

# ***Response To Market Study Into The Retail Grocery Sector***

*Submitted by:*



**United Fresh**  
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# Introduction

United Fresh is the only pan-produce industry body in New Zealand. Our membership includes growers, grower organisations, packhouses, wholesalers, and service & logistics providers, as well as retailers. Our industry aims to provide New Zealand a healthy and safe supply of quality produce. Our vision is to create a sustainable fresh fruit and vegetable industry for New Zealand.

United Fresh represents an industry that almost every New Zealander interacts with on a daily basis. Our most visual connection to consumers are our 5+ A Day programme, and our Fruit In Schools initiative.

The 5+ A Day Charitable Trust was formed in 2007 for the benefit of the general public and specifically the children of New Zealand.

The highly recognized and respected programme encourages all Kiwis to eat five or more servings of colourful, fresh fruit and vegetables every day for health and vitality.

5+ A Day is responsible for a variety of nutrition education and marketing initiatives and the brand is recognized by over 90% of New Zealanders.

5+ A Day is a powerful tool committed to increasing the consumption of fresh fruit and vegetables for better health in all New Zealanders.

Fruit & Vegetables in Schools (FIS) is a government-funded initiative that provides daily fresh fruit and vegetables to children in low-decile schools. United Fresh manages this initiative and the 5+ A Day Charitable Trust supports FIS by providing curriculum-linked resources that support learning.

The initiative was piloted in 25 schools in 2004 and grown to reach:

- 21 regions across New Zealand
- 559 schools (around 25% of NZ primary schools)
- Over 123,000 children and staff
- Over 26 million servings of fresh fruit and vegetables every year

During COVID-19 Lockdowns, United Fresh has also been an active participant in providing consumers unable to access produce during the lockdowns with up to 10,000 fruit & vegetable boxes per week. This response was coordinated by United Fresh on behalf of the industry, and made for daily interaction with wholesale markets, producers, and consumer channels, at an unprecedented time of crisis.

On behalf of the New Zealand Produce Industry, United Fresh therefore wishes to make a submission on "*Market Study Into The Retail Grocery Sector*".

United Fresh also welcomes the opportunity to comment on the study by way of this submission, as it provides us, as the pan-produce industry body, with the opportunity to enhance our membership's understanding of the issues that have led to the study of the retail grocery sector.

**Prepared by the United Fresh Technical Advisory Group:  
Dr Hans Maurer, Chair,  
Jacob Lawes, Senior Project Officer.**

# Objectives of this Submission

With this submission, United Fresh aims to respond to the Commerce Commission (CC) Preliminary Issues Paper, with a specific focus on fresh produce. United Fresh wishes to discuss its views as the pan-industry body for fresh produce, and how the issues raised in the ComCom Paper are affecting the industry.

This submission is not an in-depth technical analysis, but a high-level response to the questions raised by ComCom from a United Fresh perspective.

Food is one of New Zealand consumers' largest and most consistent annual purchases, forming the second largest weekly household expenditure in Statistics New Zealand data.<sup>1</sup> Any impact on the fruit & vegetable range, and the fresh produce industry resulting from the ComCom study, is therefore likely to have repercussions on consumer wallets.

Fresh produce represents a significant amount of the consumer spend, and the fruit & vegetable category is likely to increase its "share of plate" further, based on current trends and the wider global direction towards more sustainable food production & consumption.

## Situation Overview

On November 16<sup>th</sup>, 2020, the Minister for Commerce and Consumer Affairs authorised the Commerce Commission to carry out a competition study into any factors that may affect competition for the supply or acquisition of groceries by retailers in New Zealand. Matters to be considered in the study included, but are not restricted to:

- The structure of the grocery industry at the wholesale and retail levels;
- The nature of competition at the wholesale and retail levels of the grocery industry;
- The pricing practices of the major grocery retailers;
- The grocery procurement practices of the major grocery retailers; and
- The price, quality, product range and service offerings for retail customers.

On 10 December 2020, ComCom released its Preliminary Issues Paper, entitled, "Market Study Into The Retail Grocery Sector". The Study includes 51 questions, to which ComCom is seeking feedback.

It is understood that further opportunities to provide feedback will arise later in 2021.

ComCom intends to make its final report for this study publicly available by 23 November 2021.

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<sup>1</sup> Statistics NZ "Household expenditure statistics: Year ended June 2019" (3 March 2020). <https://www.stats.govt.nz/information-releases/household-expenditure-statistics-year-ended-june-2019>. (Viewed on 21 December 2020). 'Food' in the Statistics NZ household economic survey includes non-alcoholic beverages, restaurant meals and ready-to-eat food.

# Requested Feedback

The ComCom Preliminary Issues Paper seeks to engage with industry and consumers to assist ComCom in assessing the factors affecting competition in the grocery sector, as well as competitive outcomes for the sector. During the ComCom's initial consideration of competitive factors for the development of the Paper, ComCom identified a range of potential competitive issues in the industry. ComCom is now seeking feedback on these potential issues, to assist in making a decision of where to focus efforts during the Market Study.

ComCom has grouped the discussion of factors that may affect competition under four headings:

- Competition at the retail level.
- Competition at the wholesale and supplier levels.
- The grocery procurement practices of the major grocery retailers.
- Grocery retailers' pricing practices and consumer purchasing behaviour.

ComCom has also identified three potential factors relating to competitive outcomes:

- Prices, choice, quality, and innovation in the sector.
- The margins and profitability of grocery retailers.
- Whether there are other outcomes that are not consistent with those expected in a workably competitive market.

United Fresh Feedback in this submission is structured to provide ComCom with an appreciation of the complexities as a category within the retail grocery sector offering.

# Discussion

The complexity of ComCom's task to perform this Market Study cannot be underestimated. Access to food, food safety, and increasingly, food security, are of more than just passing interest to the population at large.

Food retail in all its manifestations has replaced the hunting grounds of our forebears. The New Zealand of today has one of the most deregulated economies within the OECD, and the food retail sector mirrors that broader economic position.

In order for the system of getting food onto retail shelves to succeed on a consistent basis, very sophisticated supply mechanisms need to be in place, and function, regardless of whether the shelves in question belong to a corner dairy or the largest supermarket in the country.

For consumers, a retail food store is where they expect to be able to purchase what it is that they need to sustain life as they know it. For professional retailers, and their supply communities, the existential challenge revolves around consistently keeping those shelves full, just about every day of the year, whilst operating within the framework of deregulated commerce environments, which come with the opportunity of generating incomes and profits, as well as encountering risks and financial losses.

The food retail industry has changed significantly in the last 40 years. The two authors of this submission on behalf of United Fresh have both seen significant change in their respective careers to date, which in both cases, included a period of time being employed in supermarket produce environments.

