4 of the Issues Paper (and considerably lower than 2014, when it was [], as we have focussed on ensuring that we are offering every day low prices to our customers on a large number of products, as well as to continuing to offer attractive promotional specials.

Beyond our own initiatives, we consider that Kiwi shoppers have ready access to information to enable them to compare prices and offerings between grocery retailers and other channels. For example, a number of retailers that sell grocery products (including Countdown) have online offerings where their prices / offers can be readily searched online - for example PAK'nSAVE stores in the North Island, New World stores in the North Island, FreshChoice, SuperValue, Mitre 10, Chemist Warehouse, Fruit World, Farro Fresh, The Warehouse and TheMarket, as well as many others.

This means that a consumer looking to price-check the price of, say, Finish Dishwasher tablets could compare prices online, for example, at Countdown, The Warehouse, TheMarket, Chemist Warehouse, Mitre 10, New World, PAK'nSAVE, and others. Reflecting that consumers actively price-check websites in making shopping decisions, our own research indicates that [] of visitors to our Countdown website are visiting to check prices, and [] are visiting to check product information or availability (this equates to approximately [] website visits per week).

Furthermore, if consumers search on Google for grocery products, they will often be served with pricing comparisons by Google's ad service, which actively presents to them price and product comparisons across retailers. Examples of returns to searches for "nz paleo bread" and "nz dog food" are in Figures [18] and [19] below.







Figure [18] - Google search result in response to search for "nz paleo bread"

The screenshot shows a Google search for "nz paleo bread" with approximately 1,300,000 results. The top section displays six product advertisements:

Product Name	Price	Retailer
Venerdi Paleo Super Seeded Bread Huckleberry...	\$10.99	Huckleberry
Venerdi Paleo Almond & Linseed Bread Huckleberry...	\$10.99	Huckleberry
Vogels Gluten Free Sliced Bread Keto	\$9.00	Countdown ...
Freyas Lower Carb Toast Bread 5 Seed 750g	\$4.20	Countdown ...
Home St Sliced Loaf Keto Gluten Free Low C...	\$11.00	Countdown ...
Julian Bakery, Paleo Bread Mix, 10.7 oz (304 g)	\$18.89	iHerb (23 reviews)

Figure [19] - Google search result in response to search for “nz dog food”

Ads · See nz dog food

 <p>Orjen Original Dry... \$163.20 Pet Direct Free delivery</p>	 <p>Baxters Dry Dog Food... \$18.00 Countdown ... \$50 min. order</p>	 <p>Black Hawk Dog Lamb ... \$152.99 Online Vet ... Free delivery</p>
 <p>Raw Essentials... \$9.90 Raw Essent...</p>	 <p>Ivory Coat Adult Chick... \$131.51 Pet Direct Free delivery</p>	 <p>SALE Royal Canin Labrador... \$111.74 \$149 Pet.co.nz Free delivery</p>

In addition, many of the retailers referred to above publish mailers and weekly specials on a regular basis that are either delivered to consumer letterboxes, and/or published online, to enable consumers to compare prices and promotions across retailers. By way of example:

- Countdown publishes its weekly mailer online:
<https://shop.countdown.co.nz/shop/content/weeklymailer#view=catalogue2&saleId=11696&page=1>
- Fruit World publishes its weekly specials online:
<https://fruitworld.co.nz/collections/weekly-specials>
- Chemist Warehouse publishes fortnightly specials both in-print and online:
<https://www.chemistwarehouse.co.nz/catalogues#page=catalogue¶ms=chemist-warehouse-nz-boxing-day%2F5p82m8xvj&additional=pid%3DpromotedCatalogue%26retailerName%3DCHEMIST%2BWAREHOUSE%2BNZ&pageNo=0>

Q44 How easy is it for consumers to compare product offerings once in store? What factors influence this?

Please see our response to Question 43 above.

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?

