

4 February 2021

Commerce Commission
Level 9
44 The Terrace
WELLINGTON 6011

Dear Commissioners

**MARKET STUDY INTO THE RETAIL GROCERY SECTOR
FOODSTUFFS SOUTH ISLAND LIMITED – RESPONSE TO PRELIMINARY ISSUES PAPER**

1. Foodstuffs South Island Limited (FSSI) sets out its response the Questions in the Preliminary Issues Paper in Appendices 1 and 2.
2. This response has been prepared in consultation with Foodstuffs North island Limited. FSSI's answers to the questions are broadly similar to Foodstuffs North Island Limited, but with some variations to reflect the unique characteristics of operating in the South Island and its business operations.

Yours faithfully
FOODSTUFFS SOUTH ISLAND LIMITED

APPENDIX 1 – RESPONSES TO QUESTIONS IN PRELIMINARY ISSUES PAPER DATED 10 DECMEBER 2020

	QUESTION	ANSWER
		<p>Questions on the scope of grocery products to be considered in the study</p>
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>Foodstuffs South Island Limited ("FSSI") believes that inclusion of a broader, rather than narrower, range of products best meets the study's objectives (subject to practical considerations which may make it sensible to focus on a narrower range of products for certain analysis). Competition occurs in the grocery industry across the full spectrum of products and range is a key part of the Price-Quality-Range-Service ("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.</p> <p>Paragraph 29 of the 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', FSSI 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. - 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, FSSI's view is that the exponential growth of these solutions across the industry justifies a separate category/focus. - Other general merchandise products not described in the table. 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, FSSI 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>
2	<p>Does Table 1 appropriately reflect how products are categorised in the grocery sector?</p>	<p>In FSSI's experience, products are categorised in different ways depending on the purpose of the categorisation. For example, grouping or category descriptions will differ when used in the various merchandising/supply/retail/customer behaviour contexts.</p>

	QUESTION	ANSWER
		<p>There is likely to be overlap between the Statistics New Zealand and the sector categorisations. However, the Commission may wish to look critically at the efficacy of adopting the Statistics New Zealand categories, particularly in terms of helping understand the factors impacting competition. Merely by way of example:</p> <ul style="list-style-type: none"> - grouping a bundle of products under 'other grocery food' may not be as helpful as the proposed 'meal solutions' category discussed in the response to Question 1. - it may be helpful to consider carbonated and non-carbonated beverages as distinct categories. Among other things, the market for supply of carbonated beverages has a greater concentration of suppliers and different customer drivers. - baby products have a range of distinct market characteristics/features compared to other personal care products.
3	<p>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>	<p>In terms of the acquisition of grocery items, FSSI's views all product categories as workably competitive including due to the number of acquirers (which in every case extends beyond traditional supermarkets) and a finite number of suppliers willing and able to supply the New Zealand market (which is small and geographically remote).</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), whether the product is traded internationally, seasonality and any international trade/logistics issues which impact on supply.</p> <p>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 (whether as part of a full grocery offering or otherwise). 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 the relevant categories (personal care products is simply one example of this trend).</p>
4	<p>Are there any product categories we should consider in greater detail than others? If so, which ones and why?</p>	<p>As discussed above, FSSI's view is that the objectives of the study will be best served by considering competition across a broad range of products.</p>

	QUESTION	ANSWER
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.
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>FSSI'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 FSSI. 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 FSSI does not describe itself as a single grocery retailer operating nationwide. Rather, as correctly identified in paragraph 41 of the Issues Paper, FSSI and Foodstuffs North Island Limited ("FSNI") are two independently-owned co-operatives who 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 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 'one-stop' main order shop (noting this may be a competitive disadvantage for customers who may view factors such as instore physical distances involved, the multitude of products present and delays associated with checkout facilities as a negative).
Questions on the role of other grocery retailers		