The older of the two authors arrived in New Zealand in 1981. From a produce perspective, the auctions system was alive and well, importation of bananas, grapes, and citrus fruit was regulated and influenced by Government, stores were closed on Sunday, Saturday trading had just been reintroduced a year earlier (1980), and every supermarket had one late shopping night per week, typically Fridays. Sunday trading was still 9 years away.

In 1981, store produce managers used to ring their orders for next day delivery through to produce buying clerks at the companies' head offices. These formed the basis of what stores could expect to receive the following day, subject to availability and buyers' discretion.

In 2014, when the younger of the two authors became involved in produce replenishment and stock management systems at the store level, at his place of work, produce clerks taking telephone orders had been replaced by algorithms that compared optimum stock levels against withdrawals generated by way of customers paying for goods at checkouts, calculating replenishment rates, adding additional factors that might affect the next order (such as seasonality or specials), and submitting the anticipated delivery in draft format to individual stores for sign-off.

The way our food retail environments are continuing to evolve, influences dramatically how consumer demands are being met. Or, should this possibly be the other way around?

The reality is that consumers are very good at expressing displeasure with a high level of clarity and volume and at a low threshold level, and are often less willing or able to constructively contribute towards finding working solutions that fit the times. Part of this relates to the level of sophistication our food systems have reached, and the communication and education deficit related to the elasticity and tolerances of these systems when they come under stress.

United Fresh is New Zealand's pan-industry produce association, covering the entire supply chain from seed to plate, directly as well as indirectly. In other words, our members include Horticulture New Zealand and seed/seedling suppliers to New Zealand growers at one end of the spectrum, both major grocery retailers in New Zealand, as well as organisations providing services to this direct value

chain, such as Plant & Food Research, Jenkins Labels, Zespri, The AgriChain Centre, and GS1, to name a few.

This breadth of membership does not always make it easy for United Fresh to find a common position when subsector specific matters arise, that ought to be commented on. With this in mind, the 51 questions ComCom would like answered in this submission fall into 3 categories.

- Category 1, the majority of questions, have been answered on the basis of United Fresh's deep knowledge on how the fresh produce industry in New Zealand, and elsewhere, works.
- Category 2 are questions that require answers not specifically focused on produce, but are covering the wider realm of the grocery sector. We have answered those questions we believe we are in a position to answer.
- Category 3 are questions relating directly to price, and under our Constitution and Operating Framework, these are not questions we believe we are in a position to answer.

# Question and Response Section

## 1. 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?

United Fresh agrees that fresh fruit & vegetables should be considered in the study.

## 2. Does Table 1 appropriately reflect how products are categorised in the grocery sector?

Table 1 does not appropriately reflect how products are categorised.

United Fresh would like to point out that fresh fruits & vegetables are considered to be a category on their own, within the supermarket environment, and are managed entirely separate from dried and canned fruits & vegetables. We would therefore suggest that dried and canned fruits & vegetables need to be considered within the wider dry grocery sector. United Fresh will focus in its entire produce response on fresh fruits and vegetables only.

## 3. 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.

There is no simple answer to this question. In order to answer this question fully, one must separate out the value drivers of “competitive”.

Within the wider grocery sector covered by the Market Study, the core meat categories of beef, pork, and lamb, for example, are competing for each other, starting with access to meat works, and all the way through to shelf space allocation at retail.

From a produce perspective, the entire category is managed very competitively, due to product perishability. Waiting for product to sell “eventually” is simply not an option, although the timeline of “eventually” differs for strawberries when compared to potatoes.

In the soft drinks category, for example, shelf life considerations are similar for Pepsi as well as for Coke, and competitiveness is driven by an entirely different set of factors.

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

United Fresh cannot comment on other product categories, as we are not experts in their supply chains or pricing mechanisms.

We would, however, point out that produce reaches New Zealand consumers through a multitude of supply channels. Based on a combination of retailer preference, and product constraints, domestic produce either reaches the retail shelf through:

- direct purchases from growers,
- direct deliveries from growers (not necessarily the same as direct purchases),
- wholesale produce markets,
- supermarket operated distribution centres,
- wholesale produce markets and supermarket operated distribution centres,
- purchases enacted by head of supermarket buying teams, and,
- purchases conducted by individual store owners.

Imported produce can enter supermarkets either through:

- retailers purchasing from produce wholesale market import divisions,
- retailers purchasing from specialist importers who are not conducting general market import activities, and,
- retailers who are importing produce on their own account.

The network of pathways produce takes to reach the consumer via supermarkets is complex, and the routes chosen have the potential to impact on the quality/price equation. The principle of "comparing apples with apples" does therefore not automatically apply.

**5. 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?**

The factors set out in Paragraph 34, Factors 34.1 to 34.4, are, in principle, appropriate. Factor 34.2, however, represents an additional degree of complexity when it comes to fresh fruits & vegetables. Factor 34.2 currently reads, "which grocery products have had significant price changes over time?"

Fresh fruits & vegetable prices naturally change "over time", but not necessarily in the linear fashion anticipated in other product categories. Mention has already been made of the high perishability of the fresh fruits & vegetables category. This perishability is the result of exposure to a range of direct risks during the production cycle that relate to weather events, climatic conditions, disease outbreaks, and potential disruptions occurring in the physical supply chain during delivery to market.

What would your definition of "over time" be, within the context of Factor 34.2? If "over time" were to extend back to 1984, ComCom would find that fruits like bananas, citrus, and grapes were subject to import licensing, with regulator determined banana wholesale and retail pricing. The deregulation of the New Zealand Apple Industry occurred in 2001. Prior to this, supply was regulated by the New Zealand Apple & Pear Board's domestic division.

We suggest therefore, that if Factor 34.2 is applied to the fresh produce category, that a to-be-examined time window is clearly defined, and any related constraints clearly identified.

**6. Would considering the supply of grocery products to commercial customers assist in our assessment of competition in the retail grocery sector? If so, how?**

Yes, considering the supply of produce to commercial customers would assist in your assessment of competition in the retail grocery sector.

Fresh produce, and in particular vegetables, are meal components, that are commercially not just offered to consumers within a food service context and hospitality context, but also within hospitals, aged care facilities, and increasingly, educational environments. Availability and pricing of fresh produce in the market, at any given point in time, does not just impact what consumers see on retail grocery shelves, but extends into the other areas identified here as well.

**7. Is our description of New Zealand's major grocery retailers accurate?**

Yes, United Fresh agrees that ComCom has described New Zealand's two largest grocery retailers accurately.



## **8. What are the key characteristics of a supermarket, compared to other retail grocery stores?**

ComCom is conducting a "Market Study Into The Retail Grocery Sector", with the explicit objective of determining "whether markets could work better for consumers". The question therefore needs to be, in the first instance, addressed from a consumer perspective.

The consumers' definition of "supermarket" is driven by their learnt expectation over time of being able to find what they consider to be an appropriate choice of products, across as many product categories as are required to satisfy their household needs, during a singular shopping trip to a particular store location. The consumers' entire focus is on a mix of range, quality, choice, price, freshness, and convenience. This focus mix potentially reprioritises during every shopping trip, based on exactly what is that consumers want to purchase.

