

Godfrey Hirst/Bremworth SOUI

14 May 2026

1. Mohawk has applied for a clearance to acquire 100% of the shares in Bremworth. Mohawk's interconnected bodies corporate include Godfrey Hirst. The Commerce Commission has published a Statement of Unresolved Issues dated 14 April 2026 ("**SOUI**").
2. One of the unresolved issues is whether the Proposed Acquisition could substantially lessen competition in the soft flooring market due to the acquisition of Bremworth by Mohawk resulting in the merger between two wholesale suppliers of wool carpet (Bremworth and Godfrey Hirst).

3. In relation to this issue, the SOUI observes that:¹

In assessing whether the Proposed Acquisition will not have, or would not be likely to have, the effect of substantially lessening competition in the soft flooring market, we recognise that the lessening of competition does not need to be felt equally across an entire market for that lessening to be substantial. It is sufficient if there is an appropriate degree of a lessening of competition in a significant section of a broader market (eg, wool carpet) for there to be a substantial lessening of competition in the broader soft flooring market.

4. We have been asked by Chapman Tripp and Russell McVeagh for our advice as to this theory of harm and, in particular, as to the possibility of a lessening of competition in this section of the soft flooring market given the potential for substitution between wool and synthetic carpets.
5. In principle, we agree that a lessening of competition does not need to be felt equally across an entire market to be substantial.
6. However, whether this is commercially realistic (as opposed to a theoretical possibility) will depend on the facts of the particular case and the application of economic theory.
7. We approach this question by assuming that the merger would result in a monopolist wholesaler of wool carpets in New Zealand,² and seek to test whether this would allow it to exercise market power.
8. As will be seen, the key issue is whether there is a sufficiently large body of "marginal consumers" whose purchasing decisions are sensitive to changes in price, quality, or other competitive variables. They sit "on the margin", meaning a small change in conditions could tip them into or out of buying a particular product. If a sufficiently large body of consumers exists who would move away from wool carpets following a price increase, this will prevent the hypothetical monopolist from exercising market power. We also consider the extent to which the role of retailers may amplify this natural substitution effect.
9. Conversely, we do not find the concept of a "section of a broader market" (or sub-market) to be particularly helpful. Nor is it appropriate to reason from the potential existence of some

¹ At [12] and [262]; footnotes omitted.

² For the reasons set out in the various NERA reports filed in this process, we do not think this would actually be the case, because of constraints from imports.

consumers with very strong preferences for wool carpets or even from the preferences of an average consumer. The marginal consumers are key.³

10. We start by estimating the “critical loss” of the hypothetical monopolist of wool carpet wholesaling in New Zealand, i.e., the proportion of wool carpet sales that the hypothetical monopolist would need to lose to make a small but significant and non-transitory increase in price (“SSNIP”) unprofitable. Following the standard approach, including that noted by the NZCC in its *Merger and Acquisitions Guidelines* (at [3.18]), we assume a 5% SSNIP.
11. The critical loss is calculated as follows:
$$\frac{SSNIP}{Gross\ Margin + SSNIP}$$
⁴
12. For our analysis we use Godfrey Hirst’s gross margins on its wool carpet sales as a proxy for the hypothetical monopolist’s wool carpet margins. In 2025 this value was [REDACTED]% for broadloom wool carpets.⁵
13. Using the gross margin of [REDACTED]% and a SSNIP of 5%, the critical loss percentage in the wool segment is [REDACTED]%.⁶
14. The competition question is whether the actual loss in response to a SSNIP by a hypothetical monopolist of wool carpets would exceed this critical loss.
15. We understand that fibre type is one of the factors that consumers consider when choosing a carpet, along with price, performance, colour, and other quality characteristics. Accordingly, we would expect end users to substitute away from wool carpets in response to a SSNIP. The question is, how much and what is the impact of sale through retailers?
16. We have been provided with the results of a survey carried out by Baseline Consultancy for Godfrey Hirst, carried out in April 2026. The survey was of 204 recent purchasers of new carpet. The key findings were as follows:
 - A. Of these 204, 135 (66%) had a specific fibre preference before they started the purchase process and 69 (34%) either did not have an initial preference or did not know the difference between fibre types.
 - B. 81 of these 135 had an initial preference for wool carpets.
 - C. Of the 135, 18% (approximately 24) switched from preferring wool to buying synthetic (or a blend). This is equivalent to 24 out of 81 initial wool carpet preferers switching to buying synthetic, implying a switching percentage of 30%.⁷

³ Competition for marginal consumers should protect those with more extreme preferences. That is, the fact that there may be some consumers for whom wool (or synthetic) is an essential attribute does not change these dynamics.

⁴ We use the breakeven critical loss approach and a linear demand curve. See Gregory Werden (2005), “Beyond Critical Loss: Tailored Application of the Hypothetical Monopolist Test”, *Competition Law Journal*, 4(1), 69-78.

