

11 September 2025

Kia ora [REDACTED]

Official Information Act request 25.042

Thank you for your request of 15 August 2025 asking the Commerce Commission for the following information under the Official Information Act 1982 (the OIA):

*Please provide information on whether, in the Commerce Commission's assessment of the profitability of the supermarket sector—specifically in relation to its [most recent / 2022] market study into grocery retail—**shareholder salaries and drawings** were identified, quantified, and incorporated into the profitability analysis.*

In particular, I am seeking:

- 1. Whether shareholder salaries and drawings for **owner-operators of Foodstuffs-affiliated stores** were taken into account in calculating sector profitability.*
- 2. If they were included, details on the methodology used to measure and account for them.*
- 3. If they were not included, the reasons why and whether any adjustments or supplementary analysis have been undertaken to address this.*
- 4. Any documents, memos, working papers, or correspondence that relate to the above considerations.*

Introduction

As there is no perfect measure of profitability, with different measures having strengths and weaknesses, the Commission has used a range of measures (more detail provided in **Appendix A**) to assess profitability in the grocery sector – both in the 2022 market study into the retail grocery sector (Grocery Market Study) and more recently in our annual grocery reports (AGRs).

These measures are used as an indicator of the state of competition in the grocery industry. As such, we are focused on ongoing trends in profitability rather than a particular grocery firm's performance in any given year.

The Commission notes that individual owner-operators could take different approaches to shareholder salaries and drawings as well as other transactions between their personal and business accounts (including shareholder loan, investments, and other payments and/or support to/from related parties). Undertaking a detailed analysis of the financial accounts of each owner-operated store and developing a bespoke methodology to deal with these transactions would be a resource intensive exercise and we did not consider it necessary for the purpose of our study.

Accordingly, no specific identification, quantification, or incorporation of shareholder salaries and drawings (among other potential owner-related transactions) has been undertaken by the Commission. In other words, any shareholder salaries and drawings included in the aggregate financial information reported to the Commission would be included in the aggregate information inputted into the profitability assessments undertaken by the Commission.

The major adjustment that has been made to the calculation of Foodstuffs North Island (FSNI) and Foodstuffs South Island (FSSI)'s profitability is to take a 'whole of business' approach. This means looking at the entirety of FSNI and FSSI's businesses – owner operators plus the centralised functions provided by the co-operatives - and then eliminating inter-firm transfers between owner-operators and head office.

Our response to your questions

Your first question asked whether shareholder salaries and drawings for owner-operators of Foodstuffs-affiliated stores were taken into account in calculating sector profitability.

Any shareholder salaries and drawings included in the aggregate financial information reported to the Commission would be included in the aggregate information inputted into the profitability assessments undertaken by the Commission.

Your second and third questions asked if they were included, for details on the methodology used to measure and account for them; and if they were not included, the reasons why and whether any adjustments or supplementary analysis have been undertaken to address this.

The Commission can confirm no specific methodology for the inclusion or exclusion of shareholder salaries and drawings was developed.

The approach in the Grocery Market Study was to use financial information on the aggregate profitability of Woolworths and Foodstuffs (including the stores) as one indicator of possible issues with competition. We do not have records specific to the inclusion or exclusion of shareholder salaries and drawings, though as noted earlier a deep dive into shareholder salaries and drawings would be resource intensive.

We do not hold any information on adjustments made or hold any supplementary analysis. However, general information on the methodology used for our profitability measures can again be found in Appendix A.

Your final question asked for any documents, memos, working papers, or correspondence that relate to the above considerations.

The Commission is refusing this portion of your request under section 18(g)(i) of the OIA because we do not hold any documents, memos, working papers, or correspondence about identification, quantification, or incorporation of shareholder salaries and drawings in our assessment of profitability in the supermarket sector, and we have no grounds to believe it is held by another department.

Further information

We hope this response has been helpful.

If you have any questions about this response, please do not hesitate to contact us at oia@comcom.govt.nz.

If you are not happy with our response, you have the right to complain to the Ombudsman. Information about how to do this is available at www.ombudsman.parliament.nz.

Finally, confirming the Commission may publish this response on our website as part of our proactive release process. All personal information will be redacted prior to publication.

Ngā mihi nui



Adam McFerran

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Appendix A

Measures we have used to assess grocery sector profitability

1. In the Grocery Market Study, we used three approaches when assessing the profitability of the grocery retailers in New Zealand:
 - 1.1 Calculating return on average capital employed (**ROACE**).
 - 1.2 Calculating profit margins:
 - 1.2.1 Earnings before interest, tax, depreciation and rent (**EBITDAR**) margin
 - 1.2.2 Net profit after tax (**NPAT**) margin
 - 1.2.3 Gross Profit (**GP**) margin.
 - 1.3 Examining forward looking business cases.
2. More recently we have assessed profitability in our AGRs.
 - 2.1 Our first AGR (published in September 2024) recalculated ROACE and looked at forward looking business cases;¹ and
 - 2.2 Our second AGR (published in August 2025) looked at earnings before interest and tax (**EBIT**) and NPAT margins.²

Methodology for measures used

3. The ROACE formula used in both our Grocery Market Study and AGR 1 is as follows:

$$\text{ROACE} = \frac{\text{Net Profit after Tax} + (\text{Net Interest Expenses} \times (1 - \text{Corporate Tax}))}{\text{Average Assets Employed}}$$

Where: Net Interest Expenses = Interest Expenses - Interest Income

Average Assets Employed = (Total Assets - Goodwill - Current Liabilities + Interest Bearing Current Liabilities)
taken at the start and end of the financial year

Detailed information on our ROACE methodology can be found in Attachment B of the Grocery Market Study final report and the supplementary methodology published alongside AGR 1.³

Our analysis of profit margins (NPAT, EBIT / EBITDAR, and GP) used the standard methodologies for these metrics.

Forward looking businesses cases include metrics calculated internally by the company who produced the business case. As such the methodology of these metrics is outside the Commission's control.

¹ Commerce Commission "First annual grocery report" (4 September 2024), p 50-53, https://comcom.govt.nz/_data/assets/pdf_file/0019/362305/Annual-Grocery-Report-2024.pdf

² Commerce Commission "2023 Annual grocery report" (6 August 2025), p 71- 73, https://comcom.govt.nz/_data/assets/pdf_file/0028/368047/Annual-Grocery-Report-2024-6-August-2025-.pdf

³ Commerce Commission "Market study into the retail grocery sector – final report" (8 March 2022), Attachment B, https://comcom.govt.nz/_data/assets/pdf_file/0024/278403/Market-Study-into-the-retail-grocery-sector-Final-report-8-March-2022.pdf ; Commerce Commission "Supplementary methodology: ROACE vs WACC" (4 September 2024), https://comcom.govt.nz/_data/assets/pdf_file/0020/362306/ROACE-vs-WACC-Supplementary-methodology.pdf