During their shopping experience, consumers do not worry about whether they are shopping in a national chain store branch, whether the produce on the shelf is purchased from a wholesale market, or whether it has arrived directly in-store from the grower. As long as the store in question offers a sufficient range of product categories of interest to the consumer, consumers will consider themselves to be in a "supermarket" rather than an "other retail grocery store".

## **9. How does our description of other grocery retailers in New Zealand fit with your understanding of the sector?**

From a technical perspective, United Fresh agrees with the statements made in Paragraph 46, That accurately segment the retail offer. Nevertheless, with reference to 46.1, we would like to refer you back to the later part of our answer to Question 8. Specifically, "as long as the store in question offers a sufficient range of product categories of interest to the consumer, consumers will consider themselves to be in a 'supermarket' rather than an 'other retail grocery store'".

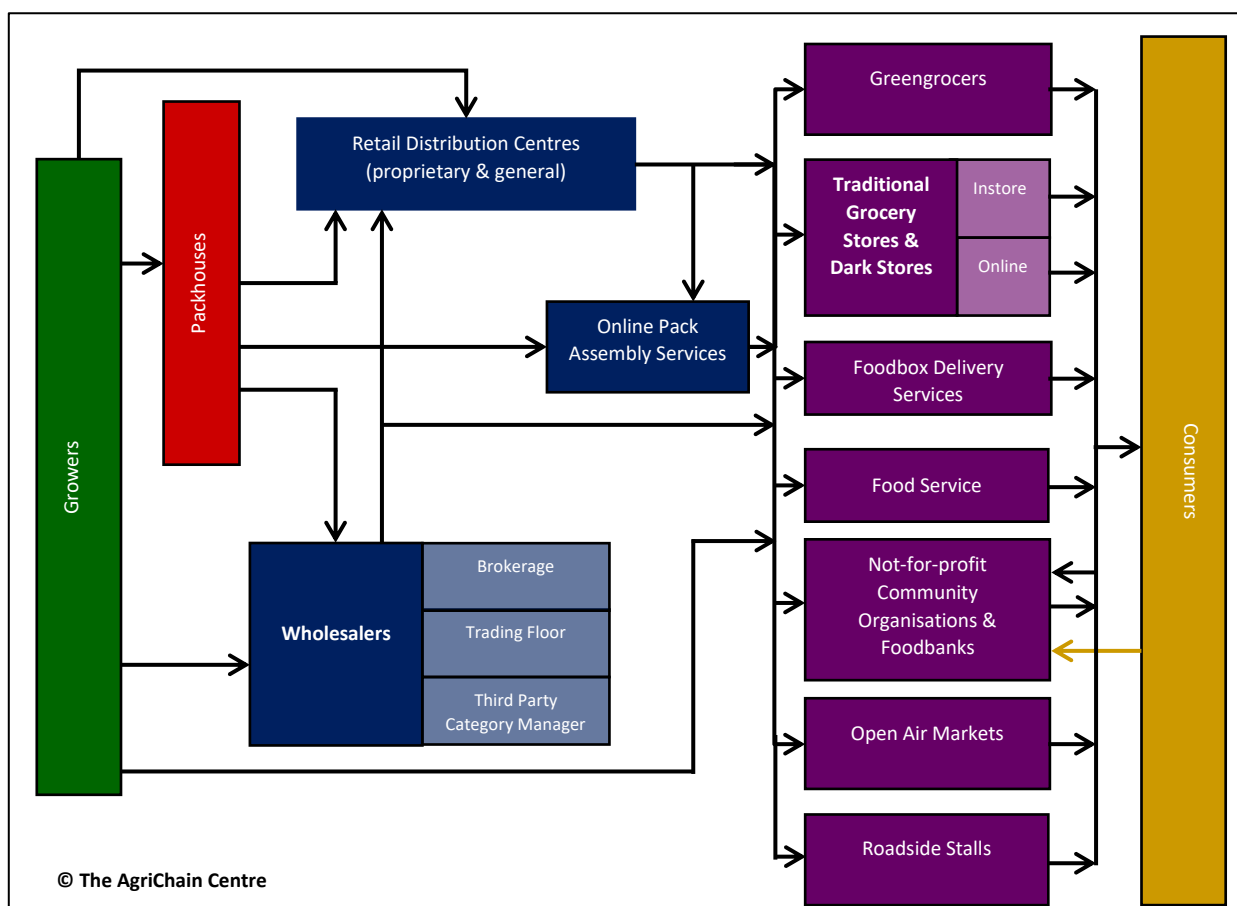
## **10. Are there any other grocery retailers or types of retailers we should have regard to in the study?**

Yes. United Fresh notes that limited ranges of shelf stable groceries (not produce) are also sold at The Warehouse stores.

## **11. 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?**

United Fresh agrees with the statement your document contains in Paragraph 54, i.e., the "high level summary" in Figure 3 is indeed "a simplified version of the supply chain".

We would however be concerned if the Figure 3 high level summary illustrated were to form the basis for a sub-study into the retail produce sector, as part of this wider grocery study. We therefore attach a simplified 2020 design of the New Zealand produce supply chain, as captured by United Fresh member The AgriChain Centre Ltd., as part of an industry COVID-19 response project that had been commissioned by MPI.



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

Yes. United Fresh believes that an increasing number of consumers are relying on food box delivery services, e.g. My Food Bag, Hello Fresh, and others. The consumer uptake of such services does impact on marketplace elasticity in relation to variations in the supply and demand equation. This change in marketplace elasticity restricts the traditional supply and demand driven cost adjustments prevalent in produce supply chains.

**13. 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?**

Online shopping initially was focused on the sale of shelf stable products, as perishable categories such as meat, dairy, and produce, all required distribution solutions which initially were not realistic due to the level of investment needed.

This has changed, to the extent that both major grocery retailers are now offering a comprehensive fresh produce & perishables product list for selection, and even niche category growers of high value produce, e.g. cherries, are offering online purchases of their product.

As far as fresh produce inclusion in major grocery online activity is concerned, the ability of chilled delivery alone does not necessarily guarantee the arrival of produce at the expected quality upon delivery. Utilising instore “home shoppers” to assemble orders of shelf stable groceries does not equate to consistent product quality upon delivery.

The minute this “home shopper” is tasked to pick a consumer produce order, the potential risk for the consumer increases. There is no material difference between two cans of baked beans. There can be a world of difference between two bunches of bananas from a quality difference.

Consumer uptake of fresh produce online shopping solutions is therefore not growing at the same rate as the non-perishable categories.

**14. Are there any other developments in how consumers purchase groceries which might impact competition? How should we take these into account in our study?**

The online shopping segment of grocery purchases is beginning to further segment in its own right. Online shopping in its pure form has customers actioning purchases via a retailer specific website/app, and having those purchases delivered by a vehicle contracted/operated by the retailer.

