



FOODSTUFFS NORTH ISLAND RESPONSE TO THE PRELIMINARY ISSUES PAPER

Key: Confidential material in this response has been removed. Its location in the document is denoted by [REDACTED]

- 1 Most New Zealanders buy grocery products, and grocery costs are a key part of New Zealand households' costs of living. Given the significance of the retail grocery market to New Zealanders, Foodstuffs North Island (FSNI) appreciates the need to review how competition in the New Zealand market is working, to ensure that consumers are able to enjoy the benefits of workable competition.
 - 2 FSNI welcomes the opportunity to respond to the Commerce Commission's preliminary issues paper and to provide more information and evidence on:¹
 - 2.1 the nature of consumer shopping habits, including how they have changed over time and continue to change, and
 - 2.2 the constraints FSNI faces in competing to meet customer needs across a wide range of product categories and shopping "missions".
 - 3 In this submission FSNI also provides information on key issues in the Commission's preliminary issues paper. Responses to the individual questions the Commission asks in the paper are set out in Appendix A.
- Retail competition is characterised by strong and dynamic constraints²**
- 4 Competition to supply retail groceries is dynamic, with a number of notable characteristics:
 - 4.1 competition is driven by firms seeking to attract customer shopping "missions", rather than product offering alone. The diversity of customer missions drives many dimensions of competition,
 - 4.2 there is a very large variety of products on offer, but also high product substitutability and a wide range of options for consumers in the type of shop and shopping experience, across price, quality, range and service (the "PQRS" matrix),
 - 4.3 there are very low barriers to entry to fulfil the majority of customer missions. Entry to the supply of "full shop" missions is a more substantial economic commitment – and a mission that is trending downwards, and
 - 4.4 suppliers have real and increasing alternative methods of accessing customers, such as through e-commerce and direct to consumer options, resulting in increasing disintermediation.
 - 5 A key trend in consumer shopping habits is that increasingly, not all consumers engage in a full shop, and instead tend to do more frequent, smaller shopping missions. Convenience is likely to be a more relevant factor for the smaller missions, with PQRS at smaller retail outlets and specialist stores in many cases providing a competitive advantage over full supermarkets, and at the very least representing a strong competitive constraint.
 - 6 FSNI elaborates on these points in the following sections.

¹ FSNI's response draws significantly on its own, continuing research and analysis of consumer retail grocery shopping habits, and the implications for the way it competes to serve customers.

² Referring to questions 10 and 13-15.

Customer missions

- 7 FSNI's research and analysis shows that consumers routinely engage in a number of differently purposed shopping trips or "missions" over the course of a typical week or fortnight. These missions are more numerous in their form and involve more complex and nuanced considerations than the single, regular "one-stop-shop" referred to in the Commission's preliminary issues paper.³
- 8 The prevalence of a single, one-stop-shop, or full-shop mission, may have been a reasonable characterisation of how the grocery needs of a typical New Zealand household were best fulfilled a decade or two ago. However, this characterisation no longer applies.
- 9 Rather, FSNI's analysis shows that shopping missions now extend across a spectrum – FSNI has identified 10+ distinct shopping missions for each of New World and PAK'nSAVE.⁴
- 10 Customer missions range from short, often impromptu missions that have the purpose of fulfilling an immediate, high need grocery item (such as for an item that has run out at home, or due to a need while on-the-go outside the home), to regular but small scale missions (such as to obtain fresh products to be used in meal preparation), to less frequent, larger scale missions (such as to stock up on non-perishable "pantry essentials"), and finally to the traditionally more common full-shop missions.
- 11 Customer missions are critical to understanding competition in the grocery sector because:
- 11.1 the full-shop mission is becoming of less significance than it was in the past, while the incidence of more frequent trips for specific missions is growing,⁵
 - 11.2 customers undertaking these smaller missions [REDACTED]⁶ have a much larger range of grocery retailers from which to choose, certainly extending beyond those specialising in the one-stop-shop, and
 - 11.3 the spectrum of missions also lessens the competitive advantage of the one-stop-shop form, for which price and range are likely to be important drivers. For missions outside the full-shop mission, many of which have convenience as a driving factor, other retailers, including smaller retailers or substitute offers such as restaurants or eating places, are a material constraint and often have a competitive advantage due to the different focus.⁷
- 12 Changes in the shopping preferences of customers are increasing the intensity of competition faced by traditional supermarkets.
- 13 FSNI's competitive response to the decrease in full shop missions has included:
- 13.1 innovative product offerings such as meal solutions, (both meal kits with raw ingredients that are ready to cook and "value-add" items such as ready-made sandwiches and meals),
 - 13.2 increased emphasis on minimising the customer burden of entering a large, full range supermarket, such as through improved accessibility and rationalisation of range so that customers' experience is less confusing. For example, FSNI has introduced:

³ At paragraph 44.

⁴ Some missions are specific to one banner, but there are also missions that cover both banners.

⁵ [REDACTED].

⁶ [REDACTED]

⁷ An example of this is the "non-carbonated drinks" mission, which represented [REDACTED]% of PAK'nSAVE's shops by basket in 2020. Neighbourhood dairies, convenience stores, petrol stations and/or smaller retailers that offer a smaller range of products at convenient locations are highly competitive retailer options for consumers on that mission.

- (a) “cut-throughs” and “shallow loops” in nearly all stores, allowing customers on smaller missions to avoid walking around the full store before going to the checkout (e.g. they can pick up fruit and vegetables and then cut through directly to the checkout),
- (b) new drinks cabinets close to checkouts aimed at fulfilling the non-alcoholic drinks mission,
- (c) including the same products in different areas of the store most likely to be visited by customers on a specific mission,
- (d) smaller trolleys and baskets in PAK’nSAVE stores, and
- (e) self-checkout units,

13.3 the development of smaller scale, New World Metro outlets, emphasising convenience and targeting smaller scale, more frequent missions that cater for those who regularly leave the house for work, and

13.4 the monitoring and response to prices set by specialist retailers.

14 Since FSNI caters for customers that are engaged in a full shop as well as those that are engaged in another type of shopping mission, any competitive response to constraints exerted on particular missions benefits all shoppers.

Product and shopping options substitutability

15 Full-service grocery retailers face material competitive constraint across all product categories, from, but not only from, other types of grocery retailers.⁸

16 As the preliminary issues paper identifies, retail grocery stores offer a wide range of products. While this is an important element of retail grocery competition, the other key part that needs to be understood is the degree of substitutability of grocery products. There is no single grocery product that is truly necessary to purchase, and customers make regular changes to their purchases based on the price, quality, and availability of different products (e.g. substituting one flavour of yoghurt for another, one brand of bread for another, or fresh broccoli for fresh cauliflower).

17 The high degree of product substitutability enables a wider range of retailers to compete for the same customers. For example, looking at the breakfast/family breakfast mission to fulfil a breakfast meal only,⁹ which represented [REDACTED]% of PAK’nSAVE’s baskets (which represents [REDACTED]% of sales) and [REDACTED]% of New World’s baskets (which represents [REDACTED]% of sales) in 2020 for FSNI stores, customers have several options for fulfilling that mission, including by going to major grocery retailers, visiting specialist or boutique retailers, purchasing from online retailers that sell dry goods (e.g. TheMarket, Mighty Ape) purchasing direct from suppliers (e.g. Blue Frog, Hubbards and other suppliers have online shops with delivery options), purchasing through regular subscription boxes (e.g. The Kai Box, Brunch Box), or by visiting convenience stores and, to a lesser extent, cafes/restaurants that serve breakfast and brunch. Similar options exist across the full range of customer missions (with the exception of the “full shop” mission).

Lower barriers to entry for retailers servicing missions other than the physical full shop

18 Outside of the physical full shop mission, barriers to entry to service other customer missions are lower (locating, acquiring and developing a physical retail site with sufficient size to service a customer on a physical full shop mission is addressed below at paragraph 31, and conditions of entry are addressed in more detail in response to questions 30 to 32).

19 For example “quick and easy meals” which represented [REDACTED]% of New World’s baskets and [REDACTED]% of PAK’nSAVE’s baskets in 2020 for FSNI stores and “cooking from scratch” which

⁸ The Minister identified “the high level of concentration in the sector” at paragraph 15.1.

⁹ This mission is referred to by New World and PAK’nSAVE as the breakfast/family breakfast mission respectively. The mission is when a customer visits a FSNI store and exclusively buys items commonly eaten for breakfast.

represented [REDACTED]% of New World's baskets and [REDACTED]% of PAK'nSAVE's baskets in 2020 for FSNI stores¹⁰. In relation to these missions FSNI competes against meal kits, specialist grocers, pre-made meal retailers and quick service restaurants, which are able to win material sales and constrain FSNI by focusing on particular missions, and none of which is required to establish a full service physical presence which would have the associated barriers to entry. To a lesser but still material extent, delivery platforms such as Uber Eats have also enabled quick and easy access to eating places which also constrain FSNI, allowing consumers to access more meal solutions.

Alternatives to major grocery retailers for suppliers

- 20 Another aspect of the retail grocery sector that is driven by the role of customer missions, as well as advances in technology and logistics, is that suppliers have genuine, alternative ways of accessing customers than solely through major retailers. Direct to consumer and convenience retail are important channels for suppliers and reflect a trend of disintermediation in the retail grocery market. Examples of alternative ways of accessing consumers are discussed further in the table in Appendix A.
- 21 The combination of the decline in the physical full shop mission, and the increase in alternative methods of accessing consumers means that the New Zealand retail grocery market remains a highly competitive market with constraints that, in FSNI's view, are increasing.¹¹ Each retailer competes with its own mix of the PQRS matrix to attract customers on a range of missions relevant to that retailer. The preliminary issues paper¹² underestimates the degree of constraint imposed by specialist grocery, e-commerce and other retailers.