	QUESTION	ANSWER
9	How does our description of other grocery retailers in New Zealand fit with your understanding of the sector?	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 '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 FSSI 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.
10	Are there any other grocery retailers or types of retailers we should have regard to in the study?	<p>FSSI has provided the Commission with details of who it regards as its competitors. FSSI also makes the following comments:</p> <ul style="list-style-type: none"> - The Warehouse stores are 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. - In addition to the 'Honest Grocer' referred to in the paper, Mighty Ape (owned by ASX listed Kogan.com) sells a wide range of grocery items online. - The paper notes the Commission will consider specialist stores which provide offerings in specific product categories. In this regard, among others, FSSI regards the Chemist Warehouse and pet food suppliers such as Animates as key competitors in their respective categories (noting that the offering of the Chemist Warehouse extends the boundaries of traditional pharmacies). - Similarly, in rural areas, larger market gardeners and farmers' markets offer fresh produce and should not be overlooked. - International e-commerce sites are part of the mix as they sell a wide range of dry grocery items. - There are a number of retailers who direct import (parallel import). Products are usually in a specific category, and are price significantly below traditional market (e.g. The Shaver Shop, Pricewise). - Finally, and as already referred to in response to Question 12, there is a trend for suppliers to offer direct to consumer offerings (e.g. Blue Frog and Ecostore).

	QUESTION	ANSWER
	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>Comments on the Commission’s summary of the supply chain in the New Zealand grocery sector</p> <p>In FSSI’s view, the supply chain is more accurately represented in Appendix 2 of this response. The summary of the supply chain in Figure 3 does not match with FSSI’s view of the New Zealand grocery sector in several respects:</p> <ul style="list-style-type: none"> • FSSI distribution facilities are not “wholesalers” or a wholesale operation, but are rather the logistics component involved in transporting products from suppliers to individual grocery retail stores. • 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 Trents, Bidfoods, Service Foods and Davis Trading service small retailers such as ethnic supermarkets, convenience stores, petrol stations and the food service industry. However, once a retailer attains sufficient scale, 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. • One exception to the above is in relation to fresh produce, where T&G and other fresh produce wholesalers do play an important role in the supply chain, supplying grocery retailers of all sizes. However, their role is a hybrid between wholesale and supply, as they are also vertically integrated and FSSI 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. • Finally, it is important to show a link between domestic and overseas suppliers; FSSI 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 is an important focus given growing international demand for New Zealand products.
12	Are there any other key steps or participants in the supply chain which should be included?	<p>As explained in Question 10, FSSI views the supply chain as involving many other firms in the “other grocery retailers” category. These constrain FSSI’s stores across all or some of its product categories, nationwide, regionally or in local markets, and to different degrees depending on the shopping behaviour of a customer:</p> <ul style="list-style-type: none"> • Meal kit subscription services operate as a real alternative to traditional grocery retailers. These firms include My Food Bag, Hello Fresh, WOOP, Eat. • 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 Mighty Ape and TheMarket. It is possible to carry out a comprehensive shop using these retailers.

	QUESTION	ANSWER
		<ul style="list-style-type: none"> • 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 FSSI (see Question 1). • Direct-to-consumer grocery options are increasingly popular and offer consumers access to key products such as coffee, breakfast products, frozen meals, personal and home care items, among others. Direct to consumer items allow consumers to purchase directly from popular suppliers without needing to visit a physical store. • FSSI has identified a range of consumer shopping behaviours, including “quick and easy meals”, “cooking from scratch” and “casual top up” against which meal delivery options such as UberEats and Menulog are competitive. • Finally, liquor stores are an important component of the grocery supply chain. Liquor stores such as Liquor King and Super Liquor are missing from the Figure 3 diagram. • Costco is expected to begin participating in retail grocery supply in 2021/22.¹ It is anticipated that Costco will adopt a direct to supply model rather than involve a wholesaler. <p>Parallel importing is another feature of the supply chain, and it is utilised by many retailers in New Zealand. Some suppliers in New Zealand are able to price discriminate between countries to respond to different demand. When that happens, FSSI may parallel import product rather than engage a supplier domestically.</p>
	Questions on the impact of changes in consumers’ shopping habits	
13	In your view, what impact (if any) have online shopping and meal kits had on the New Zealand grocery sector? What impact do you think these trends will have in the future?	<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, this is evidenced by:</p> <ul style="list-style-type: none"> - the significant investment FSNI and Woolworths New Zealand and their respective supply chains have made in putting in place the necessary processes and infrastructure to support the online offering. - the investment made by other grocery offerings such as, for example, The Warehouse and Mighty Ape.

