



The supermarket puzzle: What's holding back competition at the checkout?

New Zealand's supermarket landscape

Competition in New Zealand's supermarket industry has been under scrutiny for several years. Grocery prices remain a concern for households, and the dominance of the two major supermarket groups has raised questions about whether consumers are getting a fair deal.

New Zealand's grocery market is highly concentrated, with Foodstuffs and Woolworths New Zealand together accounting for approximately 82 percent of national grocery sales, according to the Commerce Commission's 2025 Annual Grocery Report (Commerce Commission 2026a).

The two groups operate under different ownership models.¹

- The Foodstuffs network comprises two separate, New Zealand-owned co-operatives, Foodstuffs North Island and Foodstuffs South Island, which operate the PAK'nSAVE, New World and Four Square brands. Individual stores are typically owned and operated by local members of the co-operatives with some autonomy over retail pricing, while functions such as purchasing, distribution and marketing are coordinated across their networks.

Key points

- More supermarket competitors will not necessarily mean cheaper groceries, given New Zealand's underlying costs and structural constraints.
- At the heart of the supermarket puzzle is a tension between economies of scale and competition.
- Some barriers can be addressed through policy, while others reflect New Zealand's market size and geography.
- Improving wholesale access is a priority, but may not be sufficient to generate stronger competition.
- Direct interventions could strengthen competition, but may also sacrifice existing efficiencies.
- International experience highlights the challenges of strengthening competition in highly concentrated grocery markets.
- The goal is better outcomes for consumers, not simply more supermarket chains.

¹ The Commerce Commission identifies three major grocery retailers: Foodstuffs North Island, Foodstuffs South Island and Woolworths New Zealand. This Insight refers to two major supermarket groups to reflect the two national retail networks operating under the

Foodstuffs and Woolworths groups. The two Foodstuffs co-operatives are separately owned and operated but do not compete in the same geographic markets.

- Woolworths New Zealand, part of the Australian-owned Woolworths Group, operates the Woolworths supermarket chain, formerly Countdown, through a corporate ownership model, with stores owned and operated by the company rather than individual store owners. It also operates a franchise network under the FreshChoice brand.

Competition also comes from retailers outside these two groups, including Costco, The Warehouse, independent supermarkets, specialist food retailers and smaller grocery chains. These businesses vary considerably in their scale, geographic coverage and the range of groceries they offer.

This Insight examines the factors constraining competition in New Zealand's grocery market, which of these constraints can realistically be addressed by competition regulation, and the potential benefits and costs of different policy responses. It starts with the competition concerns identified by the Commerce Commission and the current policy debate. It does not seek to independently establish whether competition in the sector is insufficient.

The supermarket puzzle

In 2022, the Commerce Commission concluded that competition in New Zealand's grocery sector was not working well for consumers. It found that the major supermarket groups faced limited competitive pressure and earned higher profits than would be expected in a competitive market. The Commission identified several barriers to competition, including access to wholesale groceries, suitable retail sites and the advantages enjoyed by established operators (Commerce Commission 2022).

These findings prompted a series of reforms, but concerns about competition persist. The Commerce Commission's subsequent monitoring has continued to highlight the dominance of the major supermarket groups

and the difficulties faced by smaller competitors (Commerce Commission 2026a).

Several proposals for further intervention have emerged ahead of the 2026 General Election, ranging from improvements to existing regulations to more direct government intervention in the grocery market.

There is broad agreement that New Zealanders would benefit from more effective supermarket competition. But there is less agreement about what is constraining competition, or which interventions would be most effective in addressing those constraints.

Two problems that are often treated as one

The debate about New Zealand's supermarket sector often treats high grocery prices and weak competition as the same problem. They can be closely related, but the distinction is important. Grocery prices reflect a range of factors, including production costs, transport, international commodity prices, exchange rates and retailer margins. Even a highly competitive supermarket industry would face many of these costs.

Weak competition is a separate issue. When retailers face limited competitive pressure, they may have more scope to charge higher margins, operate less efficiently or offer consumers less choice and poorer service than they would in a more competitive market. However, high grocery prices do not, in themselves, establish that competition is weak. Groceries can be expensive even in a market where competition is working reasonably well.