The variation that has recently come onto the scene is "click and collect", which has consumers ordering online via retailer app, but saving themselves the delivery fee by agreeing to collect the assembled order at an advised time. Collection can occur either at the store service desk, or from a locker, located at the store. In 2017, Farro supermarkets started offering a "click and collect" scheme at the Auckland Downtown ferry terminal building, but this offsite collection appears to have been discontinued.

Produce purchasing online is viewed as problematic by many consumers, despite the fact that the retailer offer now includes chilled bags for distribution.

High-value single seasonal crop growers, e.g. strawberry and cherry growers, are taking a leaf out of their meat colleagues books, and are offering their products online directly to consumers via door-to-door delivery.

**15. Do you agree that the study should primarily focus on traditional retail grocery stores?**

What is your definition of "traditional" please? This phrase appears for the first time in paragraph 58, and is not otherwise defined in your glossary. Where, for example, would Farro fit? To all intents and purposes, it is a non-traditional fresh food supermarket, with a very limited range of food related dry goods. In other words, anyone looking for a lightbulb, basic garden supplies, or a toothbrush is most certainly in the wrong place. Yet, the produce offer is as comprehensive as that of a supermarket of a similar size, and capable of matching quality and value on any given day.

In order to achieve a comprehensive picture of the nature of competition in food supply chains, purely focusing on "traditional" brick and mortar retail grocery stores is unlikely to achieve the desired depth of understanding.

**16. 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?**

The COVID-19 pandemic's arrival in New Zealand led to a temporary shutdown of a wide range of retail businesses, which included greengrocers and open-air produce markets. Produce supply chain participants, including growers, wholesalers, and retailers, saw a severe negative impact on their businesses, and members of vulnerable communities were challenged in procuring fruits & vegetables through their usual channels, in their usual volumes, or at all.

Supermarkets which were Government's designated "go-to" sources for food, struggled to cope with the additional volume of produce they were expected to carry, particularly as this would have involved expanding their number of Stock Keeping Units (SKUs) carried, due to different quality and size/grade standards typically being offered via those channels that were no longer available to members of the vulnerable communities sector, i.e., open-air markets and greengrocers.

Growers and importers were not only impacted by the temporary closure of greengrocers and open-air markets, but also by the decisions that led to the hospitality trade needing to close its doors as well.

The resulting disruptions in the supply chain were substantial, with significant volumes of produce going to waste, due to one channel, i.e. the supermarket channel, being understandably unable to cope with being the sole retail supply point.

These Government enforced restrictions on the produce industry resulted in an abnormal distortion on the supply and demand curves throughout the restriction period, as a result of consumers being unable to access some retail outlets, while the supply chain was forced to adjust to reduced productivity from labour shortages, increased health & safety requirements, and bottlenecks throughout the supply chain from attempting to redirect almost one fifth of the entire supply at one to two days' notice.

During this period, multiple businesses began online grocery retail sales to consumers, several of which have continued operation into 2021. However, not all of these included perishable products such as produce, so the impact of online retail activity was more limited for produce than on other industries.

Following the resumption of business at COVID Alert Level 1 throughout New Zealand after the second lockdown (August 2020), consumer purchasing habits and industry behaviours have mostly returned to pre-COVID positions. However, the seasonal labour shortages resulting from border closure, as well as the increased cost in importing and exporting produce, is having efficiency and financial effects on the supply chain.

These effects are likely to continue until such time as fully normalised operations with open borders can resume. The produce industry element of the ComCom Study should therefore need to take these impacts into account.

**17. 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?**

Yes, COVID did affect the manner and frequency with which consumers shop with regards to produce.<sup>2</sup> Data generated during and following the lockdowns for the produce industry has shown the following changes in consumer purchasing habits:<sup>3</sup>

- Increased fruit & vegetable purchases, but fewer shopping trips.
- A slight change in the most balance of produce purchasing locations.
- More domestic produce purchasing as a result of altered ranges.
- An increase in spend on meal kits & food boxes.
- Increased shopping at single stores over multiple specialty stores.
- Restricted spending due to worsening financial situations.
- A reduction in eating out, and an increase in eating at home.

These changes have continued to a degree following the resumption of Level 1 operations.

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<sup>2</sup> Staff (2020.) Constrained & Insulated Shoppers: Purchase Of Fresh Fruit And Vegetables. Prepared for United Fresh by The Nielsen Company.

<sup>3</sup> Ibid.

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

Pre-COVID, annual New Zealand produce consumption across all consumer supply channels included \$800 million worth of imported produce.<sup>4</sup> The shipping bottlenecks that have arisen globally as a consequence of COVID and mankind's response means that New Zealand consumers, just like their counterparts in other countries, have seen some restriction on availability of certain product categories. One example is Californian grapes. New Zealand key produce exporters, such as Summerfruit, apple, kiwifruit, and avocado exporters, face the same challenges as their colleagues in the Californian grape industry.

In the New Zealand domestic supply chain, COVID-19 has also had ongoing consequences for all retailers and suppliers of domestic produce. We use field grown lettuce as an exemplar, with a similar scenario applying to a range of other produce.

The sudden closure of greengrocers in the March/April Lockdown meant that lettuce destined to travel through the supply channels traditionally used by those retailers whose doors had been closed by Government decision meant that harvested lettuce already in the pipeline, when the decision was announced, either ended up being sold below cost, or turned to waste, as supermarkets were unable to cope with the unexpected additional volumes entering their distribution channels.

Within days, lettuce ready to be harvested was left in the ground, because it had nowhere to go to. That lifted the wholesale prices for lettuces still being traded, with the inevitable conclusion that retail prices increased as well. In the meantime, growers typically focused on other retailer or food service supply chains were not only no longer able to harvest, but also no longer able to plant lettuce seedlings for harvesting in 8-12 weeks' time, as the space needed to plant the new crop was being occupied by a ready to harvest crop that couldn't go anywhere.

This whole scenario then had further implications, in terms of the number of growers able and willing to plant lettuces, and therefore being part of the collective equilibrium between supply and demand that is a necessary function of attempting to achieve affordable wholesale and retail price points.

Depending on the nature of the crop, the ramifications of this deliberate interruption of normal supply that occurred nationwide in March 2020, and on an Auckland basis in August 2020, will continue to be a factor for at least the first 6 months of 2021.

**19. Do you have any comments on our proposed high-level approach to the study as discussed in paragraphs 66 to 70 above?**

United Fresh understands the rationale behind ComCom's proposed high-level approach to the study, as per Paragraphs 66 to 70. However, we need to reinforce our point that there are significant differences in the way perishable categories in general, and the produce category in particular, need to be managed during the procurement process, as well as during the time-in-store process, in order to succeed as being a part of a credible and comprehensive consumer offer. This fact is reflected in our answers throughout this document.

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<sup>4</sup> Statistics New Zealand Infoshare database. Accessible at <http://infoshare.stats.govt.nz/>.