Other key issues

The structure of the supply chain is efficient and pro-competitive¹³

- 22 FSNI operates an end to end supply chain, whose cost efficiencies are suited to New Zealand's low population density and geography. [REDACTED].
- 23 Small retailers such as dairies and local convenience stores, and smaller-scale entrants, can benefit from wholesalers, and such wholesalers exist. However, given the concentration at the supplier level in New Zealand, arranging supply directly, without using a wholesaler, is possible and efficient for most grocery retailers and even larger entrants (for example, FSNI understands that when Costco enters the New Zealand market, it will have direct relationships with suppliers rather than engage a wholesaler).¹⁴
- 24 FSNI considers that the diagram below more accurately represents the retail grocery supply chain in New Zealand than the diagram in the preliminary issues paper.¹⁵

¹⁰ This information was provided in Questions 20 and 21 of Tranche 2 of the Commission's information request.

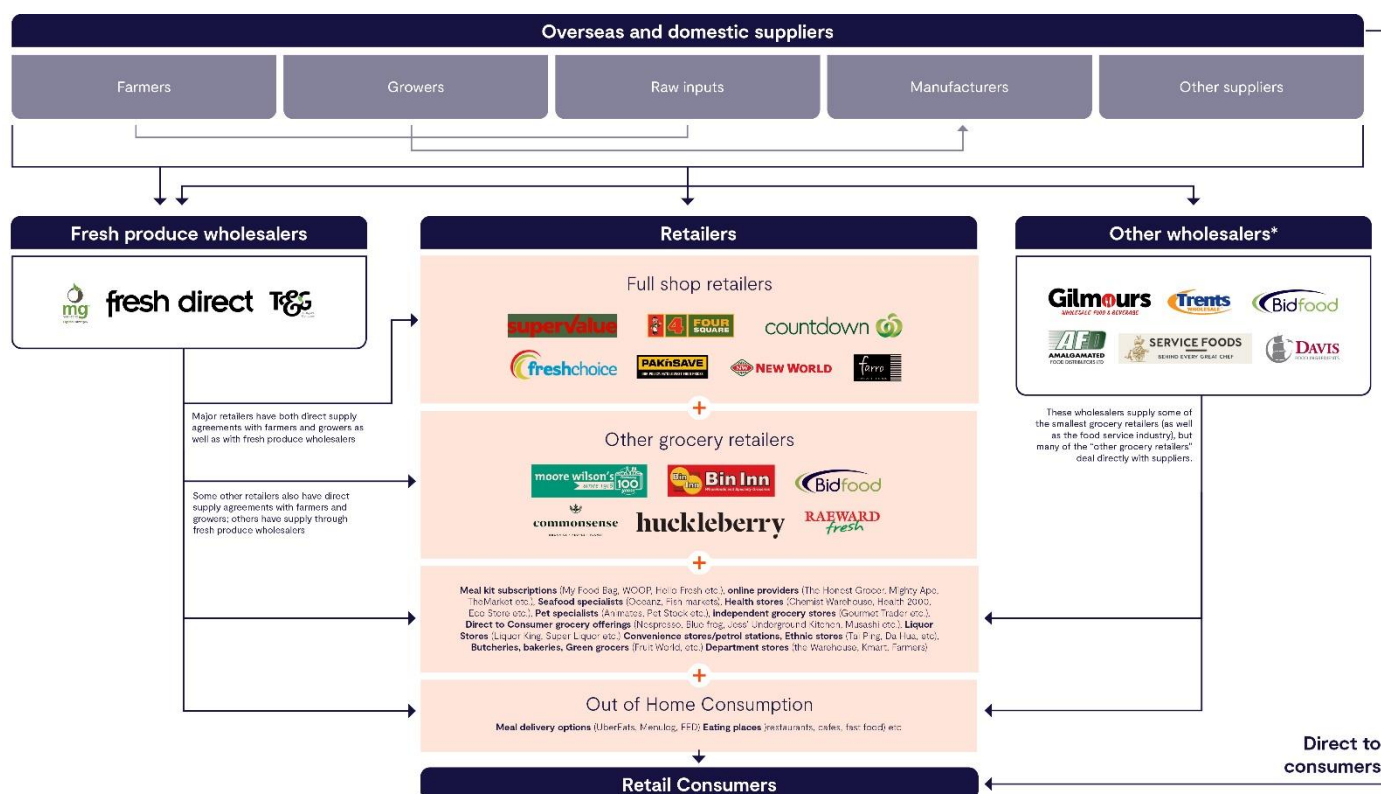
¹¹ The Minister identified "some potential competition concerns". The relevant cabinet paper notes several indicators that may suggest there are lower levels of competition than would be expected in a workably competitive market. The second indicator is that competition has trended downwards over time. (Initiating a Commerce Commission market study into supermarkets (13 November 2020) at [4] <https://www.mbie.govt.nz/dmsdocument/12272-initiating-a-commerce-commission-marketstudy-into-supermarkets-proactiverelase-pdf>).

¹² At paragraph 47.

¹³ Referring to questions 11-12, and 33-35.

¹⁴ Other aspects of the conditions of entry are discussed in response to questions 30 and 32.

¹⁵ See the response to question 11, in the Appendix.

Diagram 1 – supply chain¹⁶

Many suppliers have material countervailing power¹⁷

25 Because of the strength of suppliers in many categories, it is important that any analysis of prices takes proper account of product costs. FSNI suggests that any analysis of comparative country grocery costs would also need to take account of suppliers' bargaining power (which could be evidenced by supplier margins). In New Zealand:

25.1 Due to the relatively high degree of concentration at the supplier level, there are a number of suppliers with significant market share and relatively unique products (i.e. low substitutability) associated with countervailing bargaining power. This is particularly prevalent in [REDACTED], where typically between 1 and 4 suppliers have a significant share of supply.

25.2 Even outside the categories where there is supplier concentration, suppliers, have other sources of countervailing bargaining power available to them, including:

- (a) the ability to partly or fully switch from selling to FSNI at all by accessing smaller or boutique retailers, meal kit providers or other commercial customers for "out of home" use, or by offering products direct to consumers,
- (b) the availability of a competing export alternative – FSNI competes with international retailers for access to fresh New Zealand produce, meat and seafood, and
- (c) aggregation of volumes e.g. [REDACTED], or sales knowhow (e.g. selling agents).

¹⁶ This diagram shows the different components of the grocery supply chain but it does not show every firm operating in the grocery supply chain.

¹⁷ Referring to questions 39-41.

Interactions with suppliers are pro-competitive

- 26 FSNI's relationships with suppliers are generally robust and constructive, and have pro-competitive outcomes for consumers, including lower prices and supplier innovation.¹⁸
- 27 The constraints FSNI faces across the full range of shopping missions (see above) mean it must constantly focus on prices, service offerings and innovation to remain competitive. As such, FSNI is strongly incentivised to foster a competitive environment at the supplier level. Examples of FSNI's conduct in this respect include:
- 27.1 providing an environment in which suppliers can test products and grow their customer base (e.g. [REDACTED]),
- 27.2 offering private label products in appropriate categories (e.g. FSNI offers private label Pams Finest branded biscuits and Pams and Value tinned fruit, [REDACTED]). Lower investment in brand awareness and positioning means that cost savings can be passed on to customers – allowing a similar quality product to be provided at lower prices, and
- 27.3 working with smaller suppliers [REDACTED] to foster growth and enable more competition and innovation. As well as providing consumers with more choice and promoting supplier innovation, this allows new suppliers to develop into larger businesses.

Pricing, discounting and loyalty programmes are pro-competitive¹⁹

- 28 FSNI seeks to, and is constrained to, price competitively at a North Island level and in every local market.
- 29 FSNI works to ensure its pricing promotions and practices are pro-competitive, clear and transparent. FSNI seeks to offer “every day low pricing” i.e. shelf prices offer good value, and promotions are also genuine and offer value, are exciting and relevant, and not a cover for inflated shelf prices²⁰ (see the responses to questions 45-47).
- 30 The New World Clubcard derives from historical brand positioning (previously in the form of a coupon book), and represents a unique part of its brand, and FSNI considers it offers real benefits to consumers as well as the New World brand. The other FSNI brands do not offer a loyalty programme, illustrating that such programmes are not pervasive and would not be an essential requirement for new entry or expansion. Additionally, the New World Clubcard is accessible to any consumer (it is free to join and FSNI expects that many consumers will sign up to multiple schemes) [REDACTED].

Competition for store locations is an important feature of the retail supply of groceries

- 31 In addition to decisions as to the best combination of PQRS parameters for each FSNI banner and store owner to compete effectively for every customer shopping mission, FSNI encourages the Commission to devote careful attention to the process by which major grocery retailers compete to secure and develop the optimal store locations.
- 32 As explained above, the shifting preference towards shorter, more convenience-based missions lessens the competitive advantage of the “one-stop shop”, and full format supermarkets can be [REDACTED].²¹

¹⁸ The first indicator is that “unequal bargaining power may allow supermarkets to push prices unreasonably low for suppliers which could impede investment in innovation and quality”.

¹⁹ Referring to questions 45-50.

²⁰ The third indicator relates to whether discounting practices mislead consumers.

²¹ For example, Costco is expected to commence trading in 2022 (<https://www.stuff.co.nz/business/industries/123230944/costco-delays-its-new-zealand-launch-but-is-actively-looking-for-additional-sites>, accessed 1 February 2021), while Farro Fresh has just announced three new stores, and a projected \$100m in revenue for this year (<https://www.nzherald.co.nz/business/three-new-farro-fresh-stores-planned-100m-revenue-forecast-to-be-topped-this-year/TW4YHU2ETM5AMFX4KAPQK6ESI/>, accessed 28 January 2021).

- 33 In FSNI's experience, the development of the right store (in terms of banner type and store format), in the right location and at the right time is instrumental to the success or otherwise of its retail grocery service offering.²² [REDACTED]
- 34 The key decision points, both of which involve the commitment of significant capital, relevant for the location of future stores are:
- 34.1 [REDACTED]
- 34.2 [REDACTED]
- 35 Both these decisions are [REDACTED]
- 35.1 [REDACTED]
- 35.2 [REDACTED]
- 35.3 [REDACTED]
- 36 These two points of competition have both a very lengthy time dimension and are critical to the long term competitive dynamics in the retail grocery sector. [REDACTED]
- 37 FSNI notes that the Commission makes only passing mention of this process in its preliminary issues paper, and suggests the Commission also give this dimension of competition careful attention in order to reach a full understanding of how competition works in the retail grocery sector.