This distinction matters for policy. If high prices primarily reflect the underlying costs of supplying the New Zealand market, measures to increase competition may have uncertain effects on prices. However, if weak competition contributes to those prices, addressing the constraints on competition could lower prices.

Building on the competition concerns identified by the Commerce Commission, we examine those constraints and the merits of different policy responses, while recognising that high grocery prices may reflect factors beyond the degree of competition in the market.

Different drivers suggest different solutions

Different explanations for weak competition point to different policy responses. Some constraints reflect barriers that policy can potentially address, while others arise from the underlying characteristics of New Zealand's grocery market. Understanding these distinctions is important because the effectiveness of any intervention depends on its ability to change the constraint it is intended to address.

1. Addressable barriers: what can policy realistically change?

Several barriers – factors that limit competition – have been identified in New Zealand's grocery market. These can be addressed through targeted policy interventions without fundamentally restructuring the industry.

Wholesale supply and distribution infrastructure

New Zealand's major supermarket groups have established extensive distribution networks that allow them to source and distribute groceries efficiently. Smaller retailers can purchase products directly from individual grocery suppliers, such as manufacturers, growers and importers, but may struggle to secure a sufficiently broad range of products without investing in their own warehousing and distribution infrastructure. For example, a new supermarket seeking to stock thousands of products may need to coordinate deliveries from numerous suppliers, whereas established supermarket groups can consolidate these product deliveries through their distribution networks. Replicating this

infrastructure requires substantial investment and sufficient sales volumes to spread the costs. This creates a barrier to entry for potential competitors.

Wholesale supply allows retailers to purchase a range of groceries through another business's purchasing and distribution network, rather than sourcing products individually from numerous suppliers. The Grocery Industry Competition Act 2023 introduced a regulated wholesale access regime that requires the major supermarket groups to establish processes for supplying groceries to competing retailers and to consider wholesale supply requests in good faith. This was intended to allow smaller retailers access to established supply networks without having to replicate the distribution infrastructure themselves (Grocery Industry Competition Act 2023).

Uptake of the regime has been negligible. The Commerce Commission has identified uncompetitive wholesale pricing as the primary barrier, together with limited access to supplier rebates, discounts and promotional payments, and gaps in product availability, all of which continue to make it difficult for smaller retailers to obtain groceries on terms that allow them to compete effectively (Commerce Commission 2026b). Purchasing arrangements between suppliers and established retailers help explain these difficulties.

Purchasing arrangements

Major supermarkets negotiate discounts, rebates and promotional payments with suppliers, which can reduce the effective prices they pay for groceries. While some of these advantages reflect legitimate economies of scale, the Commerce Commission has raised concerns that the scale and structure of these payments can disadvantage smaller retailers. For example, a major supermarket may receive supplier funding for promotions that reduce its effective purchase price, while a smaller competitor buying the same product may not receive equivalent supplier funding,

making it difficult for smaller retailers to compete on price (Commerce Commission 2026b).

Changes to the Grocery Supply Code, which took effect in May 2026, have strengthened the rules governing supplier payments. These include greater transparency and record-keeping requirements for supplier-funded promotions, restrictions on supermarkets retaining promotional discounts when products are sold outside the promotional period, and new protections against retaliation towards suppliers who exercise their rights under the Code (Commerce Commission 2025).

The Commerce Commission has also made investigating and enforcing compliance with the rules on rebates, discounts and other supplier payments a priority, reflecting ongoing concerns about their effects on competition (Commerce Commission 2026b).

Access to suitable land

New entrants to the supermarket industry face challenges in accessing suitable land, particularly when they require large sites in convenient locations. This problem is two-fold:

- the limited availability of commercially attractive sites, and
- the complex planning requirements. Zoning restrictions can limit where supermarkets are permitted to operate, while consenting processes can increase the time, cost and uncertainty involved in developing new stores.

The Government has pursued measures to make supermarket development faster and easier, including a fast-track consenting 'express lane' (Ministry of Business, Innovation & Employment 2026) and centralised building consent approval processes (Ministry of Business, Innovation and Employment 2025). Further changes to planning rules could expand the range of locations available for supermarket

development. Still, some constraints on land availability will remain because of geography, existing development and zoning, and commercial viability.