⁵ Gross margin data provided to NERA by Godfrey Hirst.

⁶ [REDACTED]

⁷ A further 7 people switched from preferring synthetic (or a blend) to buying wool.

D. Furthermore, 60 purchasers started the process without a fibre preference.⁸ Of these, only 20% (approximately 12) decided to buy wool carpet.

17. The questions we rely on from the survey are not a direct application of the SSNIP test.⁹ However, the results do suggest consumer preferences over carpet fibre types are extremely

⁸ A further 9 did not know the difference between fibre types.

⁹ The questions we rely on are about real life, actual preferences and decisions in a purchasing journey. In contrast, questions 11 and 12 ask about the impact of a hypothetical price increase in relation to a carpet the respondents had already purchased. The questions state: "Imagine that the price of the carpet fibre type you purchased increased by 10%/5% relative to all other carpet fibre types, while the quality, features, and availability of all carpets remained the same. What would you most likely do?" The survey results suggest that only 2%/1% of customers would hypothetically choose a different carpet fibre type to the one they purchased as a result of a 10%/5% price increase. We consider that this extreme outcome is the result of a combination of cognitive bias and question misspecification.

Cognitive bias: asking customers *after* they made a carpet purchase and the formulation of the hypothetical in relation to a carpet they have *already* purchased. In terms of sequencing, we consider that the results illustrate an "endowment effect" (where people tend to value items they already own more highly than they would if they did not own the same item, see [Kahneman, Daniel, Jack L. Knetsch, and Richard H. Thaler. "The endowment effect, loss aversion, and status quo bias: Anomalies." *Journal of Economic Perspectives* 5, no. 1 (1991): 193-206] and an "effort justification effect" (where people place higher value on outcomes, goods, or goals that require significant personal effort to achieve, often irrationalising the objective value, see [Harmon-Jones, Eddie, and Judson Mills. "An introduction to cognitive dissonance theory and an overview of current perspectives on the theory." In E. Harmon-Jones (Ed.), *Cognitive dissonance: Reexamining a pivotal theory in psychology* (2nd ed., pp. 3–24). American Psychological Association]. We also note various warnings about the use of hypotheticals in survey questions, particularly concerning the reliability of hypothetical substitution responses given respondents face no real consequences and may be influenced by behavioural biases, see [European Commission. "Commission Notice on the definition of the relevant market for the purposes of Union competition law." *Official Journal of the European Union* (C/2024/1645), p. 19]. Where survey questions ask respondents to consider hypothetical switching behaviour in response to a price increase, competition authorities emphasise the probative value of the evidence depends heavily on careful design of survey questions, see [Competition and Markets Authority, *Good practice in the design and presentation of customer survey evidence in merger cases*, (London: Competition and Markets Authority, 2018), updated May 23, 2018].

Question misspecification: Related to the cognitive bias issues, questions 11 and 12 would have been better specified if they asked for responses to actual dollar amount changes, rather than percentage changes, because the literature finds average consumers do not understand percentages, see [Competition and Markets Authority, *Good practice in the design and presentation of customer survey evidence in merger cases*, (London: Competition and Markets Authority, 2018), updated May 23, 2018, [3.46]]. In terms of assessing whether the merged entity would have market power, the questions do not distinguish between: (i) switching to another wool carpet supplied by the merged entity, which would be retained sales; (ii) switching to imported wool or synthetic carpet, which would be lost sales; and (iii) switching to synthetic carpet supplied by the merged entity, which would be recaptured sales. We also consider the questions are mis-specified for market definition purposes (where the relevant question is whether wool and synthetics are in the same market) in that: (a) the option of switching to a cheaper version of the same type of fibre should not have been included because the question of interest is switching *between* fibre types – for example, 30% of wool carpet purchasers chose this option (in respect of the 10% price increase question), whereas if the question was properly specified a material proportion of these respondents might have chosen synthetic carpet; and (b) the option of delay should not have been included. A conjoint analysis approach could have instead been used to investigate the extent to which consumers trade off characteristics such as fibre type, brand, price, durability, stain resistance, comfort, availability and other attributes to overcome the hypothetical nature of the question, see [Imthorn, Marinus, Ron Kemp, and Ivo Nobel. *Using Conjoint Analysis in Merger Control: A Competition Practitioner's Perspective*. ACM Working Papers. (The Hague: Authority for Consumers and Markets, 2016), April 25, 2016].

We have not otherwise reviewed the survey design and sampling approach, but assume it was appropriately robust for a survey of this nature (and reiterate that the survey questions relied on in this note are the questions relating to real life purchasing decisions).

malleable: many customers do not have a fibre preference, or if they do have a starting preference, they are open to changing it.