Confidentiality

- 38 Confidentiality is sought in respect of the information in this application that is [highlighted] on the basis that it is commercially sensitive and valuable information which is confidential. Disclosure of the information would be likely to unreasonably prejudice the commercial position of FSNI.
- 39 FSNI asks to be notified if the Commission receives any request under the Official Information Act 1982 for the release of any part of the information in respect of which confidentiality is sought. FSNI also requests that the Commission seek and consider the views of FSNI as to whether that information remains confidential and commercially sensitive before it responds to such requests.

²² The fourth indicator is concerns about the availability of suitable land for potential competitors to enter markets due to strategic land acquisitions by the supermarkets.

APPENDIX A – QUESTIONS IN PRELIMINARY ISSUES PAPER

	QUESTION	ANSWER
	Questions on the scope of grocery products to be considered in the study	
1	<p>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?</p>	<p>FSNI's view is that inclusion of a broader, rather than narrower, range of products best meets the study's objectives. However, practical considerations are likely to make it sensible to focus on a narrower range of products for certain analysis.</p> <p>Competition occurs in the grocery industry across the full spectrum of products and range is a key part of the PQRS competitive framework. It follows that a broader approach is likely to give the best insights into factors affecting competition for the supply and acquisition of those products. This includes a full and proper analysis of the drivers of different consumer shopping behaviour (which, among other things, differs depending on a shopper's mission).²³</p> <p>Paragraph 29 of the preliminary issues paper appears sufficiently broad to capture all products supplied by grocery retailers (i.e. all food and non-food items). With regard to Table 1 detailing the list of product categories "in scope", FSNI notes the following omissions for the Commission's consideration:</p> <ul style="list-style-type: none"> • pet food and pet care products – a key and growing category for our grocery customers, • beer, wine and tobacco products – a material proportion of total supermarket sales, • vitamins and health supplements – a fast-growing and dynamic category, • meal solutions - this includes meal kits, pizzas and other deli-type offerings which provide a value add to consumers beyond merely ingredients. While the various components may fall within the categories, FSNI's view is that the exponential growth of these solutions across the industry justifies a separate category/focus, and • other general merchandise products not described in the table (for example, pest control products and utensils, which are regularly purchased from supermarkets). While the "hypermarket" concept (i.e. Walmart) has yet to fully take off in the New Zealand context, general merchandise products are nevertheless a material part of a competitive supermarket offering (among other things, taking advantage of the so-called "halo effect" noted by the Commission in Commission decision 606/607). <p>As noted, for practical reasons, FSNI agrees that it may be necessary/desirable to focus on a smaller number of products for certain analysis undertaken by the Commission. However, it would seem to best meet the objectives of the study if samples are selected based on the products which would, in the particular circumstances, help the Commission understand the process of competition and the factors affecting that competition. This is as opposed to products being selected on some other basis, for example, merely because the products are viewed as "staples" or "essential items".</p>

²³ See paragraphs 7 to 14 of the main body of this response for information about customer missions.

	QUESTION	ANSWER
2	Does Table 1 appropriately reflect how products are categorised in the grocery sector?	<p>In FSNI's view, the conditions of competition are likely to be best exposed by focusing on patterns of consumer demand.²⁴ In this regard, shopping "missions" are likely to be of material value.</p> <p>As a practical matter, FSNI has its own internal product categorisation, and notes that providing detailed information based on differently-defined categories would be materially more challenging.</p>
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.	<p>In terms of the acquisition of grocery items, FSNI views all product categories as workably competitive due to the number of acquirers (which in every case extends beyond the major grocery retailers) and a finite number of suppliers willing and able to supply the New Zealand market (which is small and geographically remote).²⁵</p> <p>Competition can vary over time and is dependent on a range of factors. These include the nature of the product (for example a finite resource such as seafood, or because of the level of product substitutability), whether the product is traded internationally, seasonality and any international trade/logistics issues which impact on supply.</p> <p>Customer missions are the key driver of competition across product categories. In terms of the supply of grocery items at retail, every product category is subject to workable competition from a range of suppliers of those products fulfilling different customer missions and competing across the PQRS spectrum. All products sold in a supermarket can be purchased elsewhere to a greater or lesser degree (including online). For example, product categories such as fresh produce, dairy, bread, wine, pet food and confectionery are widely available and purchased outside supermarkets. In addition, technology and changing consumer behaviour is expanding these categories (health and wellness products is simply one example of this trend), and Chemist Warehouse is one example of a non-supermarket constraint.²⁶</p>
4	Are there any product categories we should consider in greater detail than others? If so, which ones and why?	As discussed in the response to questions 2 and 3 above, FSNI's view is that the objectives of the study will be best served by considering competition across a broad range of products, and that the Commission's focus should be on consumer demand patterns ("missions") over particular categories of product. ²⁷
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?	As discussed, if samples of products are to be considered then the driving factor should be the products that, in the particular circumstances, best help the Commission understand the process of competition and the factors affecting that competition, including by reference to customer missions.

²⁴ See paragraphs 7 to 14 of the main body of this response for information about customer missions.

²⁵ A range of categories have a degree of concentration with a few suppliers servicing the market. See responses to questions 36 to 38 for a more detailed discussion of competition at the supplier level.

²⁶ See responses to questions 13 to 15.

²⁷ Analysis of categories of products which are commonly purchased together when undertaking different missions may also be of relevance.

QUESTION	ANSWER
Questions on the importance of grocery products to New Zealanders	
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?	<p>FSNI's view is that the supply of grocery products for commercial consumption would assist the assessment of competition in the retail grocery sector only to the extent it specifically impacts on retail grocery supply. That is:</p> <ul style="list-style-type: none"> • commercial customers exercise a constraint on retail grocery suppliers e.g. takeaways, restaurant dining, event and workplace catering, so their participation is directly relevant to retail grocery competition. They exercise this constraint through the same supplier channels, which also means that • sales to commercial customers (for "out of home" uses) are an important source of bargaining power for suppliers, specifically the ability to partly or fully switch away from supplying FSNI. Again, this is clearly relevant to the market study.
Questions on New Zealand's major grocery retailers	
7 Is our description of New Zealand's major grocery retailers accurate?	This appears accurate noting that Foodstuffs would not generally describe itself as a single grocery retailer operating nationwide. Rather, as correctly identified in paragraph 41 of the preliminary issues paper, FSNI and FSSI are two independently-owned co-operatives that share intellectual property and collaborate on a range of other matters.
8 What are the key characteristics of a supermarket, compared to other retail grocery stores?	The preliminary issues paper correctly identifies that the defining feature of a traditional supermarket is range with the associated ability to provide customers with the ability to undertake a full physical shop [REDACTED]
Questions on the role of other grocery retailers	
9 How does our description of other grocery retailers in New Zealand fit with your understanding of the sector?	<p>FSNI looks at other retailers/grocery suppliers with a focus on customer missions rather than considering the particular offering or product category supplied by that retailer. This focus impacts on both the way in which the retailers are described/considered (for example, as discussed above, a narrow range and specialist nature may be viewed as a positive depending on the customer's mission) and also the types of retailers/grocery suppliers that should be considered when assessing competition in the grocery industry.</p> <p>Also, the "retailer" focus of the description in paragraphs 45 to 48 of the paper risks underestimating the constraints imposed by other players (viewed with a missions or "share of wallet" lens). As advised to the Commission, traditional Out-of-Home players (e.g. restaurants, fast-food places, cafes, bars, etc.) have always been considered by FSNI as competitors for the total "share of wallet" but even more so today, as delivery specialists such as Uber Eats are enabling a more convenient avenue to consume their offers.</p>

	QUESTION	ANSWER
10	Are there any other grocery retailers or types of retailers we should have regard to in the study?	<p>FSNI would encourage the Commission to have regard to supermarket competitors primarily based on customer missions rather than product offering similarities. As part of answers to questions 21.1-21.4 in Tranche 2 of the Commission's data request, FSNI has provided the Commission with a non-exhaustive list of parties who it regards as its competitors, based on the mission framework. FSNI would expect all these parties to be considered as part of the study. Without limiting the breadth of these competitors, the following are notable absences from the list set out in paragraph 46 of the paper:</p> <ul style="list-style-type: none"> the Warehouse is a significant retailer of a range of grocery items. In addition, its online "TheMarket" offering gives customers the ability to purchase a wide array of grocery products, with the only notable product category absent being fresh fruit or vegetables (albeit that ready-made vegetables are available). While the "Extra" concept was formally discontinued in 2008, a number of the features of The Warehouse relevant to the retail grocery market including its nationwide network of sites containing big box retail stores remain, online only e-commerce sites should be given equal focus to traditional retail grocery stores. As well as the offerings discussed in paragraphs 55 to 58 of the paper, eating places, enabled by delivery specialists (such as Uber Eats) should be included. Specialised online platforms in specific categories are emerging (pet, wine, baby, beauty, etc.), bypassing traditional retailers. Also, direct to consumer models such as Nespresso, Blue Frog, Ecostore, Jess' Underground Kitchen and Musashi Supplements need to be properly considered, and larger market gardeners and farmers' markets offer fresh produce and should not be overlooked.
Questions on the supply chain in the New Zealand grocery sector		
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?	<p>In FSNI's view, the supply chain is more accurately represented in diagram 1 of this response. The summary of the supply chain in Figure 3 does not match FSNI's view of the New Zealand grocery sector in several respects:</p> <ul style="list-style-type: none"> FSNI's distribution facilities are not "wholesalers", but are rather the logistics component involved in transporting products from suppliers to individual grocery retail stores. A significant proportion of FSNI's products are supplied directly to grocery retailers (particularly to [REDACTED] stores) and do not go through FSNI distribution centres. Direct to store represents approximately [REDACTED]% by value of all product shipped,²⁸ there is some involvement of wholesalers within the supply chain, especially in relation to "other grocery retailers" and the food service industry. Wholesalers such as Gilmours, Trents, Bidfoods, Service Foods and Davis Trading provide service to small retailers such as ethnic supermarkets, convenience stores, petrol stations and the food service industry. However, once a retailer attains sufficient scale (e.g. Commonsense Organics, Moore Wilson's,

²⁸ This data was included in FSNI's answer to question 17.3 in Tranche 1 of the Commission's information requests.