Difficulty comparing grocery prices

Although consumers can compare supermarket prices online, differences in product sizes, promotions and loyalty discounts can make it difficult to identify which retailer offers the best value. For example, comparing the cost of a typical grocery shop across supermarkets may require checking dozens of individual products. The time and effort involved can discourage consumers from comparing prices and switching retailers, potentially weakening incentives for supermarkets to compete on price.

Mandatory unit pricing requirements have been introduced to make it easier for consumers to compare the prices of products of different sizes on a consistent basis (Consumer Information Standards (Unit Pricing for Grocery Products) Regulations 2023). However, comparing the overall cost of, for example, one week's groceries across supermarkets remains difficult. Greater transparency around promotions and loyalty discounts, alongside improved price-comparison tools, could help consumers identify better-value options and strengthen incentives for retailers to compete.

2. Underlying structural constraints: the New Zealand context

Addressing these barriers may improve the conditions for competition, but it is only part of the challenge. Even effective reforms cannot eliminate the underlying constraints arising from New Zealand's market size, geography and economies of scale.

High fixed costs and economies of scale

Supermarket retailing is characterised by high fixed costs and economies of scale, with the average cost of supplying groceries falling as sales volume increases. Establishing stores,

distribution centres, logistics networks, and supporting systems requires substantial upfront investment, much of which a business cannot easily recover if it exits the market. Retailers must therefore achieve sufficient sales volumes to spread these costs and operate efficiently. Whether cost savings from economies of scale are passed on to consumers depends partly on the degree of competition retailers face.

Small market size and geographic isolation

A smaller market limits the sales volumes available to support competing supermarket networks, while the distance between population centres increases the costs of transporting and distributing goods. These factors make it harder for new entrants to achieve the scale needed to compete with established supermarkets, particularly those seeking to establish a nationwide presence.

Local market conditions

The commercial viability of an additional supermarket depends on the population and spending within its catchment area, as well as the number and location of existing stores. Competition may be more readily supported in larger urban centres than in smaller or more geographically isolated communities. The Commerce Commission's 2025 annual grocery report illustrates this difference, with the major supermarket groups holding 71 percent of the Auckland market, compared with 88 percent in the rest of New Zealand (Commerce Commission 2026a). National measures of market concentration can therefore obscure important differences in the competitive pressure experienced by consumers in different locations.

New Zealand's structural constraints do not prevent new competition from emerging, but they may help explain why stronger competition has been difficult to establish. New Zealand's relatively small and geographically dispersed market limits the number of supermarket operators that can achieve sufficient scale to operate efficiently.

At the same time, the scale advantages enjoyed by established retailers can make it harder for smaller competitors to enter and expand. This creates a tension for competition policy: interventions that increase the number of competitors could also sacrifice some of the efficiencies benefitting consumers.

3. Direct interventions: would they improve competition?

Beyond targeted measures to address barriers to competition, more direct interventions have been proposed. These approaches involve a more active role for government in shaping market outcomes, including the separation of existing supermarket businesses, publicly supported entry or direct regulation of prices.

Horizontal separation

This involves dividing an existing supermarket group into independently competing businesses. The intention is to increase competition over prices, product ranges and service quality using existing stores and infrastructure.

In practice, this could involve separating a supermarket group's existing stores into independently owned retail networks, for example, dividing Woolworths' stores between two competing businesses or separating PAK'nSAVE and New World into independent supermarket networks.

Separating these businesses could strengthen competition, particularly where their stores operate in the same local markets. However, the benefits would depend on how much additional competitive pressure separation creates. It could also reduce existing efficiencies in purchasing, distribution and other shared operations, potentially offsetting the benefits for consumers.

Vertical separation

This involves separating wholesale and retail operations into independently operated businesses. The aim is to create independent wholesale businesses that can supply

groceries to a wider range of retailers on more competitive terms.

In practice, this could mean separating Woolworths' or Foodstuffs' wholesale and distribution operations from their retail supermarket businesses, with the wholesale businesses operating independently and supplying both their existing stores and competing retailers. The benefits would be greatest where the wholesale and retail businesses operate independently and face commercial incentives to compete, rather than favouring affiliated operations.