**20. 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?**

In short, the structures and behaviours of fresh produce supply chains in the developed world do not differ substantially from those applying in New Zealand, when taking a high-level approach. The devil, however, lies in the detail:

- Countries comparable to New Zealand typically have more than 2 major grocery retailers. Norway, a country with a population of 5.3 million, has 3 major grocery retailers. Denmark, a country of 5.8 million, has 5 major grocery retail chains. Singapore, with a population of 5.7 million, also has 5 major grocery retail chains.
- Most countries comparable to New Zealand in terms of OECD criteria show a far greater integration of their export and domestic produce categories than we see in the New Zealand market. This is due either to their membership of a trading block, such as the EU, or due to their closer proximity to other markets, i.e., not being stuck at the bottom of the South Pacific.
- Not many countries comparable to New Zealand consist of two substantial islands separated by a four hour ferry ride.
- Australia, in our view, is not a country that New Zealand should compare itself to, as one of our two major grocery retailers is owned by Australia in any event, the Australian population base is more than 4 times New Zealand's, and the geographic dynamics between Australia and New Zealand differ substantially.

Nevertheless, measuring "all of store" major grocery retailer profitability would best be done at EBITDA level. The same cannot be said at merchandise department level, i.e., a typical New Zealand produce department has an average of around 200 SKUs, compared to a typical US produce department, which can have around 600 SKUs<sup>5</sup>. This is of particular importance, as non-perishable SKUs being merchandised and sold as part of the produce category typically attract higher unit prices at lower margins than produce, for example, salad dressings.

Measuring the performance of a merchandise category, e.g. produce, is typically done at gross margin percentage level.

**21. 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?**

This question is best answered by the grocery retailers themselves. In principle, however:

- Opening hours are determined on the basis of demographics, demand, and local authority regulations.
- Product range and quality are a function of brand positioning.
- Price is a consequence of the above.

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<sup>5</sup> <https://www.producemarketguide.com/article/future-retail>. Accessed 18 January 2021.

**22. 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?**

This question is best answered by the grocery retailers themselves. In principle however:

- Competition closeness is likely to be to a large extent driven by physical proximity between smaller retailers and a major grocery retailer.
- Smaller grocery retailers are typically supplied by produce wholesalers, whilst corporate major grocery retailers are supplied by proprietary distribution centres. Cooperatively owned major grocery retailers often source both from wholesalers and proprietary distribution centres.

**23. 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?**

This question is best answered by the grocery retailers themselves.

**24. 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?**

Fruits & vegetables are typically not purchased by brand, but on the basis of perceived quality. There is some brand presence within fresh produce, but at best, brands are used as an indicator, rather than a determinant.

The balance of answers to this question should be sourced from the retail sector.

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

The distribution of groceries, which included fruits & vegetables, from central points to a range of locations across the country, attracts a direct, and identifiable, cost. The cost of buying and distributing groceries, and/or fresh produce, in multiple regional locations, also attracts costs. It would be a fair assumption to consider the cost of transporting groceries across a longer distance being potentially more expensive than across shorter distances, but other factors also come into play.

The major grocery retailers have moved away from having produce buyers located in every town and city in New Zealand, purchasing local requirements at local produce markets, and using local transport to deliver from markets to local stores. The economies of scale concept, and the ability to purchase larger homogenous volumes of produce, and therefore being able to offer consumers a more consistent range, across the entire store network, is also part of the wider pricing mechanisms applied.

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

The perishable nature of produce is able to contribute to supply, and therefore competition scenarios, that are reflective of the behaviours of an economy where natural competition is constrained in any event, on the basis of population size.

For example, should a major grocery retailer plan a large new seasonal potato promotion for a particular week in the middle of September, there is already a likelihood that parties aware of such an intent will attempt to avoid the second major grocery retailer picking the identical week for their new season potato promotion, as both major retailers being on promotion with the same produce at the same time can potentially lead to major demand spikes.

If such a situation were to occur, and the main supply region for potatoes to Auckland were to have a major weather event, that was to make it impossible to dig said potatoes, regardless of their destination, potato prices would potentially go through the roof, without either of the two major grocery retailers being able to do a thing about it.

**27. To what extent do you think there is accommodating behaviour between retailers in the New Zealand grocery sector? Please explain.**

This is not an area where United Fresh is qualified to comment on, with regards to the present situation. We are however able to provide an example of how a degree of “accommodating behaviour” has actually led to increased competition in the New Zealand produce industry.

The year is 1990. Progressive Enterprises Ltd., the then operators of Foodtown and Three Guys stores, and Woolworths New Zealand, the then operators of Woolworths and Big Fresh stores, were both considering, separately from each other, their options with regards to the banana import monopoly having been deregulated, by the 1984 Lange Labour Government. The competition between these two chains in anything they were doing, was already fairly intense.

Bananas being the signature produce department item, and usually representing 1% of store turnover, were considered by both companies as a perfect opportunity to further increase their market share of the produce basket.

The Government appointed importer that had been in place since the early 1950s, Fruit Distributors Ltd., was primarily importing Bonita bananas from Ecuador, as part of a triangular arrangement between the Noboa Group in Ecuador, who were the owners of the Bonita brand, the banana wholesaler Fruit Distributors Ltd., and the by then majority shareholder of Fruit Distributors Ltd., Turners & Growers Ltd.

Fruit Distributors Ltd. determined the volume and frequency of banana imports, and set wholesale prices per carton, as well as per kg retail prices. The supermarket industry had welcomed market deregulation, and the major retailers were now working through the practical consequences of this decision.

The ultimate decision on how to proceed, ended up being driven by an economic reality that had nothing to do with the bananas themselves, and everything to do with the fact refrigerated shipping is not a social service, but occurs on a for-profit basis, and every vessel heading to New Zealand is also looking for a way to make money taking freight out of the country. This means that there is a minimum threshold to the load capacity of a refrigerated vessel before it becomes uneconomic for a vessel to set out for New Zealand.

The solution that emerged was that both major retailers committed a significant amount of their future annual banana purchases to Chiquita, a Bonita competitor, who was capable of supplying what the New Zealand market required, in terms of quality, volume, and price, and therefore competition. Chiquita advised both supermarket chains individually that it had entered into supply agreements with their respective competitor, pointing out that without the tacit agreement of both companies to put up with this unusual arrangement, Chiquita could not be relied upon to supply New Zealand, as the numbers otherwise simply would not have stacked up for the supplier.

The ability of two major grocery retailers out of the three existing at the time (the third one being Foodstuffs) to tolerate this situation, led to New Zealand consumers for the first time in 50 years seeing a real degree of competition in the banana category.

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

This question is best answered by the grocery retailers themselves.



**29. 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?**

This question is best answered by the grocery retailers themselves.

