In response to the Commerce Commission's Market Study into the Grocery sector - a proposal for a co-operative grocery retailer

The Commerce Commission's timely Market Study into the Grocery sector, assesses the return on average capital employed by the major grocery retailers over the period 2015-2019, to be between 21.6% and 23.8%, well in excess of a normal rate of return. To establish a normal rate of return, the study uses the weighted average cost of capital. For the major grocery retailers this is assessed as being between 4.6% and 6.1%.

In addition to establishing that the major grocery retailers are earning significantly higher profits than would be the case in a workably competitive market, the study also highlights high barriers to entry, due to

a) the lack of suitable sites for store development which is aggravated by the major grocery retailers lodging restrictive covenants on land and including exclusivity covenants in leases to prevent their rivals from opening stores, and
b) the lack of competitively priced wholesale supply for a full range of grocery products

In light of these findings, it is encumbent on the present Government to ensure New Zealanders don't continue having to pay inflated prices for groceries due to the lack of any effective competition. It goes without saying that in households struggling to make ends meet, there are obvious and adverse implications for child poverty.

The inequity of the present situation is exacerbated by Covid lockdowns under which the government finds itself directing consumers to buy groceries from the major grocery retailers. A preliminary finding from the Commerce Commission's study is that a significant proportion of consumers prefer to buy groceries during a main or one-stop shop in one of the major grocery retailers' stores. An implication from this finding is that just another supermarket chain such as Costco or Aldi, while having the potential to increase competition, would be likely to compound the concentration of wealth and New Zealand's yawning inequality gap.

Faced with a clear need for action, we propose that Government consider providing support for the development of, in due course, a New Zealand-wide co-operative grocery retailer – **Kiwi Co-op.**

Why a cooperative?
Co-operatives and mutuals have clear comparative advantages, driven by the inherent characteristics of co-operatives and mutuals, including

member engagement
the re-investment of profits in the cooperative
customer and member satisfaction,
high levels of economic and democratic participation,
employee wellbeing,
investment in communities and
environmental impact.

Inspired by the example of South Australia's successful Barossa Central Co-op, in operation since 1944, discussions began in 2018 in Nelson involving around 20 participants, to consider the establishment of co-operative grocery store owned by consumers. Some of the ideas developed by a

Steering Group as to how the Kiwi Co-op concept may work in the Nelson Region, include

- positioning the Co-op as a differentiator compared to the two large chains, e.g., by assortment (local specialities), shorter time-to-market (fresh local produce), shop-in-shop concept, connection with suppliers, focus on healthy and sustainable food sources ….

- ensuring technology is a strong business driver that features in all aspects of the business, including logistics, customer and supplier information/ intimacy.

- making sure the Co-op provides added value to its members, not only by returning excess profits but by organising membership activities (cooking clinics, product presentations) and loyalty benefits (e.g., additional share capital).

- ensuring the Co-op's business model emphasises the store's regional nature in order to maximise local community support, for example by featuring the products of local suppliers. The success of Kiwi Co-op is likely to be highly dependent on a strong anchoring in local communities. Limitations on trade as a result of Covid provides a compelling reason to nurture the relationship between regional producers and consumers.

- focussing on local, quality and seasonality of goods

- having benefits including store profits all flowing back to the Co-op members and into the local community

- involving the community in the shaping of the store from the start

- a high level of professionalism in the governance and operations of the store

We believe a cooperative model, undergirded by a 'national infrastructure' data management/technology platform, supporting community-based retail stores and delivery, is possible and could create a strong alternative to the existing major grocery retailers.

The co-operative model also pairs the drive of individual entrepreneurship with partnership for the common good. Financial viability being essential, the drive for (reasonable) profitability and excellence would need to be consistent throughout the model to ensure minimisation of waste and unnecessary cost, and to maintain positive pressure towards innovation, efficiency and real-world problem solving. It is a model that respects the agency of individual people and businesses while coordinating maximum positive impact (economic, social, environmental and cultural) for community benefit (local and national). Measurement and reporting of impact metrics would include quadruple bottom lines - people, planet, profit and purpose.

We believe that a cooperative food-trading model (Nelson General Store concept) can support the social and cultural needs of all demographics within our communities through creation of physical and digital spaces for the types of trading and economic activity – hospitality, production, exchange of goods and services – required by modern life.

A 2013 study conducted by Ernest and Young for the Barossa Co-op confirmed that locally-owned businesses generate flow-on effects that materially benefit the local economy. The study found that for every dollar spent at the Co-op, an additional 76 cents of total value is created for the community which includes members, employees and suppliers. The study found that the same dollar had significantly less value for the community when spent at one of Australia's supermarket chain stores.

Foodstuffs one of the two major grocery retailers, is a business-to-business supply chain co-operative. It constitutes a collective of supermarket owners whose interdependent firms act oligopolistically to the detriment of New Zealand's grocery-buying consumers. It is no coincidence that many of the 34 newcomers to NBR's Rich List in 2018 made their fortunes in the grocery industry.[1]

Farmlands on the other hand, one of New Zealand's largest co-operatives, is a co-operative of farmers that directly benefits its rural shareholders. What is proposed for Kiwi Co-op is an extension of co-operative principles to grocery consumers, with local stores capturing national store alliance benefits and with consumers as co-owners.

Proposed funding sources:

- Membership - open to any individual through the minimum purchase of a single share for $5 dollars through to a maximum investment of $50,000. Note that all members would have equal voting rights regardless of their level of investment or involvement.
- Crowd funding
- Loan funding from producers

Support needed

- finance to conduct a feasibility study for the development of a grocery consumer's co-operative A possible source for such finance could be the Ministry of Primary Industries Sustainable Food and Fibre Acceleration Fund (SFFF)
- to facilitate entry into the grocery market by reducing the high barriers to entry.

Nelson.
26 August 2021

[1] https://www.stuff.co.nz/business/money/108114861/is-new-zealands-supermarket-duopoly-ripping-us-off