Vertical separation does not guarantee competitive wholesale prices if market power remains at the wholesale level, nor would it overcome the other barriers facing new retailers. Separation could also reduce efficiencies arising from coordinated purchasing, logistics and inventory management.

Publicly supported entry

This involves the Government establishing or financing an additional supermarket competitor through direct public ownership, financial backing or other assistance to offset the upfront costs of entry.

It could involve building a new retailer or acquiring existing supermarkets, with the aim of introducing another significant competitor capable of putting pressure on established retailers. However, establishing a competitive supermarket network would require substantial investment in stores, distribution infrastructure and supporting systems, with no guarantee the new entrant could achieve sufficient scale to operate efficiently. If the business struggled to compete commercially, it could require ongoing taxpayer support, therefore exposing taxpayers to financial risks without necessarily addressing the underlying barriers that make supermarket entry difficult in the first place.

Excessive-pricing prohibition

This involves the Government directly intervening in supermarket pricing. It seeks to prevent supermarkets from charging unjustifiably high prices, thereby limiting the exercise of market power where competitive pressure is weak. This measure does not directly address the underlying causes of weak competition, and determining what constitutes an excessive price is difficult, particularly where costs and profit margins differ across products, stores, and locations. It would also require a regulatory body to assess whether prices are excessive and enforce the prohibition, potentially involving substantial monitoring and compliance costs.

Where does the balance of evidence point?

The underlying challenge is the economics of achieving efficient scale in New Zealand's relatively small, geographically dispersed grocery market. These structural characteristics limit how many competitors can operate efficiently and reinforce the advantages of established supermarket groups. However, structural constraints do not fully explain why stronger competition has failed to emerge, and some barriers may be more amenable to policy intervention than others.

Among the constraints that policy can realistically address, wholesale access appears to be one of the most important unresolved issues. The limited uptake of the regulated wholesale access regime, together with the Commerce Commission's findings on wholesale pricing, provides strong evidence that smaller retailers still struggle to obtain groceries on terms that allow them to compete effectively. Recent changes to the Grocery Supply Code may help address some of the underlying issues with supplier payments, although it is too early to assess their impact on wholesale competition. The extent to which other barriers, such as land

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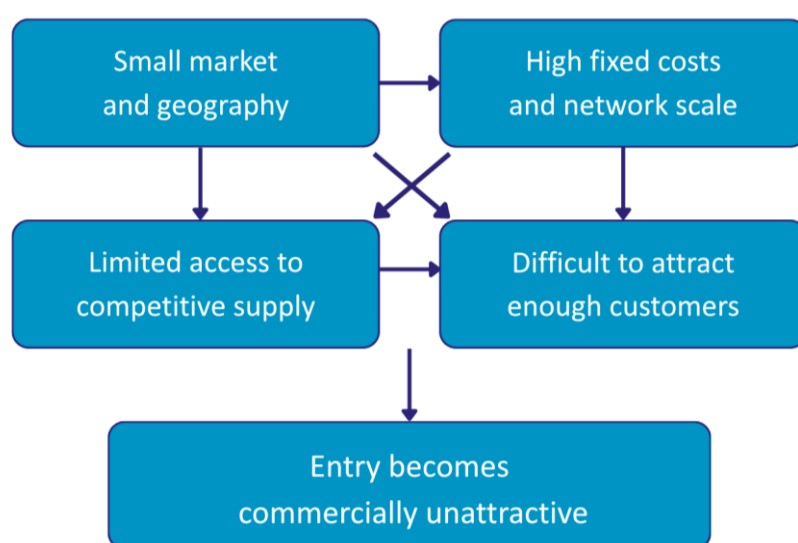
availability and planning restrictions, are currently preventing entry is less clear.

Wholesale access and economies of scale are closely connected. Difficulties obtaining groceries at competitive wholesale prices can reinforce the scale advantages of established supermarket groups, making entry and

expansion less commercially attractive. Competition could therefore be strengthened by improving wholesale access, but it would not remove the underlying constraints of market size, geography and the need to operate at an efficient scale. Figure 1 below illustrates how these interconnected constraints reinforce incumbent advantages.