**30. 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?**

New Zealand already has one of the highest densities in terms of supermarkets per head of population in the developed world. The already operating major grocery retailers are busy further segmenting the demographic landscape by increasing the amount of "metro" stores under their banners, which carry, within a smaller footprint, a more limited range of product, including fresh produce, than their full sized stores, with the range being specifically targeted towards a narrower consumer band – apartment dwellers in central Wellington for example.

Whilst any potential new entry into online shopping could affect this, without the need for brick and mortar retail investment, and instead focusing on distribution facilities and a distribution network, the reality is that this train has left the station. Progressive was a very early entry into online shopping, Foodstuffs by comparison was most certainly a late entry. Nevertheless, both chains appear committed to further growing their online shopping in parallel to their brick and mortar store portfolio, to the extent that the first purpose designed "dark stores" are being opened, in an attempt to get brick and mortar grocery aisles decluttered from store employed home shoppers.

In 2006, the Warehouse group found to its peril that entry into the retail grocery sector is not for the faint hearted, and its experiment to integrate full scale grocery operations into their existing Warehouse stores was terminated in 2008 after store 4 had been remodelled.

Aldi, the original German discount operator with global reach, has been rumoured to be planning an imminent entry into New Zealand for the last 20 years. Although the group now has about 150 stores in Australia, New Zealand is still waiting. The limited size of our market, the competition that already exists, and the fact that the Aldi model revolves around constructing circa 10 stores more or less simultaneously, and servicing these through a to-be-built-at-the-same-time distribution centre, is seen to be responsible for the Aldi concept having failed to gain traction in New Zealand.

The jury is out on how well the recently confirmed Costco arrival will fare in West Auckland.

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

To a very large extent. Added to this comes distance from international supply chains or support infrastructure.

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

See our comments in answer to Question 30.

**33. Are there existing wholesalers who are willing and able to supply new entrants to the retail market? Which product categories do these wholesalers supply?**

As far as produce wholesalers are concerned, any retailer able to confirm that they can meet their financial commitments will be supplied.

**34. 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?**

The produce industry has been undergoing a degree of rationalisation at wholesale level in the last 20 years. The most recent example is the purchase of the Freshmax market division by T&G Global Ltd. That purchase was subject to the Overseas Investment Office approval, and the associated investigations and reports should allow ComCom to form a clearer picture of the New Zealand produce wholesale market sector.

The major grocery retailers are increasingly implementing their preference for direct purchases from growers, or if wholesale markets are involved in these transactions, these transactions are most likely resulting in direct physical transactions between grower/packhouse and retail store locations.

It is unlikely that we will see an expansion of the wholesale produce sector.

**35. Do you have any other views on competition at the wholesale level of the New Zealand grocery sector which you would like to share?**

The produce wholesale sector currently consists of three large national produce wholesalers offering the entire range of available produce twelve months of the year, and half a dozen smaller operators, operating on a range/category specific level.

The two larger produce wholesale companies of the three are, to all intents and purposes, presenting as two corporate entities, but they do come from different heritage, and today show some significant difference in their operating behaviour.

The heritage of one of them is built around successive family generations achieving a substantial national market dominance, before the business was acquired by a German corporate. The Munich-based parent company has a substantial focus on its New Zealand subsidiaries' ability to act as an export conduit, across several key categories. Parallel to building that capacity, the company is building its wholesale market share, as per our answer to Question 34.

The other major produce wholesaler started life as a regional (Wellington) growers' co-operative in the 1920s, and whilst it is today operated as a limited liability company, that company is owned by the growers co-operative.

The different nature of these two wholesalers does not impact on the greengrocer who turns up at these markets to purchase their daily needs, but as ComCom will appreciate, with the underlying fundamentals in ownership being so different, the fact that we have a grower owned market competing head on with an international corporate owned market suggests that some consideration should be given to how the development of the wholesale sector is likely to evolve under these circumstances.

The third produce wholesaler that fits into the larger national wholesaler category is a family-owned business, that emerged circa 30 years ago, built on the history and expertise of the original shareholders of what is today T&G Global, and by now has the fifth generation working in the business.

Of further interest in connection with the wholesale structure is that a greengrocer needing to purchase and collect his wares at an early morning market, has not got the time to go wandering about, like a consumer shopping for discounts. Greengrocers are therefore prone to build deeper relationships with one or the other of the two major wholesalers, and supplement this key relationship with whatever other relationships are necessary, to ensure their entire range is covered.

Directly linked to this situation is the fact that the entry barriers to being a banana importer have been significantly lowered as a result of refrigerated container technology developing to the extent that it can now cope with bananas. That means that smaller wholesalers are able to sell a limited number of banana containers, as long as they have access to a small ripening facility, whereas in years gone by, being a banana importer required being able to fill an entire reefer vessel, which

limited competition in that area, even after Government deregulated the import restrictions on fruit in the 1980s.

One of the larger wholesale companies is no longer partnering with just one banana brand, but imports a portfolio of brands, typically on a container by container basis. The other major wholesaler has for 25 years now been partnering with a global banana brand, with some of those bananas still coming in by reefer.

The lower barriers to banana imports have therefore increased the opportunity for competition in the wholesale produce sector, at the same time as the major grocery retailers have increasingly preferred to purchase their domestically grown produce from growers, or through wholesaler brokerage structures that would ensure delivery directly into retail distribution centres, and without physically passing through a wholesalers trading floor.

### **36. Are there any factors affecting competition at the supplier level we should be aware of and consider during our study?**

The New Zealand produce grower supplier base is aging, and shrinking. Rising rural property values, the urban encroachment into prime horticultural land (for example Pukekohe), and the competition from dairy in terms of arable land use, means that we will ultimately see fewer growers on larger properties, growing higher value monocrops – and with more of these growers being corporate growers rather than the standard independent family farm model. A recent example is the emergence of central Otago as an undercover cherry production area.

Nevertheless, the horticultural industry has managed to achieve some of its significant development export goals, as articulated in its Horticultural Industry Strategy 2009-2020 document (and subsequent updates). This has also led to further professionalisation of the supply industry.

The efforts of Tangata Whenua to build a meaningful presence within the wider horticultural supply industry, and of key sectors within (e.g. kiwifruit, avocados, and apples), should be noted, as this certainly has the potential to contribute to future competition.

### **37. What impact, if any, do private label products have on competition at the supplier level?**

Private label products were, for a long time, not been prevalent within the produce range. Their potential impact on competition at the supplier level was therefore negligible.

More recently, one of the two major grocery retailers has been introducing its house-brand across a number of pre-packed produce items.

Fruit & vegetables are not manufactured, but grown. Unlike a can of baked beans, where differences between proprietary and FMCG branded product can be adjusted on the basis of ingredient composition, produce offers limited options for such differentiation.

Adding to this is the global megatrend of eliminating, or at the very least, reducing unnecessary packaging in favour of a more environmentally friendly offering, which impacts on the ratio of loose vs pre-packed produce being offered for sale.