	QUESTION	ANSWER
		<p>The Honest Grocer, etc.), or if its brand positioning favours it, the retailer is more likely to bypass a wholesaler and develop direct relationships with domestic and overseas suppliers,</p> <ul style="list-style-type: none"> • one exception to the above is in relation to fresh produce, where T&G, MG Marketing and other fresh produce wholesalers do play an important role in the supply chain, consolidating growers' products and the supply chain, and supplying grocery retailers and independent specialists of all sizes. However, their role is a hybrid between wholesale and supply, as they are also vertically integrated in a number of fresh produce categories and FSNI understands that a significant aspect of their business is growing (and exporting) fresh produce, • supply to petrol stations and large scale convenience stores (such as Night n Day) is missing from the diagram, and • finally, it is important to show a link between domestic and overseas suppliers; FSNI often competes against overseas buyers for access to domestic products (discussed further below in response to questions 39 to 41). Ensuring sufficient supply of fresh produce, meat and seafood is an important focus given growing international demand for New Zealand products. <p><i>FSNI's supply chains</i></p> <p>[REDACTED]</p> <ul style="list-style-type: none"> • [REDACTED], • [REDACTED], • [REDACTED], • [REDACTED], and • [REDACTED]. <p>For distribution, FSNI Transport Limited (FSNIT) is a wholly owned subsidiary of FSNI and is responsible for all freight and transport requirements for the North Island region. FSNIT is also supplemented with primary and third party freight as necessary and appropriate. [REDACTED]</p>

	QUESTION	ANSWER
12	Are there any other key steps or participants in the supply chain which should be included?	<p>As explained in question 10 and in the response to questions 20 and 21 of the Tranche 2 data access request, FSNI views the supply chain as involving many other firms in the “other grocery retailers” category²⁹. These constrain FSNI’s stores across all or some of its product categories, nationwide, regionally or in local markets, and to different degrees depending on the type of shopping mission a customer is engaged in:³⁰</p> <ul style="list-style-type: none"> • meal kit subscription services operate as a real and growing alternative to traditional grocery retailers. These firms include My Food Bag, Hello Fresh and WOOP, • there are online grocery retailers that operate without a physical presence, such as The Honest Grocer. In addition, there are general purpose retailers that have expanded into the grocery space, such as TheMarket, • seafood specialists such as Oceanz and fish markets operate in a similar space to butchers such as the Mad Butcher and green grocers, bakeries etc, • other speciality stores such as health stores provide retail consumers with access to a range of health and personal care products. Entrants such as Chemist Warehouse and Bargain Chemist offer a wide range of products and compete strongly on price, • similarly, pet shops such as Animates and Pet stock compete on a core business line for FSNI (see question 1), • direct to consumer grocery options are increasingly popular and offer consumers access to key products such as coffee (e.g. Nespresso, local coffee roasters), breakfast products (e.g. Blue Frog, Hubbard’s), frozen meals (e.g. Jess’s Underground Kitchen/Juk), personal and home care items (e.g. Ecostore) (and more). Direct to consumer items allow consumers to purchase directly from popular suppliers without needing to visit a physical store and compete against FSNI’s online grocery shopping service, • department stores such as the Warehouse, Kmart and Farmers offer a variety of grocery items, such as confectionary, pet items, baby items and personal care and wellness products, • FSNI has identified a range of consumer shopping “missions”, including “quick and easy meals”, “cooking from scratch” and “casual top up” against which eating places such as restaurants and cafés, enabled by meal delivery options such as UberEats and Menulog are making the eating places even more competitive, and

²⁹ For a more comprehensive list of the firms that FSNI views as being involved in the supply chain in the “other retailer” category, please refer to the matrix of competitors in FSNI’s response to question 21.1 in Tranche 2 of the Commission’s information requests. The examples listed in the answer to this question are illustrative only.

³⁰ See paragraphs 7 to 14 of the main body of this response for information about customer missions.

	QUESTION	ANSWER
		<ul style="list-style-type: none"> finally, liquor stores are an important component of the overall grocery supply chain. Liquor stores such as Liquor King and Super Liquor are missing from the Figure 3 diagram. The “beer and wine” shopping mission for PAK’nSAVE and New World represented between [REDACTED]% of sales value across the 12 month banner average. <p>Costco is expected to begin participating in retail grocery supply in 2022³¹. It is anticipated that Costco will adopt a direct to supply model rather than involve a wholesaler. [REDACTED.]³²</p> <p>Parallel importing is another feature of the supply chain. [REDACTED.]</p> <p>Some suppliers (e.g. Proctor & Gamble) use selling agents in New Zealand (and the decision to use a selling agent is the supplier’s). Twin Agencies is a New Zealand selling agent for a number of popular New Zealand brands such as Whittaker’s and Hubbard’s. From FSNI’s perspective, selling agents can improve suppliers’ bargaining power, by accessing greater sales know-how.</p>
Questions on the impact of changes in consumers’ shopping habits		
13	<p>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?</p>	<p>Despite currently representing a relatively modest proportion of total grocery items sold at retail, online purchasing has already had a material impact on the New Zealand grocery sector. Among other things, online purchasing has led to:</p> <ul style="list-style-type: none"> significant investment by FSNI and Woolworths and their respective supply chains in putting in place the necessary processes and infrastructure to support the online offering, investment made by other grocery offerings such as The Warehouse and Mighty Ape, the trends the industry is seeing in regard to customer shopping missions, namely a decrease in the “full shop” and an increase in the “top up shop” and other missions which customers use in conjunction with online purchasing either from a traditional supermarket or other online offerings such as meal kits discussed below, the other impacts on customer behaviour which extend beyond customers who actually purchase online, more specifically using online tools to plan their shopping lists and, importantly for the competitive process, using those tools to compare prices and to decide where to shop, and

³¹ Melanie Carroll “Costco delays its New Zealand launch, but is actively looking for additional sites” *Stuff* (online ed, October 29 2020) <https://www.stuff.co.nz/business/industries/123230944/costco-delays-its-new-zealand-launch-but-is-actively-looking-for-additional-sites>

³² [REDACTED.]

	QUESTION	ANSWER
		<ul style="list-style-type: none"> • a material reduction in barriers to entry enabling small players to access a wide audience without the need for a physical store.³³ There is also enhanced potential to sell groceries through social media.³⁴ <p>Given the significant growth in online purchasing of groceries to date (and the exponential growth in online retailing generally), FSNI sees online grocery retailing only continuing to grow with the impacts on the industry/relevant markets increasing accordingly. This is consistent with international trends.³⁵</p> <p>The rise of meal kits (which are generally but not exclusively available online on a subscription basis) has also had a noticeable impact on the sector. At its most basic, customers who subscribe to one or more of these services no longer purchase the relevant individual items as part of their shopping missions (i.e. a leakage of sales/revenue). Supermarkets have responded by investing in their own “meal solution” categories and generally seeking to improve the competitiveness/quality of categories such as fresh produce, meat and fish.</p> <p>As with online shopping more generally, meal kits result in changes to consumers' shopping behaviour, more specifically the shopping missions relevant consumers need to undertake. Depending on the meal kit, main meal ingredients may no longer need to be purchased from supermarkets. This reduces the need for a main order shop (the key differentiating offering of a supermarket) and brings specialist retailers into play including other online delivery services, which further decrease transaction costs for a consumer. With a reduced need to visit a supermarket, a shopper may be more likely to choose to purchase items from a category such as personal care products or fresh fruit elsewhere. Players such as the Chemist Warehouse are taking full advantage of this trend. It is worth noting that meal kit providers are also increasingly looking to expand their subscription service to include additional ingredients; for example, fruit and vegetable boxes, and coffee (My Food Bag has a relationship with Allpress Espresso). It is relatively easy for these providers to add these additional products, reducing further still the need for a customer to undertake a full shop shopping mission.</p> <p>The growth in the meal kits to date (generated both from established players such as My Food Bag and new entries) suggests that these impacts will increase over time, including as players develop greater scale and reach. The value consumers place on the convenience of meal kit offerings also appears likely to continue to grow in the future.</p>

³³ This ranges from specialist platforms like babyonline.co.nz and pet.co.nz, through to suppliers offering their own products online such as Musashi health supplements, Altura coffee, and Blue Frog cereal.

³⁴ For example, customers have the option to purchase items from Tai Ping supermarkets through the platform WeChat.

³⁵ "On-line Grocery Share of UK Market Set to Double Ocado says" Reuters, July 14 2020.