¹ <https://www.stuff.co.nz/business/121300819/costco-grocery-superstore-will-be-the-size-of-two-rugby-fields>

	QUESTION	ANSWER
		<ul style="list-style-type: none"> - FSSI is developing an online sales platform to compete with and in response to the presence of meal kits and online offerings. - the trends the industry is seeing in regard to customer shopping behaviour, namely a decrease in the 'full shop' and an increase in the 'top up shop' and other behaviours 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 resources to plan their shopping lists and, importantly for the competitive process, undertake price comparisons with competitors. - a material reduction in barriers to entry enabling small players to access a wide audience without the need for a physical store. There is also enhanced potential to sell groceries through social media. <p>Given the significant growth in online purchasing of groceries to date (and the substantial growth in online retailing generally), FSSI sees online grocery retailing only continuing to grow with the impacts on the industry/relevant markets increasing accordingly.</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 behaviours (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.</p> <p>As with online shopping more generally, meal kits result in changes to consumers' shopping behaviour. 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 is more likely to choose to purchase items from a category such as personal care products or fresh fruit elsewhere.</p> <p>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>

	QUESTION	ANSWER
		<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>
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>The disruption caused by Uber Eats and the resulting loss of sales from supermarkets should not be overlooked. More broadly, the impact of the growth in what FSSI refers to as 'Out-of-Home' consumption should be considered.</p> <p>The Commission should take into account that there are a number of new and successful grocery offers in various channels and categories, which is clear evidence of active competition with existing supermarkets (e.g. My Food Bag, Hello Fresh, Uber Eats, WOOP, Eat, The Market etc.)</p> <p>The competition caused by Uber Eats 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. FSSI 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 FSSI'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>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 FSSI's members is one, albeit important, part of that inquiry.</p> <p>Also, as discussed in our response to Questions 36 to 38, FSSI believes that a high degree of focus should be brought to bear on competition at the supplier level.</p>

	QUESTION	ANSWER
	Questions on the impact of COVID-19 on the New Zealand grocery sector	
16	<p>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, FSSI 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. FSSI 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, FSSI (and, FSSI assumes, convenience stores and dairies) experienced increased sales as a result of the government-mandated shutdown of other retailers and restaurants. However, FSSI's sales decreased again following lockdown and FSSI does not expect there to be any significant long-term increase. • FSSI 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. FSSI 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. FSSI expects this to alleviate when border restrictions are loosened. <p>FSSI 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>
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>FSSI has seen changes to customer's shopping habits as a result of COVID-19. However, FSSI considers that these changes are not likely to persist in the long-term. Specific changes include:</p> <ul style="list-style-type: none"> • increase in basket size per shop, • decreased frequency of shop, • increased uptake of online purchasing, • changed time of shop, • increased focus on essentials, • increase in shopping on behalf of others, • switch to more local shops, and • preference for New Zealand brands and local products.

	QUESTION	ANSWER
		<p>The changes run counter to trends emerging over the five years preceding COVID-19 towards smaller and more frequent shops across a wide variety of stores.</p> <p>Since lockdown ended FSSI has observed a partial reversal of COVID-19 changes, towards pre-lockdown habits. FSSI 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 already a trend pre-COVID. COVID-19 accelerated this trend and FSSI expects 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. • FSSI expects that the economic impacts of COVID-19 will continue to drive a focus on essentials and value at least in the mid-term.
18	Has COVID-19 had any long-term impacts on other retailers (including specialist retailers) and their suppliers?	<p>FSSI does not have direct knowledge or visibility of the long-term impacts of COVID-19 on other retailers.</p> <p>FSSI’s 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. FSSI has not attempted to undertake analysis of these effects and considers it would not be possible for it to do so.</p>

	QUESTION	ANSWER
	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?	<p>The high-level approach appears consistent with the terms of reference and the Commerce Act.</p> <p>However FSSI submits that, given that product cost is the largest component of retail price, the study should also focus on the margins and profitability of suppliers.</p>
20	<p>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>	<p>Profitability</p> <p>FSSI 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 are seen in even the most competitive markets.</p> <p>In addition, as we explain in this submission elsewhere, 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,² 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 NZ 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. FSSI 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. <p>In terms of testing the profitability of the FSSI or the individual stores, the transactions between FSSI Ltd and the individual stores cannot be interpreted as independent, arms-length and economic cost reflective transactions. Rather, the financial flows between the FSSI and the individual stores embed a range of different levies, cost recoveries and rebates – 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 FSSI would demand compensation if this was undertaken as a stand-alone activity (i.e. if FSSI was not ultimately owned by the individual</p>