The core concept of branding is one that in many produce categories still has not evolved from outer packaging branding, and probably never will, unless a store moves to selling everything in a pre-packaged format, which is clearly not realistic.

The overall impact of private label products, within the produce category, on competition at the supplier level is therefore limited.

**38. Do you have any other views on competition at the supplier level of the New Zealand grocery sector which you would like to share?**

"Supplier" is a very broad definition, and within the produce supply chain, could mean a grower, a packhouse, a wholesale trading floor, or a broker. One of the fundamental truths of the produce business is that a degree of consolidation, and therefore rationalisation, has to occur at some point in the supply chain, in order to satisfy the retailers requirements for consistency in availability, consistency in quality, consistency in volume, and consistency within a given value range.

Only the largest growers operate their own packhouses these days. Growers below a certain size supply third party packhouses. Retailers with their own distribution centres obviously use those distribution centres as their consolidation point of first choice, but the processes involved in generating store orders, separating those store orders into consolidated product orders, arranging for supplier notification of those product orders, and ensuring that all those product orders are delivered into a distribution centre, deconsolidated and reassembled into store orders, when one has hundreds of stores that need to be supplied on a daily basis, does create a range of constraints.

One way of managing these constraints is by delegating parts of the volume and quality consistency equation to a key supplier, whose role is to ensure that orders are filled, regardless. This can involve key suppliers developing supply relationships with other suppliers, aimed at satisfying retailer consolidation demands. Various models have been tried over the years within this framework, and we would recommend that the ComCom Market Study team attempts to establish what current practices are, in order to ensure context can be properly considered.

**39. 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?**

The commonly used argument that a large grocery retailer is able to dominate his suppliers, and therefore able to distort the market, is in our view, too simplistic a view to put forward. Any supermarket operator, regardless of size, needs to be considered an investor, and investors are looking for ways to recoup their investment. In the case of a retailer, that involves having customers who repeatedly, at regular intervals, come into the retailers store, and select from the retailers' shelves, and pay for their selections.

A critical element of the selection process is customers demanding choice. Choice in terms of the product range, and choice in terms of the volume available in any given product category, e.g. tomatoes. Any retailer, and particularly the major grocery retailers, intrinsically understand that having shelves sufficiently full during all opening hours to provide the consumer with the reality and/or perception of choice, is critical to its ongoing success.

A further element of success relates to consistency. Consumers ideally like to see a similar range of produce on the supermarket shelves, every time they go into the store, seasonality changes notwithstanding.

As supermarket chains have grown in size and store locations, with extended opening hours, keeping shelves full and offering consumers real or perceived choice has become a key focus, and an increased business risk, because in order to create a degree of certainty that shelves will not be empty, supermarkets are looking for assurances about supply, and this is most likely possible when dealing with fewer/larger suppliers than more/minor suppliers.

A major supermarket retailer which has grown over a period of time, and has taken a network of suppliers on that journey with them, i.e., those suppliers have grown as well, has no choice but to treat those suppliers as business partners, as opposed to organisations upon which unreasonable bargaining power could be unleashed.

A falling out with a major supplier, particularly in a major perishable produce category, leads potentially to empty shelves over an extended period of time, which is not something produce shoppers tolerate, and major grocery retailers, as well as the retail community at large, are therefore at pains to avoid.

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

As United Fresh is not directly involved in trading activities, we cannot comment on this question.

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

We believe that our answer to Question 40 applies here as well.

**42. How relevant do you consider consumers' access to information is to our study?**

In principle, consumers should have access to all the information that is practically feasible to be available at the point of sale. This includes clear pricing, clarity on unit of measure (each, multiple of each, or kg), country of origin, and whatever quality focused information retailers are obligated to provide under the law.

Fresh fruits & vegetables are, in essence, commodities. Commodities tend to follow a variety of supply channels to reach a consumer. The supply channels for fresh produce in New Zealand extend in complexity from major grocery retailers at one end of the continuum, to farmgate and roadside sale at the other.

On one level, a roadside vendor of strawberries is in direct competition with the major grocery retailer, who offers strawberries as part of their overall produce range. Do consumers typically understand that the major grocery retailers has to follow more stringent food safety & traceability regulations than someone operating a roadside stall? Do consumers understand the costs involved to get the produce into the supermarket, as opposed to beside the gate? Are those strawberries in the supermarket and those at the gate likely to be of the same quality? The answer to these questions is, in all likelihood, "No".

Do consumers, nevertheless, make a value judgement about where they should buy their strawberries? Yes, they do.

The answer to the Question in relation to produce therefore is: "it depends...".

**43. 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)?**

The supply chain participants with the most direct consumer contact are the retailers, which is where we would suggest this question needs to be directed to.

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

The produce offering is either visible, because the produce is sold in unpackaged/loose format, or if packaged, it is typically packaged in such a way that relevant information is available on the packaging (e.g. bags of prepacked potatoes).

From a ranging perspective, it is entirely possible, for example, for the iceberg lettuce section in a produce department to contain lettuces from more than one supplier. As these lettuces are sold unwrapped, there is no opportunity for consumers to "compare" product offerings, as the offering is

being presented in a homogenous fashion. Consumers will not attribute any possible quality differences between lettuces sourced from different suppliers automatically to that possibility, as they lack the necessary reference point.

The situation is different in the case of produce that is typically sold branded. A banana display may well contain bananas obtained from different suppliers, and consumers will understand that this is the case, by virtue of the different brand stickers the bunches of bananas will carry. Nevertheless, the preselection criteria for consumers wanting to purchase bananas is unlikely to be the brand, but the quality of the bananas in front of them, particularly as brand on loose bunches of bananas is not treated as a price differentiator in the produce retail business. Other factors such as "organically grown" or "fair trade product", however, do trigger consumer choice in this category.

**45. 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?**

Grocery retailer pricing schemes for fresh produce around the world are closely aligned to the perishability of the overall range itself, the key categories within that range, and individual products within these ranges. Just like any other business, it cannot be the function of a grocery retailer, or the produce department within that grocery retailer's store, to operate at a loss.

The function of a business is to generate a profit. The produce department, just like any other department within a grocery store, is therefore tasked with generating a certain overall gross profit margin, typically expressed as a percentage of turnover.

The profit margin expected by product category may differ. Highly perishable produce, e.g. strawberries, will typically attract a lower margin, compared to produce with a longer shelf life expectation, e.g. pumpkin. Within a large single product category, e.g. the tomato category, different margin expectation can exist, depending on whether the product is classified as "loose", "grown on the vine", "pre-packed", or a quantity of cherry tomatoes packed in a clamshell.

In order to achieve the margin expectation set by the business, the managers responsible for the performance of the fresh produce department are on a weekly, and sometimes daily, basis, attempting to understand and balance product movement at various price points, the share of the produce basket individual products or categories have, and the level of anticipated "instore shrink" which fluctuates between seasons based on the composition of the range. For example, a range that at the same time includes strawberries, cherries, nectarines, and apricots, as well as larger volumes of salad vegetables, is likely to experience a higher shrink percentage than a range that is focused on apples, oranges, and winter vegetables.