	QUESTION	ANSWER
14	<p>Are there any other developments in how consumers purchase groceries which might impact competition? How should we take these into account in our study?</p>	<p>As noted above, a key trend is that customers are generally moving away from the full shop mission in favour of more frequent trips for specific missions. In the study, the Commission should consider the extent to which:</p> <ul style="list-style-type: none"> • customers undertaking these specific missions [REDACTED] have a much larger range of grocery retailers from which to choose, certainly extending beyond those specialising in the one-stop-shop, • these marked changes in the shopping preferences of customers are increasing the intensity of competition faced by traditional supermarkets, and • [REDACTED.] <p>The disruption caused by Uber Eats [REDACTED] should not be overlooked. As noted in our response to question 9, total food and beverage spend is moving towards Out-of-Home (increasing the focus on immediate consumption and the ease of ready to eat meals) and shoppers are choosing to satisfy their food and beverage needs in a greater number of channels than ever before. FSNI has always considered traditional Out-of-Home players (e.g. restaurants, fast-food places, cafes, bars, etc.) as competitors for the total “share of wallet” but even more so today, as delivery specialists such as Uber Eats are enabling a more convenient avenue to consume their offers. This constraint widens FSNI’s competitor set by allowing previously brick and mortar competitors (restaurants, fast food, etc.) to compete online, and sell to a large audience through technology-enabled platforms.</p> <p>Also, as with meal kits, the rise of Out-of-Home consumption reduces further still the need for full shops, bringing specialist retailers into play including online delivery services.</p> <p>Online shopping and the move away from the full shop mission has also enhanced competition across a range of other categories beyond food. These competitors are discussed in the paper and in FSNI’s response to question 10.</p> <p>In the study, the Commission should consider the extent to which supermarkets have responded across the different aspects of the PQRS spectrum to these developments.</p>
15	<p>Do you agree that the study should primarily focus on traditional retail grocery stores?</p>	<p>No, the terms of reference make clear that the study is required to look at competition in the grocery industry more broadly and the PQRS offerings for retail customers. Analysis of traditional retail grocery stores such as those operated by FSNI’s members is only one part of that inquiry. FSNI’s view is that to fully understand the process of competition for the supply of groceries, a broader view must be taken (consistent with the places that New Zealanders fulfil their shopping missions).³⁶</p> <p>Also, as discussed in our response to questions 36 to 38, FSNI believes that a high degree of focus should be brought to bear on competition at the supplier level.</p>

³⁶ After all, traditional supermarkets account are only part of the "At Home Consumption" market which itself accounts for only approximately 75% of the food retail market.

QUESTION	ANSWER
Questions on the impact of COVID-19 on the New Zealand grocery sector	
<p>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?</p>	<p>COVID-19 has caused changes in the New Zealand grocery sector. Although it is too soon to tell whether they will persist in the longer term, FSNI considers that this currently appears unlikely and that the changes are likely to be transient. The biggest change has been to customers' shopping habits during and following on from the COVID-19 lockdown. FSNI discusses these changes in more detail in response question 17 below.</p> <p>Other changes:</p> <ul style="list-style-type: none"> • there was of course an increase in sales as a result of the lockdown – during the level 4 lockdown, FSNI (and, FSNI assumes, convenience stores and dairies) experienced increased sales as a result of the government-mandated shutdown of other retailers and restaurants. However, FSNI's sales decreased again following lockdown and FSNI does not expect there to be any significant long-term increase, • FSNI is aware that COVID-19 has impacted on some suppliers who export their products internationally, including red meat and salmon suppliers. Reduced demand from overseas has resulted in increased availability of supply of these products in New Zealand. FSNI expects this to alleviate when border restrictions are loosened, • conversely, suppliers that rely on inputs for their products from offshore are experiencing delays and shortages. FSNI expects this to alleviate when border restrictions are loosened, and • price effects during lockdown arose from attempts to deal with the supply and demand challenges (and were largely driven by suppliers). As those have abated, so have price effects, and FSNI does not expect the lockdown to have any lasting impact on grocery prices. <p>FSNI notes that it has not needed to, and has not, engaged in collaboration with competitors in order to stabilise supply and protect consumers in the context of COVID-19.</p>

	QUESTION	ANSWER
17	<p>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?</p>	<p>FSNI has seen changes to customer's shopping habits as a result of COVID-19 (initial research shows that 7 in 10 shoppers changed their habits during lockdown).³⁷ However, FSNI considers that these changes are not likely to persist in the long-term. [REDACTED]</p> <ul style="list-style-type: none"> • [REDACTED], • [REDACTED], • [REDACTED], • [REDACTED], • [REDACTED], • [REDACTED], • [REDACTED], and • [REDACTED]. <p>[REDACTED]</p> <p>Since lockdown ended FSNI has observed a partial reversal of COVID-19 changes, towards pre-lockdown habits. Cross shopping between banners is back to pre-COVID levels at [REDACTED]% (vs. [REDACTED]% in January 2020) shopping across all 3 banner groups and [REDACTED]% (vs. [REDACTED]% in January 2020) shopping at more than one banner within December 2020.³⁸ FSNI expects that over time, consumer behaviour will return to pre-COVID patterns, with the following qualifications:</p> <ul style="list-style-type: none"> • as discussed in question 13, the increase in online shopping was a trend pre-COVID. COVID-19 accelerated this trend and FSNI expect it will continue to grow – it is impossible to separate the impacts of COVID from the overall trend in consumer behaviour, • the increase in preference for “shopping local” is also expected to continue, and • FSNI expects that the economic impacts of COVID-19 will continue to drive a focus on essentials and value until the impact of the first wave of COVID (employment, household spending etc.) flows through in 2021 and any subsequent resurgence of the virus in New Zealand.

³⁷ Data comes from Foodstuffs Weekly COVID Tracker.

³⁸ [REDACTED].

	QUESTION	ANSWER
18	Has COVID-19 had any long-term impacts on other retailers (including specialist retailers) and their suppliers?	<p>FSNI does not have direct knowledge or visibility of the long-term impacts of COVID-19 on other retailers.</p> <p>FSNI notes that any increase in its sales or market share as a result of COVID-19 impacts on other retailers will be impossible to isolate from the more general effects of COVID-19. FSNI has not attempted to undertake analysis of these effects and considers it would not be possible for it to do so.</p>
Questions on our high-level approach to the retail grocery market study		
19	Do you have any comments on our proposed high-level approach to the study as discussed in paragraphs 66 to 70 above?	The high-level approach appears consistent with the terms of reference and the Commerce Act.
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?	<p>Profitability</p> <p>FSNI observes that there are substantial practical difficulties with attempting to draw inferences about the degree of competition in the grocery sector from benchmarks of profitability, and care needs to be taken accordingly.</p> <p>One of the measures of profitability to which the Commission has referred is the return on assets (or return on capital employed). Measuring profitability for the grocery sector by reference to this metric would involve substantial challenges, including because appropriate valuations are required for all physical assets, which may differ materially to the values applied for financial accounting purposes. Moreover, consideration of a long time period is required to allow for the fluctuation in annual returns that is seen in even the most competitive markets.</p> <p>In addition, as FSNI explains above, a substantial manifestation of competition in the grocery sector is the taking of risk in relation to land purchases as well as product selection and development. The risks and expected return from these fundamental drivers of competitive activity are very difficult to factor into a traditional, static benchmarking of return on assets. In addition, a key asset of any incumbent grocer is that it has a developed logistics chain and internal expertise and capability. Again, these key assets do not enter the balance sheet of an incumbent firm, except in the limited case where assets are transacted and the acquiring firm records a “goodwill” element as a consequence.</p>

	QUESTION	ANSWER
		<p>A potentially more viable basis for assessing profitability would be to measure the profit margin (i.e. profit as a proportion of revenue) earned by the grocery sector firms, and to benchmark this against comparable entities. The key advantages of benchmarking profit margins is that this can be independent of how companies value physical assets for accounting purposes,³⁹ and that the profitability benchmarks would automatically include the same return in respect of intangible assets as is earned, on average, across the sample of comparable entities. However, differences between the entity being benchmarked and the sample of comparable entities (noting in particular that the comparable entities would be from overseas markets) may imply that a materially different margin would be justified (and earned in a competitive market), which would limit the capacity to draw strong conclusions from the exercise. Some of the factors that may be important include:</p> <ul style="list-style-type: none"> • the scope of activities the entities perform – with the New Zealand grocers undertaking more of the distribution / logistics function than is likely to be the case in larger markets where true wholesale providers exist (and hence where the equivalent cost is embedded within the cost of goods sold), • the average density of the population – which would affect the cost to serve, and hence the competitive market margin, • the significance of strategic land acquisition in the competitive process – which would be expected to differ between countries with a more rapid population growth and those with slower growth, • differences in the cost of capital across countries – which would flow directly into the competitive market margin, and • the treatment of leased assets – where, prior to IFRS 16, otherwise identical companies that principally lease their properties would have had a materially lower profit margin than companies that principally own their properties. FSNI considers that profit margins should be measured on a post IFRS 16 basis and, where margins that are drawn from prior to the commencement of IFRS 16, those margins should be adjusted as far as practicable to be consistent with their treatment under IFRS 16.

³⁹ If the profit margin is defined as EBITDA as a proportion of revenue (“EBITDA margin”) then the margin will be independent of how assets are valued. In contrast, if the profit margin is defined as EBIT as a proportion of revenue (“EBIT margin”) then the margin will be affected by asset valuations (i.e., as EBIT is affected by the depreciation expense). We recommend benchmarking using EBITDA margins if this is undertaken.