Our priority is to deliver value for money for New Zealand consumers, and (as noted in response to Question 43) we have made a concerted effort over a number of years to simplify our pricing offer for Kiwis by having a greater focus on providing every day low prices. Accordingly, our pricing strategy is to offer both every day low prices and attractive short-term specials. Therefore, we have two main categories of retail prices:

- "Standard shelf prices": These are our standard prices. Within our standard shelf prices, we will specifically identify "Great Price" items, which are particularly competitive prices on a specific range of products for a longer term period.
- "Promotional and other discounted pricing": These products are discounted from our standard shelf prices for a short time. These are typically marketed as "Specials", which are short term promotions/savings we offer customers, and are typically run for a one week period. In addition, we market "Club Prices", which are short term promotions/savings offered only to Onecard members (irrespective of whether or not they have registered their Onecard), "Multibuys", which are discounted pricing when buying more than one of a product, "Clearance Prices", which are store specific discounts for reasons such as product deletion and products approaching their expiry date, and personalised offers (which are prices offered to a specific customer based on criteria such as previous shopping behaviours).

We believe our approach to pricing serves our customers well. We market our prices in a transparent and accessible way (all of our prices are readily available online and in-store, including for most products with unit pricing), and we offer our customers a combination of everyday value and short term promotions so that they can compare prices and make the decisions that best meet their needs.

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?

New Zealand consumers are highly price conscious and love to purchase products on promotion. That is a dynamic that is seen right across the New Zealand retail sector, not just in grocery.

This means that we have to constantly ensure we are offering price competitive offerings to customers. To best appeal to the highly price conscious nature of New Zealand consumers, (as noted in response to Question 43) we have made a concerted effort over a number of years to simplify our pricing offers, in particular by having a greater focus on providing every day low prices to its customers.

This means while historically a higher proportion of grocery products have been sold on promotion in New Zealand, Countdown's offering has moved more towards an everyday

low pricing model in recent years. For example, in comparison to Figure 4 of the Issues Paper, [] of Countdown's products are now sold on promotion with more emphasis now placed on regular and consistent everyday value for our customers, as well as continuing to offer attractive promotional specials.

Q47 How are pricing promotions funded? Do these typically result in lower margins to retailers or suppliers?

Our promotions are often funded through temporary reductions in the effective cost price of goods purchased from our suppliers, with us negotiating and agreeing such reductions in costs with our suppliers (subject to us retaining our own discretion to determine the depth of our discounts / retail pricing in our Countdown stores). We will also fund promotions ourselves where we consider that is appropriate.

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?

Loyalty programmes are offered by some, but not all, traditional grocery retailer banners in New Zealand. For example, while we offer our Onecard programme through Countdown, Foodstuffs offers Clubcard through New World stores, Farro Fresh offers its "Friends of Farro" loyalty programme, Huckleberry offers a loyalty card, and Life Pharmacy offers "Living Rewards", many other banners compete without offering a loyalty programme. For example:

- To the best of our knowledge, Foodstuffs' PAK'nSAVE¹⁴⁰ and Four Square banners do not offer loyalty programmes, nor does Chemist Warehouse.
- There are not any banner-wide loyalty programmes at SuperValue stores [].

This demonstrates that grocery retailers in New Zealand can, and do, readily compete without offering a loyalty programme. This is consistent with the observation of the ACCC in Australia that Aldi has continued to successfully grow its share of the Australian grocery sector without offering its own loyalty programme.

Accordingly, the decision whether or not to offer a loyalty programme, is a decision for a particular retailer based on what it considers is the best way to compete as part of its price / quality / service proposition, and that consumers will readily shop at grocery retailers that do not offer a loyalty programme.

In relation to our own Onecard loyalty programme, we consider this programme is plainly a pro-competitive initiative that intensifies competition in the sector and results in consumer benefits in the form of discounts, lower prices, and better informed business and customer-led decisions. This is for the following reasons:

¹⁴⁰ WWNZ is aware that PAK'NSAVE offers a fuel docket programme.