18. In terms of the retail dynamic, we understand that:
 - A. Carpets are typically sold at retail stores, and those retailers typically offer a range of fibre types. This facilitates side-by-side comparisons and minimises search costs.
 - B. There is strong competition at the retail level.
 - C. We would expect retailers to understand that customer preferences are malleable.¹⁰
19. The question is whether there would be a significant reduction in quantity demanded by retailers (>[REDACTED]%) as a result of a SSNIP by a hypothetical wholesale wool carpet monopolist.
20. Given that many customers do not have strong fibre preferences, retailers will expect that there will be a natural movement of sales to other fibres (natural substitution).
21. In addition, retailers will know that end customer preferences are relatively malleable. So, they will anticipate that competition between retailers will steer end customers towards other fibres (steerage), which are now 5% cheaper (in a relative sense) than wool.
22. The survey figures suggest that the combination of natural substitution and steerage would result in a high percentage change in quantity demanded by retailers in the event of a SSNIP. For example, 34% of consumers either did not have an initial preference or did not know the difference between fibre types. In addition, of those who started the carpet buying process with a preference for wool, 30% changed their mind during the process. For the reasons already described, these figures cannot be directly compared against the critical loss of [REDACTED]%. However, they suggest a material proportion of initial wool carpet preferers are "marginal", in that they either do not have initial preferences or their initial preferences can change, even in the absence of a relative price or quality change between wool and synthetic carpet.
23. Our analysis so far has been of the hypothetical monopolist wholesaler of wool carpets in New Zealand. The position of the merged entity in the real world would be more complex than this. The merged entity would sell both wool and synthetic carpets, while imports of both wool and synthetic carpets would continue to constrain it. Accordingly, if the merged entity attempted to raise the price of wool carpets, it would recapture some of the lost sales as additional sales of synthetic carpets. But it would also lose sales to importers of synthetic and wool carpets, as outlined in the various NERA reports filed in this process.
24. There are two important bits of supporting evidence of the constraining impact of marginal consumers.
25. First, a variety of fibres are available at all price points. We have replicated below Figure 1 of the 5 February 2026 NERA report. This figure shows a material price overlap between SKUs made from synthetic carpet fibres such as polyester and SDN, and wool carpet SKUs.¹¹ Indeed,

¹⁰ We would expect the hypothetical monopolist wholesaler to have similar expectations.

¹¹ As noted in the NERA report, some caution is appropriate when considering the very left-hand end of the distribution depicted in Figure 1. The very low prices and preponderance of wool carpets at that low end could be caused by discounting of SKUs that are to be discontinued.

the interspersed of polyester, SDN and wool carpet SKUs throughout the distribution is striking. This implies that there are viable alternatives to wool carpets throughout.

Figure 1: 2025 Godfrey Hirst polyester, SDN, and wool carpet SKU prices (\$NZD per broadloom metre)

[REDACTED

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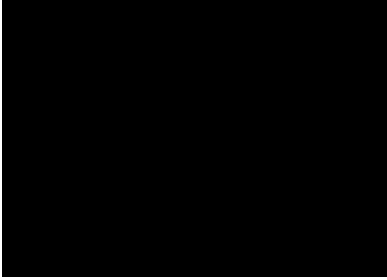
Source: NERA analysis of Godfrey Hirst carpet SKU data.

Notes: The figure includes all polyester, SDN and wool carpets sold by Godfrey Hirst with sales in 2025. SDN includes SDN carpets sourced from Mohawk. For each carpet, we calculate the average sale price across its colour options by dividing the total net sales by the total volume to estimate an average sales price. We also remove all SKUs with "seconds" in their name, as they may not accurately represent the price of the carpet type.

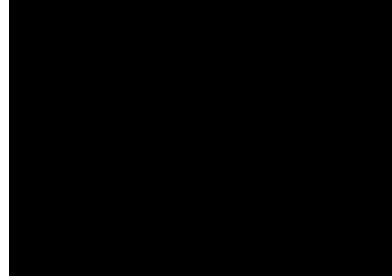
26. Secondly, we understand that large changes in the market share of wool carpets have occurred over time (dropping from 80% to 15% between 2007 and 2017, according to Bremworth).¹² This is consistent with the existence of a large body of marginal consumers (and the amplifying effect of steerage at retail).

¹² (5 September 2017). RuralNews, Wool carpet sales hit the floor. <https://www.ruralnewsgroup.co.nz/rural-news/rural-general-news/wool-carpet-sales-hit-the-floor>.

27. In our view, these data points provide good evidence to conclude that a SSNIP imposed by a hypothetical monopolist of wool carpets would not be profitable and that a hypothetical monopolist wholesaler of wool carpets would not be able to exercise market power.¹³



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¹³ For completeness, we note that if the Commission was to define a separate narrow market for the wholesale supply of wool carpets, the same reasoning would apply in relation to the substitutability of synthetic carpets as an out of market constraint. That is, it would not change the conclusion that a substantial lessening of competition was a speculative possibility, not one supported by the evidence.