QUESTION	ANSWER
	<p>In terms of testing the profitability of the FSNI entities, the charges between the centre and the individual stores cannot be interpreted as independent, arms-length and economic cost reflective charges. Rather, the financial flows between the centre and the individual stores embed a range of different levies – part of which is to recover cost but part of which is to raise finance. Even the cost reflective charges are imprecise and, critically, exclude any allowance for the risk for which the activities of the centre would demand compensation if this was undertaken as a standalone activity (i.e. if the centre was not ultimately owned by the individual stores as a consequence of the cooperative structure). The implication of the imperfections in the internal charging arrangements is that profit margins for FSNI can only be meaningfully calculated and benchmarked at the whole of business level).</p> <p>FSNI looks forward to working with the Commission as to how relevant comparisons might best be made including the appropriate measures of profitability.</p> <p>Price comparisons</p> <p>Given the vast array of factors which impact grocery prices, FSNI's initial view is that international pricing comparisons are unlikely to be as helpful. FSNI's experience is that the nature of grocery products means that there are challenges with pricing comparisons even in a domestic context, let alone seeking to make international comparisons. The frequency and size of price changes in a supermarket is just one example of how difficult it would be to ensure "like for like" comparisons. Other concerns would be currency fluctuations, tax regimes, specific product regulation (for example, alcohol and tobacco) and the usual factors which make comparisons difficult such as pack sizes, ingredients and quality).</p> <p>In addition, even if international comparisons of grocery prices could technically be made, it is questionable whether such comparisons would, in fact, advance the question of whether the relevant markets are workably competitive. This is because:</p> <ul style="list-style-type: none"> • even if a perfect comparison could be made with respect to prices between supermarkets in New Zealand and overseas, it cannot be assumed – even as a starting proposition – that a difference between prices in New Zealand and elsewhere is indicative of something illegitimate, and • for example, a higher price in New Zealand may be due to New Zealand firms earning excess returns. Alternatively, it may equally be due to local input costs (land, labour and capital and prices from suppliers) being higher than overseas, as well as due to the costs of operating a chain of supermarkets in NZ being higher than overseas (i.e. more units of input needed due to the lower population density than many other countries). A simple comparison of prices does not provide any insight into which of these hypotheses is correct. <p>Where international price comparisons may potentially be of greater assistance is in relation to the prices that the multinational product suppliers charge New Zealand grocery retailers including the major grocery retailers. In particular, is there evidence of geographic price discrimination (which may assist in testing whether there may be market power amongst certain suppliers)?</p>

	QUESTION	ANSWER
	Questions on national and regional retail competition	
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?	<p>In summary, from FSNI's perspective:</p> <ul style="list-style-type: none"> • as described above, service offerings are determined at both the cooperative and at a store level by each member (within the framework established by their membership agreement), • FSNI and FSSI specifically collaborate on matters that require national consistency (for example a national televised New World price promotion) and otherwise, in broad terms, seek to act in a manner consistent with the shared ownership and use of national brands, and • FSNI's banners generally seek to compete on different parts of the PQRS spectrum.⁴⁰ <p>The result of the above is that:</p> <ul style="list-style-type: none"> • as discussed in question 23, pricing can vary on a store-by-store basis. [REDACTED], • there is scope for a member to tailor their product range, including to local consumer preferences and market conditions. [REDACTED], • [REDACTED], and • all involved strive for consistent quality across the relevant banners. FSNI regularly monitors key deliverables across banners.
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?	<p>Generally, smaller grocery retailers compete with major grocery retailers across one or more aspects of the PQRS spectrum. If a customer elects to shop at a smaller grocery retailer, there is both the direct loss of the particular products purchased plus a potential loss of opportunity in terms of general reduced foot traffic in the major grocery retailers' stores.</p> <p>As noted, the ability of a major grocery retailer to offer the convenience of a one-stop main order shop is the key differentiator from other stores.</p> <p>The nature and "closeness" of competition (and thus the degree of constraint) depends on related factors such as:</p>

⁴⁰ This is illustrated by the various different customer promises made in respect of different banners (PAK'nSAVE's promises are 'cheap as!', 'fresh as!' and 'sweet as!'; New World's promises are 'fair value every day', 'inspiring solutions' and 'awesome experiences'; Four Square's promises are 'fresh faves', 'everyday essentials' and 'local service').

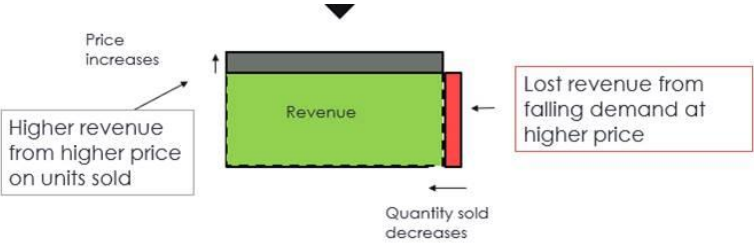
	QUESTION	ANSWER
		<ul style="list-style-type: none"> the nature of the smaller grocery retailer, for example a specialist retailer such as a pet food retailer constrains the retailer in that particular category. A retailer with a broader offering, albeit with one or two omissions such as fresh vegetables/dairy offers more general competition, particularly for those customers whose mission is not a main order shop; and the nature of demand from customers, again with competition likely to be closer where customers are engaged in missions other than main order shopping. This is likely to vary regionally and locally. [REDACTED]⁴¹
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?	<p>From FSNI's perspective, service offerings differ across the North Island as discussed below.</p> <p>Causes include one or a combination of the following (see also the answer to question 21):</p> <ul style="list-style-type: none"> local market conditions including customer needs, demographics and competition from other suppliers of retail grocery items; the presence of different FSNI banners within different catchments; differences arising due to particular arrangements or pricing changes requested by suppliers affecting different regions; the nature of relevant products such as fresh fruit or vegetables; and other differences arising due to the independent owner/operator model run by each co-operative.
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?	<p>What factors do consumers consider most important when deciding which grocery retailers to shop at, and which brands to purchase?</p> <p>In terms of selecting grocery retailers, FSNI sees key drivers as being value, convenience, experience and seeking solutions. These drivers will fluctuate in importance depending on the shopping mission that the relevant consumer is undertaking and other factors specific to the consumer. [REDACTED]</p> <p>In terms of deciding which brands to purchase, similar factors such as value, quality, brand loyalty and convenience, etc., will be applicable. In terms of the weight given to each factor, the shopping mission will be relevant as well as the nature of the relevant product.</p> <p>How far will consumers travel to purchase groceries? Does this depend on where the consumer lives?</p> <p>FSNI's views are as follows:</p>

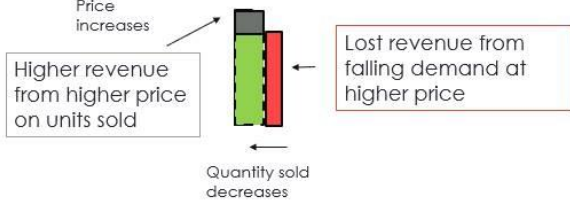
⁴¹ [REDACTED],

	QUESTION	ANSWER
		<ul style="list-style-type: none"> • as a rule of thumb, the 5-10km radius is now of limited or no value and should not be used in the study,⁴² • the distance any particular consumer will drive to a store depends on a range of factors, in particular the nature of the consumer's shopping mission, • the size and type of store is relevant i.e. in general terms consumers ordinarily drive further to larger stores and to PAK'nSAVE (given the everyday low price offering), • consumers in rural areas tend to be willing to drive further than in urban areas, and • other geographic features or characteristics are likely to be relevant. <p>Have any changes in consumers' purchasing behaviour affected the distance or time they are prepared to travel or take in order to shop?</p> <p>The changes to consumer behaviour highlighted to the Commission in this response and otherwise (with a focus on more frequent shops fulfilling different missions) have undoubtedly impacted on the distance those consumers are prepared to travel or take in order to shop.⁴³</p>
25	Should we compare grocery prices across regions within New Zealand? If so, how should we undertake these comparisons?	FSNI has no objection to these types of comparisons and is happy to work with the Commission to determine how they could be carried out and usefully analysed.
26	Do you have any other views on competition in New Zealand's retail grocery sector which you would like to share?	FSNI looks forward to discussing its views further in the course of the market study.

⁴² As the Commission is aware, a 5-10km radius around a particular supermarket has traditionally been adopted for market definition in the New Zealand context. The UK Competition Commission has adopted an approach based on drive times depending on the size and offering of the relevant supermarket.

⁴³ [REDACTED]

QUESTION	ANSWER
Questions on accommodating behaviour	
<p>27 To what extent do you think there is accommodating behaviour between retailers in the New Zealand grocery sector? Please explain.</p>	<p>FSNI does not consider that there is accommodating behaviour between retailers in the New Zealand grocery sector.</p> <p>[REDACTED.]</p> <p>FSNI does monitor the prices set by competing supermarkets as well as those set by major specialist retailers (such as [REDACTED]) and periodically adjust prices for individual items accordingly.</p> <p>These arrangements reflect effective competition, and involves no aspect that could be said to be “accommodating” of competitors.</p> <p>In general terms, a firm that engages in accommodating behaviour will trade off a loss of volume (because as price increases, customer demand for the product decreases) against the additional margin it derives on the volumes it does sell. When the increase in margin is spread over a large volume of sales – such as for a national grocery chain like Countdown – the loss in volume is likely to be small relative to the increase in margin.</p> <p>This can be illustrated in the (stylised) diagram below - the grey box representing the increase in margin is likely to be larger than the red box of lost sales (at the old price).</p>  <p>[REDACTED]:</p> <ul style="list-style-type: none"> • [REDACTED]. • [REDACTED].

	QUESTION	ANSWER
		 <p>There is also no accommodating behaviour in relation to the location of store openings. For store openings:</p> <ul style="list-style-type: none"> • [REDACTED]. • [REDACTED]. <p>Coordination or accommodating behaviours in relation to both these forms of decision is next to impossible.</p> <p>Furthermore, once land has been acquired, the decision as to the timing of a store opening is also a critical point of competition. [REDACTED]:</p> <ul style="list-style-type: none"> • [REDACTED]. • [REDACTED]. <p>In FSNI's view, in New Zealand the large grocery retailers are not engaged in accommodating behaviour. It is not behaviour that FSNI would engage in and it is not in FSNI's interests due to other competitive constraints.</p>
28	Which, if any, aspects of grocery retailers' offerings may be subject to accommodating behaviour (for example, location of store openings, prices, promotional schedules)?	<p>Accommodating behaviour does not occur on any of these aspects mentioned in the Commission's preliminary issues paper:</p> <ul style="list-style-type: none"> • [REDACTED]. • [REDACTED]. • [REDACTED].
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?	<p>FSNI monitors Countdown prices [REDACTED]. The purpose of the monitoring is to ensure FSNI remains competitive, and not to accommodate Countdown's conduct.</p> <p>FSNI also monitors other competitors' prices and product and service offerings by reviewing websites of New Zealand and Australian retailers. This is to ensure FSNI's prices are competitive across the full product.</p>