² 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 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>stores as a consequence of the cooperative structure). The implication of the imperfections in the internal charging arrangements is that profit margins for FSSI can only be meaningfully calculated and benchmarked at the whole of business level (i.e. for the whole of FSSI and all of its member's individual stores).</p> <p>FSSI 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, FSSI's initial view is that international pricing comparisons are unlikely to be as helpful. FSSI'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. • 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	<p>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>	<p>In summary, from FSSI's perspective:</p> <ul style="list-style-type: none"> - service offerings are determined at both the cooperative and at a store level by each member (within the framework established by their membership agreement). - FSSI and FSNI 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. - FSSI banners generally seek to compete on different parts of the PQRS spectrum. <p>The result of the above is that:</p> <ul style="list-style-type: none"> - There is a recommended price and stores have the ability to sell at less than this price. - there is scope for a member to tailor their product range, including to local consumer preferences and market conditions. - Opening hours are determined by each owner operator, in consultation with FSSI. - FSSI and store owners strive for consistent quality across the relevant banners. FSSI regularly monitors key deliverables across banners.
22	<p>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>	<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> <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

	QUESTION	ANSWER
		<ul style="list-style-type: none"> - the nature of demand from customers, again with competition likely to be closer where customers are engaged in shops other than main order shopping. This is likely to vary regionally and locally. With smaller customer shops, more channels and a greater variety of specialist stores, customers will show less loyalty to one player for their total food and grocery spend.
23	<p>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>	<p>From FSSI's perspective, service offerings do differ across the country to some extent.</p> <p>Causes include one or a combination of the following:</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 banners within different catchments; - differences arising between the North Island and the South Island because each region is served by an independently-owned and operated co-operative; - differences arising due to particular arrangements negotiated with suppliers affecting different regions; - the supply and availability 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	<p>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>	<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, FSSI sees key drivers as being value, convenience and experience. These drivers will fluctuate in importance depending on the reason that the relevant consumer is undertaking their shop and other factors specific to the consumer. Customer loyalty to any specific retail brand is relatively low.</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>This is catchment dependent based on the nature and unique attributes of the community (e.g. the difference between urban and rural environments). Generally, a catchment area would be up to a 15km radius. However, for a rural store, its catchment area will depend on the store's location and its proximity to surrounding urban areas.</p> <p>FSSI's further views are as follows:</p>

	QUESTION	ANSWER
		<ul style="list-style-type: none"> - the distance any particular consumer will drive to a store depends on a range of factors, in particular the reasons for the consumer's shop; - the size and type of store is relevant i.e. in general terms consumers ordinarily drive further to larger stores; - 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 (for example, the presence of a busy intersection, railway, watercourse, or a state highway which may act as a barrier). <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 shopping behaviour highlighted to the Commission have undoubtedly impacted on the distance those consumers are prepared to travel in order to shop.</p>
25	Should we compare grocery prices across regions within New Zealand? If so, how should we undertake these comparisons?	FSSI 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?	<p>FSSI looks forward to discussing its views further in the course of the market study.</p> <p>We believe that to get a true view of the retail grocery market and competition, the Commission should consider the role of suppliers and the level of supplier competition in the market.</p>
Questions on accommodating behaviour		
27	To what extent do you think there is accommodating behaviour between retailers in the New Zealand grocery sector? Please explain.	<p>FSSI does not consider that there is accommodation behaviour between retailers in the New Zealand grocery sector.</p> <p>In FSSI's view, in New Zealand the large grocery retailers are not engaged in accommodating behaviour. It is not behaviour that FSSI would engage in and it is not in FSSI's interests due to other competitive constraints.</p>

	QUESTION	ANSWER
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 aspects, including:</p> <ul style="list-style-type: none"> • Locations of store openings are determined based on practical restrictions (availability of land, price, proximity to existing stores of the brand, profile of the area). FSSI has different brands for different areas and conditions (e.g. South Island-specific brands; fewer PAK'nSAVE stores in the South Island than in the North Island). • There may be instances of similar price changes by FSSI and Woolworths New Zealand, but this is generally a result of independent decisions with respect to passing on price changes from a common supplier. • Promotional schedules are set in consultation with suppliers based on mutual objectives.
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?	FSSI is aware of its competitors. Factors that are monitored include, but are not limited to, other retailers' ranging, promotional brochures, fitout, layout, pricing, customer satisfaction and shopping experience, out of stocks, innovations. This is also true for specialist and online retailers.
Questions on conditions of entry and expansion		
30	What factors affect entry and expansion in the New Zealand retail grocery sector? How significant are these factors in affecting entry and expansion from retailers?	<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 which are significant 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 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 PQRS 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>