**46. 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?**

United Fresh cannot in detail comment on the wider grocery offer in relation to this question. One possible explanation is that supermarket income streams do not just come from retail sales, but also from suppliers attempting to improve their market share, when compared to their market competitors, and there is clearly a limit as to how substantial a weekly catalogue or newspaper advert can be.

The produce part of this equation differs from that within the wider grocery side of the business. There are typically less than six, and often significantly less than six, produce items on promotion at any one time, as the impact of any one successful promotion within a limited number of SKUs really has the ability to impact on overall departmental gross profit expectations.

The produce category is also not the place in a supermarket where consumers suddenly increase their regular purchasing volume substantially, in order to stock up for a rainy day, as consumers

instinctively understand the perishable nature of fresh produce. Produce promotional items therefore have two impacts:

- Consumers responding to a promotional offer on broccoli are less likely to purchase cauliflower in the same week. The net result is meal component substitution.
- Consumers who typically do not purchase produce at a major grocery retailer, but frequent other outlets instead, are enticed to take up the produce offer in a particular week, in the perennial hope to turn these opportunity customers into more loyal customers.

Retailers and suppliers have learned the hard way that produce promotions at deep price cuts will typically lead to increased volumes being sold in the week the product is being offered, but do not lead to increased consumption over a period of time. That, for example, is one reason why promotional offers of 20kg bags of potatoes that were common 20 years ago are rarely seen today.

Yes, sales of that item increased dramatically in the week the product was offered, but:

- Consumers who bought 2 bags of 20kg potatoes in the week of the promotion then spent the next month and half eating those potatoes without purchasing any more.
- The offer bastardised the entire potato category, as sales of smaller/loose potato offerings plummeted, and took weeks to recover, with the net effect of seriously impacting produce department profitability for three weeks, due to the size of the potato category within that range.

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

As United Fresh is not directly involved in trading activities, we cannot comment on this question.

**48. 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?**

One of the authors of this submission was the Project Manager for the "Foodtown Card" in the early 1990s, which was the first supermarket loyalty card scheme in New Zealand. The Foodtown Card evolved into the "Onecard" when Progressive Enterprises Ltd. and Woolworths New Zealand Ltd. merged in the early 2000s.

The motivation of introducing the Foodtown Card at the time was built on the following:

- Advances in IT technology had reached the point where the company began to develop a better understanding about opportunistic customers searching for specials, and regular shoppers who took advantage of specials as part of their main shop.
- Supermarket margins typically operate in the mid-single digit range, when measured by EBITDA. Under-projecting the potential impact of a deep discount special in a key category can have significant consequences for an entire categories/departments weekly profitability.
- A substantial New Zealand consumer segment at the time, particularly outside of Auckland, where distance and traffic was less of a consideration, viewed "supermarket grazing" as an essential part of their weekly activity. In practice, this meant customers fitting this category filling their trolleys, entirely with discounted weekly specials, would contribute to turnover, but not necessarily margin.
- As market share pressures increased, the focus of the company moved towards finding a solution that would allow it to reduce its reliance on the weekly deep cut discount model, in favour of another mechanism, which would allow them to reward repeat customers for shopping regularly with the company.

Like many supermarket strategies and behaviours, the concept originated in the US, where loyalty programmes were seen as a continuation of that country's primary promotional mechanism, i.e., coupons. New Zealand had abandoned that strategy by the mid-1970s.

Upon introduction of the Foodtown card, the company initially reduced its promotional spend available to customers in general and targeted Foodtown Card holders once a certain membership threshold had been reached.

Questions about today's impact would need to be directed to organisations actively participating in the supply chain to the major grocery retailers.

**49. 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?**

This Question would be best answered by the major grocery retailers or their shelf stable grocery suppliers.

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

Our general observation is that membership of a loyalty programme is based on a consumer's decision to participate. Furthermore, loyalty programmes are by no means limited to major grocery retailers, but are also offered by food retailers in other categories, hardware stores, pharmacy chains, airlines, farm supply companies, banks, and more. Any study into loyalty programmes in the supermarket industry should therefore be conducted within a broader framework that goes beyond examining the impact of loyalty programmes within just one part of the economy.

**51. Are there any other issues not raised in this paper that could impact competition in New Zealand's retail grocery sector?**

There are shifts occurring within consumer perception, and purchasing behaviours, in relation to food. Some of the trends that are impacting on produce are these:

- The emphasis of produce on many consumer plates is shifting. Produce is moving from being a meal component to becoming the "main event".
- Vegetable products are being positioned as "meat replacements", e.g., the plant protein based burger patties now available for sale.
- Increased consumption of fruit & vegetables is not only seen as beneficial for human health & wellbeing, but is promoted as such by Government agencies and industry associations around the globe, e.g. 5+ A Day, and other similar programmes.
- The United Nations Sustainable Development Goals are encouraging mankind to reduce the emphasis on meat based diets and opting for plant proteins as a viable alternative.
- The functional foods category is creating new realities: a New Zealand example is the low-carb "Lotatoes™",<sup>6</sup> launched by one of New Zealand's major wholesale produce companies, which actually happens to be in the process of turning itself into a vertically integrated grower-marketer in key categories.

The sum of these trends, and others not mentioned within this context, suggest that fresh produce production will steadily need to increase in the medium to long term, to satisfy the demand of new and non-traditional consumer produce channels, in addition to the ongoing demands of traditional established channels. Any industry that is competitively trying to manage the natural equilibrium of supply and demand, inevitably will need to focus on three factors, these being:

- The availability of labour to handle those aspects of production cycles that cannot be left to technology alone.
- The level of education in the science, technical, and business disciplines required by the labour force.
- The impact new and non-traditional channels will have on existing and traditional channels.

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<sup>6</sup> <https://tandg.global/our-produce/lotatoes/>. Accessed 18 January 2021.



If production increases needed to satisfy demand are not able to occur at the same pace as additional consumer channel demand is generated, then invariably, traditional channels may end up having to pay more for fruit & vegetables than is currently the case.

Yet, consumers in the traditional channels may not have a choice. A simplified example of this proposition is the fact that under trading conditions prior to COVID, the price New Zealanders paid for top-cut meat products was linked to what meat exporters could achieve pricewise in export markets.

## Concluding Comment

We have aimed in our submission to provide ComCom with sensible answers to the questions posed, wherever we felt sufficiently knowledgeable to answer. We have also attempted to convey the message that a category, such as produce, within the wider grocery range, does not necessarily conform to typical shelf-stable grocery norms, behaviours, or assumptions, due to its complexity and perishability.

As a result of its pan-industry focus, United Fresh is in the unique position of providing overviews and linkages from one end of the produce value chain to the other, and has done this here in good faith.

We are available to provide further inputs, if and as required.