	QUESTION	ANSWER
		<p>[REDACTED].</p> <p>[REDACTED].</p> <p>[REDACTED].</p> <p>[REDACTED].</p> <ul style="list-style-type: none"> • [REDACTED]. • [REDACTED]. <p>[REDACTED]</p>
Questions on conditions of entry and expansion		
30	<p>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?</p>	<p>The answer to this question depends on the offering which is being considered.</p> <p>If the offering is a traditional bricks and mortar full-service network of supermarkets competing on all aspects of PQRS, then there are a number of well-traversed factors that affect entry and expansion including the need for scale (for supply relationships), the availability of sites for big box retail, regulatory hurdles and infrastructure (particularly required to supply any temperature-controlled product including fresh produce on any scale to the market).</p> <p>At the other end of the spectrum if the offering is online only (competing on one or more of the QRS aspects of the spectrum) then the factors affecting entry and expansion are very different with only some form of consolidation and distribution network required. Such an offering could acquire products from a range of sources including importing some products and, in the absence of scale, acquiring others from wholesalers and existing supermarkets until it obtained sufficient scale to deal with major suppliers. In essence, entry simply requires a commitment of capital (a very different proposition to the property, regulatory and infrastructure issues faced by a traditional supermarket).</p> <p>In between these offerings, there are a range of hybrid approaches involving some physical stores (albeit falling short of a full-service nationwide offering) and online supply. While more material than an online only model, the factors affecting entry and expansion are nevertheless significantly different to a traditional supermarket entry.</p>

	QUESTION	ANSWER
31	To what extent does the size and geography of New Zealand affect the possibility of entry and expansion?	The factors discussed in response to question 30 (together with the examples listed in response to question 32) suggest that New Zealand's size and geographically should be viewed as materially less relevant to entry and expansion than has been previously been the case. Even at the traditional bricks and mortar full-service end of the spectrum it is not obvious that New Zealand's size affects prospects for entry. ⁴⁴
32	Are there recent examples of actual or potential entry or expansion in the sector that we should aware of? What are these?	<p>As outlined in the response to question 20 in Tranche 2 of the Commission's data access request, in addition to Costco (actual bricks-and-mortar entry with a full-service supermarket offering), Aldi, Lidl and Kaufland (all potential entrants), the Honest Grocer and My Food Bag (together with other meal kit providers such Hello Fresh and Woop), FSNI notes TheMarket (an expansion of the existing The Warehouse grocery offering), Mighty Ape (an actual entry), Amazon (a potential entry), Circle K (currently a convenience offering noting they recently made a US\$20b offer to acquire Carrefour, France's largest supermarket chain) and Chemist Warehouse (an Australian pharmacy which has entered New Zealand with an ever-expanding offering which includes health, wellness and beauty products, wellbeing-related food, confectionary and a range of beverages).</p> <p>Examples of suppliers adopting "direct to consumer" models (such as Nespresso, Blue Frog, Ecostore, Jess' Underground Kitchen and Musashi Supplements), as discussed in question 10, are also highly relevant.</p> <p>These examples highlight the reduced barriers to entry which exist for players with an offering that is different to a traditional supermarket and evidence that these barriers can be overcome.</p> <p>In addition to the above, consistent with FSNI's view of who it considers to be competitors of the major grocery retailers, there are regular new entrants of smaller players including ethnic stores, bulk offer stores, organic specialists, meal kit providers and cafes, restaurants and other Out-of-Home providers.⁴⁵</p>
Questions on competition at the wholesale level		
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?	<p>In New Zealand, as set out above in response to question 11, there is not a comprehensive and separate wholesale level of the market. While there is wholesale capability (described below), most grocery retailers of any scale carry out the relevant tasks themselves. In FSNI's view, there are good reasons for this.</p> <p>There is significant concentration at the supplier level in New Zealand across multiple categories. The impact of this is that the number of suppliers required to be engaged by a retailer is small, and supplier relationships are able to be effectively managed by retailers without need for a comprehensive wholesale functional level of the market. Direct relationships</p>

⁴⁴ Size and low population density may affect the absolute cost of operation but this is different to the prospects of entry (which are more likely to be affected by the proportion of the market, whatever its size and cost of servicing, that needs to be captured to achieve minimum efficient scale).

⁴⁵ [REDACTED]

	QUESTION	ANSWER
		<p>between retailers and suppliers as well as with farmers and growers are common. As a result, representing producers and growers, suppliers, manufacturers and processors and wholesalers as three separate layers is an over-complication of the supply chain. At the same time, there is an increase in the number of niche suppliers, many of which also offer direct to consumer sales via online platforms (as per examples below). There is neither sufficient volume nor a business need for an intermediate player in most cases.</p> <p>Nevertheless, as above, there is wholesale capability if a new entrant or expanding player wished to take advantage of it. There are also various logistics players who would be able to work with a new entrant or expanding player.</p> <p>This means that, for the very smallest players and new entrants, a pathway to entry and initial expansion is available that allows them to defer investing in procurement expertise (e.g. Bidfood, Davis Trading, Gilmours).</p> <p>Furthermore, if an entrant or smaller retail supplier wishing to expand on a larger scale, wished to avoid investing in procurement expertise and distribution, Bidfood is an existing wholesaler which primarily supplies to the foodservice industry, but also wholesales to large convenience retailer Night n Day. Bidfood supplies products in the foodservice, fresh and butchery product categories. It also has a logistics component to its business. Bidfood is an international company and has significant scale that it could leverage to expand and support entry and expansion in the supply of retail groceries in New Zealand.</p> <p>In addition to Bidfood, another option for a new entrant to the retail market would be to partner with (and jointly expand with) one of the smaller wholesale firms, e.g. Service Foods, Davis Trading. These wholesalers also have strengths in supply for foodservice, but could expand to supply a new entrant to the retail market given their existing position within the market.</p>
34	<p>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?</p>	<p>The primary constraint on entry and expansion is the lack of demand in New Zealand for a firm that only operates at the wholesale level. As a country with a small population and a high degree of concentration at the supplier level, it is most efficient for retailers to develop relationships directly with suppliers. The low number of suppliers means that it is relatively easy for retailers to deal directly with suppliers. This compares with the situation overseas, where there may be thousands of suppliers to negotiate with, making it difficult for retailers to manage direct relationships and providing a way for wholesalers to add value (and margin – which would find its way into grocery prices).</p> <p>Wholesalers operate in the fresh produce area, although most are hybrid firms: wholesalers such as MG and T&G operate as a hybrid wholesaler/supplier firm. In FSNI's view, these firms likely operate in this way because of the lack of demand for a pure wholesaler. In addition, their presence makes sense in the grocery categories where suppliers would otherwise be fragmented.</p> <p>The value proposition for firms operating at the wholesale level in New Zealand is primarily to make supply simple for small scale retailers or firms in the foodservice industry. For firms operating in that industry, it can be efficient to work with a wholesaler rather than engage directly with suppliers, and smaller firms are willing to pay for the service of having the supplier relationship managed for them. However, even for smaller firms, the small number of main suppliers makes it easy</p>

	QUESTION	ANSWER
		to engage directly with those suppliers. Once a firm in either the retail or foodservice space obtains a degree of scale, it can bypass wholesalers such as Davis Trading or Bid Foods and deal directly with supplier.
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?	See FSNI's responses to the questions above.
Questions on competition at the supplier level		
36	Are there any factors affecting competition at the supplier level we should be aware of and consider during our study?	<p>A key factor is that while markets are workably competitive, many key product categories are relatively concentrated. This includes the categories listed in paragraph 25.1. As discussed in question 39, the relative concentration in these categories means that suppliers have countervailing bargaining power.</p> <p>Partly in response to the relative concentration in key product categories, supermarkets have employed strategies for the benefit of consumers such as supporting new entry of one or more additional players (for example, [REDACTED]), and developed/enhanced private label offers, with the competitive benefits discussed below.</p>
37	What impact, if any, do private label products have on competition at the supplier level?	<p>As recognised in a range of literature including the UK and Australian grocery studies, the development and supply of private label products enhances competition at the supplier level. The supply of private label products is an important way in which FSNI responds to the market power of major global and domestic suppliers [REDACTED].⁴⁶</p> <p>With regard to the competitive effects of private label products:</p> <ul style="list-style-type: none"> • [REDACTED]; • it is not in supermarkets' interests to damage branded suppliers or for branded suppliers to exit already concentrated upstream markets; and • branded suppliers in relevant categories commonly [REDACTED].
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?	No.

⁴⁶ For example, the introduction of Pams Finest Cookies, and Pams and Value range canned fruit and vegetables.

QUESTION	ANSWER
Questions on the grocery procurement practices of the major grocery retailers	
<p>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?</p>	<p>This depends on the product category and the relevant supplier.</p> <p>As discussed above in the submission, suppliers are strong in a number of product categories. In this regard, FSNI suggests that any analysis of prices must take proper account of costs. This is particularly the case for international price comparisons. It is not clear to FSNI that international price comparisons would be instructive, but if they are to be done, then at minimum the Commission must take account of differences in the underlying cost structure across countries, including product costs. In addition, FSNI suggests that an analysis of suppliers' margins may provide evidence of their bargaining power. That is, in New Zealand:</p> <ul style="list-style-type: none"> • Due to the relatively high degree of concentration at the supplier level, there are a large number of suppliers with significant market share and associated countervailing bargaining power. This is particularly prevalent in [REDACTED], where typically between 2-4 suppliers have a significant share of supply. • Even outside the categories where there is supplier concentration, suppliers, have other sources of countervailing bargaining power available to them, including: <ul style="list-style-type: none"> ○ the ability to partly or fully switch from selling to FSNI at all by accessing smaller or boutique retailers, meal kit providers or other commercial customers for “out of home” use, or by offering products direct to consumers, ○ the availability of a competing export alternative – FSNI competes with international retailers for access to fresh New Zealand produce, meat and seafood, ○ aggregation of volumes e.g. [REDACTED], and sales knowhow (e.g. selling agents).
<p>40 Is the relative bargaining power between retailers and suppliers impacting competition in the New Zealand grocery sector? If so, how?</p>	<p>In FSNI's view, there is no evidence that any bargaining power imbalance between retailers and suppliers is impacting competition in the New Zealand grocery sector. More specifically, FSNI is not aware of any evidence that:</p> <ul style="list-style-type: none"> • suppliers cannot cover their supply costs and are withdrawing supply (or related services) from the New Zealand market. While some markets are concentrated, across the board there are suppliers in all categories willing and able to supply the New Zealand markets; and