	QUESTION	ANSWER
		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.
31	To what extent does the size and geography of New Zealand affect the possibility of entry and expansion?	Without doubt, New Zealand's size and geography, and in particular the South Island, do impact on the possibility of entry and expansion (particularly at the full-service nationwide supermarket end of the spectrum). Among other things, at the full-service supermarket end of the spectrum, potential returns from the necessary store and other infrastructure investment are reduced by the lack of population density (in comparison with other countries).
32	Are there recent examples of actual or potential entry or expansion in the sector that we should aware of? What are these?	<p>In addition to Costco, Aldi, the Honest Grocer and My Food Bag (together with other meal kit providers such Hello Fresh and Woop), FSSI 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 USD\$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, confectionery and a range of beverages). Suppliers adopting "direct to consumer" models are also highly relevant (e.g. Nespresso, Blue Frog).</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, 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.</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 FSSI'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 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).</p>

	QUESTION	ANSWER
		<p>Nevertheless, as above, there is wholesale capability if a new entrant or expanding player wished to take advantage of it.</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, Kaans, Servicefoods, Trents).</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. It is worth noting that Bidfood has a retail presence in the South Island, and particularly during the 2019 COVID lockdown offered a direct to customer online offer.</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 food service, 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 FSSI'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 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 Bidfood and deal directly with supplier.</p>

	QUESTION	ANSWER
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 FSSI'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 at the supplier level. This includes (among others) fresh milk, yoghurt, carbonated beverages, bread, biscuits, beer, pet food, confectionery, and chips.</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, 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 FSSI responds to the market power of major global suppliers (as evidenced by supplier concentration being one important factor that FSSI uses as part of assessing whether or not to introduce private label products into a category). An example of this is the development by FSSI of Murdoch Manufacturing producing carbonated beverages to compete with global carbonated beverage suppliers.</p> <p>With regard to the competitive effects of Private Label products:</p> <ul style="list-style-type: none"> - 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 insist upon promotional pricing being passed on to the consumer in the form of lower retail pricing (as opposed to being retained by the supermarket to promote their own private label products), as suppliers measure the effectiveness of their promotional programmes and investment.
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.

	QUESTION	ANSWER
	Questions on the grocery procurement practices of the major grocery retailers	
39	<p>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>As discussed above in the submission, suppliers are strong in a number of product categories. In this regard, FSSI 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 FSSI 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, FSSI 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 dairy products, yoghurt, carbonated beverages, bread, biscuits, alcohol, pet food, confectionery and chips categories, 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 not supply FSSI by choice, and the ability to supply other grocery or specialist retailers, including 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 – FSSI competes with international retailers for access to fresh New Zealand produce, meat and seafood; and ○ aggregation of volumes e.g. Turners and Growers.
40	<p>Is the relative bargaining power between retailers and suppliers impacting competition in the New Zealand grocery sector? If so, how?</p>	<p>In FSSI'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, FSSI 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 - suppliers are reducing investments in new products and processes. <p>Rather:</p>

	QUESTION	ANSWER
		<ul style="list-style-type: none"> - in markets for the retail supply of groceries, FSSI’s cooperative buying power is pro-competitive in that it allows FSSI to more effectively compete with Woolworths New Zealand and other suppliers of groceries to the benefit of consumers; - in upstream supply markets, as discussed in the response to Question 39, many suppliers have countervailing market power; and - FSSI’s long-term interests are served by having a competitive supplier market. FSSI has no interest in driving efficient suppliers from any upstream markets. In fact, in 2020, FSSI introduced approximately 3200 new products into its range.
41	Is there any specific behaviour or conduct between retailers and suppliers we should consider in our study?	FSSI values its supplier relationships and acts consistently with the Supplier Relationship Charter.
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 and this supports a vigorously competitive environment. FSSI knows that consumers value having information available to them and want to obtain the best deals on grocery products, and FSSI supports consumers having information that helps them plan their grocery trips.</p> <p>In FSSI’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)?	Consumers have access to information through digital mailers (excluding PAK’nSAVE), general advertising, instore information and price comparison websites.