- Our Onecard programme enables us to offer Club Prices, fuel savings, e-vouchers, bonus point offers, and the ability to participate in customer promotions to win prizes. That these outcomes are pro-competitive, and a dynamic of competition, is consistent with the finding of the ACCC in its recent 2019 "Customer loyalty scheme" paper that supermarket loyalty schemes result in consumer benefits, in particular through lower prices and discounts.
- There is no reason to believe that consumers are "locked in" to Countdown through our Onecard offering. This is for the following reasons:
 - Rival retailers can readily reproduce their own loyalty programmes, as demonstrated by New World offering its Clubcard, Farro Fresh offering its "Friends of Farro" loyalty programme, Huckleberry offering a loyalty card, and Life Pharmacy offering its "Living Rewards" programme.
 - Consumers readily "cross-shop" in terms of which retailers they purchase from. For example, see the response to Question 22, which shows that over a four week period, it was found that more than half [] of Kiwis shopped at both a major grocery retailer (Countdown, PAK'nSAVE, New World) as well as smaller independent retailers.
 - Consumers also readily "multi-home" in terms of which loyalty programmes that they participate in. For example, see the response to Question 49 below, which shows that more than [] of Onecard customers are also members of New World, Flybuys and Airpoints loyalty programme. This is consistent with the finding of the ACCC in its recent 2019 "Customer loyalty scheme" paper that loyalty among supermarkets in Australia is limited given shoppers simultaneously hold loyalty cards from competing retailers and often shop regularly at more than one competing store.
- We have sought to make it as easy as possible for customers to benefit from Onecard. Namely, Onecards are available for customers to take from Countdown stores, and customers can begin to benefit from Club Prices simply by swiping a Onecard at the point of purchase. Customers do not need to have taken any steps to register that card in order to obtain those benefits. Alternatively, a customer can choose to register their Onecard online to access additional rewards, and again we have sought to make that registration process as easy as possible for consumers. Demonstrating the ready uptake and use of Onecard, more than 1.9 million customers have used a registered Onecard in the last 12 months (as well as over [] unregistered cards have been used in the last 12 months).
- While the Onecard programme does offer some rewards that accumulate with repeat purchases, the cross-shopping evidence referred to above demonstrates that those accumulated rewards do not cause any material "lock-in".
- While the Onecard programme is used to offer Club Price discounts, prices are clearly and transparently displayed to consumers. Countdown will display both Club Prices and non-Club Prices on-shelves and online so that customers can readily identify Club Prices and compare to standard prices.

- While the Onecard programme, with our members' permission,¹⁴¹ enables us to obtain data about members' purchases, the data that is collected is used by us together with other tools to support customer-led and fact-based decisions in relation to ranging, store layout, and other decisions to the significant benefit of customers and our business – accordingly enhancing the consumer proposition and competition in the sector.

Accordingly, consistent with the Commission's statements at paragraph 133 of the Issues Paper (i.e. that "[l]oyalty programmes can lead to significant benefits to consumers, through discounted grocery prices and other rewards"), we see our Onecard programme as a pro-competitive example of competition in action, without any detrimental impact on competition in 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?

Consumers base their shopping decisions on a wide range of factors. For some, a loyalty programme is a relevant factor in making a purchasing decision, for many others it is not.

Our research shows that consumers in New Zealand typically participate in more than one loyalty programme – namely, that:

- More than [] of the Onecard customers are also members of New World, Flybuys and Airpoints loyalty programme;¹⁴²
- More than [] of New Zealand consumers claim to belong to each of FlyBuys, Onecard, Airpoints, ClubCard, and AA Smartfuel respectively, demonstrating the significant extent of consumers participating in more than one loyalty programme.¹⁴³

This is consistent with international consumer behaviour. For example, industry research by TCC Global has noted that globally, on average, a person will have 3.8 loyalty cards.¹⁴⁴

We are happy to discuss further with the Commission any information we have on this, including in relation to any information that we have already provided the Commission.

Q50 Are there any other specific features of loyalty programmes offered by grocery retailers we should consider in our study?

For the reasons set out in response to Questions 48 and 49 above, we see the offering of loyalty programmes in the retail grocery sector as a pro-competitive example of competition in action, without any detrimental impact on competition in the sector.

¹⁴¹ In accordance with the terms and conditions that our members agree to.

¹⁴² [].

¹⁴³ [].

¹⁴⁴ TCC Global. Loyalty Report 2019. Retrieved from: <https://www.tccglobal.com/wp-assets/uploads/2019/03/Loyalty-Report-2019.pdf>

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?

As noted in the main body of our response, we believe it is critical that the Commission does not over-simplify or unduly narrow its focus. The market reality that we operate within every day is that the New Zealand grocery retail sector is intensely competitive, highly dynamic and rapidly changing, and it is essential that the Commission take all those competitors and dynamics into account to obtain a complete view on the way in which competition works in this sector.