	QUESTION	ANSWER
		<ul style="list-style-type: none"> suppliers are reducing investments in new products and processes⁴⁷ <p>Rather:</p> <ul style="list-style-type: none"> in markets for the retail supply of groceries, FSNI's buying power is pro-competitive in that it allows FSNI to more effectively compete with Woolworths and other suppliers of groceries; in upstream supply markets, as discussed in the response to question 39, many suppliers have countervailing market power; and FSNI's long-term interests are served by having a competitive supplier market. FSNI has no interest in driving efficient suppliers from any upstream markets.
41	Is there any specific behaviour or conduct between retailers and suppliers we should consider in our study?	<p>FSNI values its supplier relationships, invests time and endeavours to always act consistently with the Supplier Relationship Charter.</p> <p>Examples of investment, over and above regular interactions that are consistent with the Charter, include:</p> <ul style="list-style-type: none"> regular (3 times per year) all-supplier events at which FSNI provides FSNI strategic and operational updates in person (virtually during COVID-19) with attendance typically in the range of 300 to 500 suppliers, monthly electronic supplier updates sharing developments in the business, fortnightly meeting with the Food and Grocery Council (FGC) Industry Relations Working Group covering any supplier issues and/or seeking input from the Working Group on FSNI developments, executive and regular joint business plans with significant suppliers, a complaint process, which has been agreed with the FGC, pursuant to which any supplier complaint can be escalated within the business to the GM, Merchandise, Chief Executive Officer or General Counsel, attendance and presentation at the Annual FGC conference, participation and engagement in the Nielsen Retail Barometer Survey and Advantage and Coalface Survey conducted by independent parties, and regular and structured CEO and GM Merchandise meetings with senior leaders in suppliers.

⁴⁷ In fact, companies such as Griffin's, Whittaker's and Tip Top have invested significantly in plant in recent years.

QUESTION	ANSWER
Questions on factors which may affect consumers' ability to make well-informed decisions	
42 How relevant do you consider consumers' access to information is to our study?	<p>Consumer access to information is relevant to the study.</p> <p>Consumers have a large amount of information available to them about grocery products, including in relation to prices, quality and content. Consumers are well-informed about grocery options: from FSNI continuous brand tracking, awareness levels of New Zealand national grocery brands are Countdown [REDACTED]%, New World [REDACTED]%, PAK'nSAVE [REDACTED]%, Four Square [REDACTED]%⁴⁸ and this supports a vigorously competitive environment. FSNI knows that consumers value having information available to them and want to obtain the best deals on grocery products, and FSNI supports consumers having information that helps them plan their grocery trips.</p> <p>In FSNI's view, the amount of information about prices and products supports a highly competitive and consumer-responsive market</p>
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)?	<p>Consumers have access to information through online shopping websites, mailers, general advertising, instore information and price comparison websites. For the FSNI brands, New World and Four Square have mailers with discount price information that are sent weekly, and prices are also listed online.</p> <p>There is no mailer for PAK'nSAVE. PAK'nSAVE mainly relies on its general marketing and brand positioning to convey its pricing proposition, supplemented by in-store and social media advertising.</p> <p>Many consumers will build shopping lists on multiple online shopping websites and decide where to shop based on the total price of the lists. Engagement with FSNI websites have experienced growth in December 2020. New World unique users have grown by [REDACTED]% YOY, to [REDACTED], PAK'nSAVE unique audience is at [REDACTED] ([REDACTED]%), and foursquare.co.nz has increased by [REDACTED]% to [REDACTED] unique users.⁴⁹</p>
44 How easy is it for consumers to compare product offerings once in store? What factors influence this?	<p>FSNI has increased the use of unit pricing on products to help consumers compare prices of different sized products. If a product is discounted, the in-store price display will typically display both the discounted and previous price to allow consumers to assess the discount. For New World, for Clubcard deals, both the Clubcard and non-Clubcard price are displayed so that consumers know what price they will pay.</p> <p>Shelving displays can also impact how easily consumers can compare product offerings. Prices are always displayed with end-of-aisle displays to ensure consumers are aware of the price.</p>

⁴⁸ Foodstuffs Brand Tracker, FY21 Q2, October 2020.

⁴⁹ Data sourced from Google Analytics Monthly Unique Users, December 2020.

	QUESTION	ANSWER
		Consumers can check prices at another shop using a mobile device while shopping. If the in-store price were not favourable, consumers could choose to save the relevant item(s) to buy at another store. This is most likely to happen in areas with stores in close proximity.
Questions on retailers' pricing practices		
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?	<p>[REDACTED].</p> <p>[REDACTED]. FSNI's pricing policies aim to provide more consistent value to customers across core and staple items.</p> <p>Particular considerations for fresh produce and meat</p> <p>Pricing and promotions for fresh products, including produce and meat, operate according to a different dynamic than other product categories, due to their seasonality, certainty of supply and short shelf life. [REDACTED].</p> <p>The remainder of the responses in this section refer to product categories other than fresh.</p> <p>Overview of pricing and promotions</p> <ul style="list-style-type: none"> • [REDACTED] • [REDACTED] • [REDACTED]. <p>Promotions are typically advertised in a number of different ways, including in mailers, and in-store (with discount prices are advertised over the top of the shelf price, meaning that customers are able to refer to the typical shelf price for comparison).</p>
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?	<p>FSNI collects data on what percentage of the total value of weekly sales can be accounted for by the sale of goods sold on promotion.</p> <p>On average, for the period of 19 October 2020 to 18 January 2021, promotional sales accounted for [REDACTED]% of the total value of weekly sales at New World stores in the North Island.</p> <p>On average, for the period of 19 October 2020 to 18 January 2021, promotional sales accounted for [REDACTED]% of the total value of weekly sales at PAK'nSAVE stores in the North Island.</p> <p>On average, for the period of 26 October 2020 to 25 January 2021, promotional sales accounted for [REDACTED]% of the total value of weekly sales at Four Square stores in the North Island.</p> <p>[REDACTED].</p>

	QUESTION	ANSWER
		<p>[REDACTED].</p> <p>[REDACTED].</p> <p>[REDACTED].</p> <p>[REDACTED].</p>
47	<p>How are pricing promotions funded? Do these typically result in lower margins to retailers or suppliers?</p>	<p>[REDACTED].</p> <p>[REDACTED].</p> <p>[REDACTED].</p>
Questions on loyalty programmes		
48	<p>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?</p>	<p>New World's loyalty scheme is pro-competitive</p> <p>A loyalty programme of one kind or another is a key part of New World's history and brand positioning, with coupon books operating for decades. As such it is an important component of the New World "story". The New World coupon book was in place many years before the Clubcard (or the Countdown Onecard). New World's discount and loyalty offering are valued by consumers as part of the New World brand.</p> <p>[REDACTED].</p> <p>[REDACTED].</p> <p>In an Australian survey referred to in the ACCC loyalty study, 28% of respondents said that they did all their shopping with one supermarket chain and, of those, 57% gave "earning rewards points" as a reason for their loyalty. 10% of respondents had switched to a different chain in the past year, with 22% citing "earning supermarket rewards points" as the reason. Nielsen Shopper Trends Research indicates that loyalty programmes are lower ranking in driving store choice, than convenience, location, and price.</p> <p>There is no cost to join Clubcard. It is mostly possible to join "on the spot", so there are no time barriers. For certain customer groups (e.g. Tourists) there are temporary cards available for use immediately. FSNI considers the scheme offers real benefits to consumers, as well as the New World brand. That said, there are no tiers or status levels that allow for greater levels of saving or additional service provision, [REDACTED].</p> <p>[REDACTED].</p> <p>[REDACTED].</p>

	QUESTION	ANSWER
		<p>Having a loyalty programme is not a prerequisite for any effective grocery competitor</p> <p>PAK'nSAVE does not have a loyalty scheme because PAK'nSAVE competes on the “New Zealand’s lowest food prices” proposition. [REDACTED].</p> <p>The New World Clubcard loyalty programme is used to provide consumers with relevant promotional offers and access to instore Club Deals. [REDACTED].</p> <p>In any event, given the relatively simple nature of loyalty schemes, even if a new entrant wished to establish a loyalty scheme, FSNI would not expect that to act as a material barrier.</p>
49	<p>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?</p>	<p>There are no barriers to participating in multiple schemes and most consumers will be members of multiple loyalty programmes. [REDACTED].⁵⁰</p> <p>[REDACTED]. There is no minimum spend to access discounts, however for the Fly Buys or Airpoints rewards, there is a minimum transaction spend of \$25. The discounts are the same for all members regardless of the amount spent.</p> <p>[REDACTED].⁵¹</p> <p>Grocery loyalty schemes are straightforward and easily understood by consumers, more so than in other industries including fuel. [REDACTED].</p>
50	<p>Are there any other specific features of loyalty programmes offered by grocery retailers we should consider in our study?</p>	<p>No.</p>
Questions on other issues		
51	<p>Are there any other issues not raised in this paper that could impact competition in New Zealand’s retail grocery sector?</p>	<p>No.</p>

⁵⁰ [REDACTED]

⁵¹ [REDACTED].

APPENDIX B: GLOSSARY

Term	Definition
FSNI and FSSI (including Foodstuffs (NZ) Limited)	Foodstuffs
Foodstuffs North Island Limited	FSNI
Foodstuffs South Island Limited	FSSI
PAK'nSAVE	PAK'nSAVE
Woolworths New Zealand	Woolworths (with "Countdown", "FreshChoice" etc., used when referring to specific supermarket brands)
FSNI Transport Limited	FSNIT