	QUESTION	ANSWER
44	How easy is it for consumers to compare product offerings once in store? What factors influence this?	<p>FSSI displays unit pricing on all barcoded products to help consumers compare prices of different sized products. For New World Clubcard deals, both the Clubcard and non-Clubcard price are displayed so that consumers know what price they will pay.</p> <p>Shelving displays also impact how easily consumers can compare product offerings.</p> <p>Consumers can always use technology to compare pricing at any time, including while shopping.</p>
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>We set pricing relative to the market and our retail brand positioning. We take into account supplier cost price, supplier recommended retail price, and supplier promotional submissions. Other key inputs are range, competitive market forces, brand positioning, customer demand, seasonality, among other factors.</p> <p>This is a very complex process, as we have to deal with multiple suppliers over many categories to ensure a customer focussed offering.</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>The high percentage of products sold on promotion was historically driven by customer demand and preference. Market research shows that historically there has been a preference amongst New Zealand consumers to buy products on promotion. This preference has applied across all retail sectors, not only in the grocery sector.</p> <p>FSSI has responded to this demand by using promotional pricing.</p> <p>However, there is now a growing trend among consumers for more consistent pricing. FSSI's strategy is to introduce a greater proportion of everyday low priced products.</p>
47	How are pricing promotions funded? Do these typically result in lower margins to retailers or suppliers?	<p>Generally, price promotions are supplier funded.</p> <p>The impact of promotions on margin cannot be generalised, and reasons vary – suppliers might sell at a reduced margin percentage with the expectation that their total dollar margin is greater through increased sales volume. There can be many objectives for a supplier promotion, which can include clearance stock, short dated stock, new products, brand building, category market share, etc. Supplier funding for promotions is entirely at the supplier's discretion.</p>

	QUESTION	ANSWER
		<p>Generally, supplier funded promotions have a similar impact on FSSI due to the fact that they are generally at a reduced retail margin.</p> <p>Some price promotions may be entirely funded by FSSI (e.g. private label promotions, fresh produce, short dated product).</p> <p>Suppliers are able to exert influence on the deals and arrangements that they agree to.</p>
	<p>Questions on loyalty programmes</p>	
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 several 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>Loyalty programmes are primarily used to collect information to better meet customer needs and deliver a relevant and personalised experience for consumers.</p> <p>There is no cost to join Clubcard. It is possible to join "on the spot", so there are no time barriers. There are no customer achievement levels that allow for greater levels of saving or additional service provision. Therefore the "stickiness" from the Clubcard and the cost to consumers to switch is low. That is, unlike with fuel discounts that stack or airline loyalty schemes that have status tiers, the opportunity cost for a consumer to switch supermarkets is low. Consumers can switch away and return to Clubcard without losing any benefits.</p> <p>Any loyalty triggered by a continuity programme (e.g. Smeg) is likely to be transitory in nature and customers return to their normal purchasing patterns post campaign.</p> <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. Four Square and Raeward Fresh also do not operate loyalty schemes.</p> <p>A loyalty programme is not a necessary component of a successful supermarket operation and the existence of loyalty programmes do not operate as barriers to entry for new entrants. It is our understanding that FreshChoice and SuperValue do not operate loyalty schemes.</p>

	QUESTION	ANSWER
		<p>The Clubcard loyalty programme is used to a limited extent to provide consumers with personalised offers, however the majority of offers are available to all customers. The data is used to gain insights about pricing and product range.</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 many consumers will be members of multiple loyalty programmes.</p> <p>The New World Clubcard is not designed to lock in customers – there is no minimum spend to access a product discount. Only a limited number of targeted promotions require a spend level to activate (e.g. spend \$200 receive 40c per litre discount on fuel).</p> <p>In FSSI’s experience, grocery loyalty schemes are not the key driver of consumer purchasing decisions. Convenience, location, product selection and price are each more relevant. These are some of the primary factors on which FSSI competes.</p>
50	<p>Are there any other specific features of loyalty programmes offered by grocery retailers we should consider in our study?</p>	No.
	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>	No.

APPENDIX 2 - GROCERY SUPPLY CHAIN IN NEW