Figure 1 Why supermarket entry is commercially challenging in New Zealand

Concept illustration, not an established causal finding about New Zealand



Source: NZIER

The evidence points to wholesale access as a priority for further policy attention. This also provides a useful basis for assessing more fundamental interventions: the economic rationale for an intervention depends not only on whether it addresses an identified barrier to competition, but also on whether removing that barrier is likely to support commercially viable competition, given the underlying structural constraints.

More direct interventions may address some of these barriers, but their effectiveness remains uncertain. Such interventions could strengthen competition, but they could also sacrifice existing efficiencies without overcoming the underlying constraints facing new entrants.

What would success actually look like?

The ultimate objective is not merely to increase the number of supermarkets operating in New Zealand, but to improve outcomes for consumers. Success could mean lower prices, greater choice, better service or more convenient access to groceries, whether through stronger competition among existing retailers or the entry of new competitors. Reforms should therefore be assessed by their likelihood of delivering these improvements, rather than simply by whether they remove barriers to competition or increase the number of competitors.

What can we learn from overseas?

New Zealand is not alone in facing concerns about supermarket competition. Highly

concentrated grocery markets are common internationally, including in relatively small economies.

Finland, for example, has a population similar to New Zealand's, and its two largest supermarket groups account for approximately 83 percent of grocery sales. Despite this concentration, the German discount chain Lidl has been present since entering the market in 2002, accounting for approximately 9.5 percent of grocery sales in 2025 (The Finnish Grocery Trade Association 2025). Finland's experience illustrates that new competition can emerge in a relatively small market, even where two established groups continue to dominate.

Norway and Sweden also have highly concentrated grocery markets (Norwegian Competition Authority 2025; Swedish Competition Authority 2025) while Iceland, another small and geographically isolated economy, has faced similar concerns about market concentration and barriers to entry (The Competition Authority 2025).

International experience also illustrates why high grocery prices and weak competition should not be treated as the same problem. In Ireland, which has a population similar to New Zealand's, five major supermarket chains account for approximately 93 percent of grocery sales. Despite substantial increases in grocery prices, Ireland's competition authority concluded in 2025 that the available evidence did not suggest that weak competition was driving those increases (Competition and Consumer Protection Commission 2025).

Other countries have considered a range of policy responses to concerns about supermarket competition. In Australia, proposals to introduce powers to break up major supermarket groups have been debated (Parliament of Australia 2024) but the competition authority's 2025 inquiry instead recommended measures addressing specific barriers to competition (Australian Competition and Consumer Commission 2025). Norway has also examined proposals to

separate supermarket operations, but in April 2026, the Norwegian Competition Authority concluded that there was insufficient evidence to justify it, noting that such measures could reduce efficiency and increase prices for consumers (Norwegian Competition Authority 2026).

Across the countries examined, we have not identified a precedent for requiring established supermarket groups to separate into independently owned wholesale or retail businesses, and there is no direct evidence that such separation would deliver better outcomes for consumers.

Other approaches have also been pursued. Australia introduced a prohibition on excessive supermarket pricing in July 2026, although it is too early to assess its effectiveness (Australian Competition and Consumer Commission 2026). Publicly supported grocery retailers also exist internationally, but differences in their ownership models, objectives and market conditions limit what their experience can tell us about establishing a publicly funded competitor in New Zealand (see, for example, Prime Minister's Office Singapore 2013).

International experience does not tell us which interventions would work best in New Zealand. But the prevalence of concentrated grocery markets in countries with similar characteristics raises questions about whether direct interventions would be enough to strengthen competition or lower prices, particularly where underlying costs and economies of scale remain significant.

Proposals ahead of the 2026 election

The table below summarises selected supermarket competition policies and proposals relevant to the 2026 General Election and relates them to the economic issues discussed in this Insight. It illustrates the different approaches and their potential trade-offs, rather than providing an exhaustive assessment of party policies.

Table 1 The economics behind supermarket policy proposals in the 2026 election

Proposal	Economic mechanism	Potential benefits and trade-offs	Election relevance
Separate PAK'nSAVE from New World/Four Square	Horizontal separation	More competition between established brands, but potential loss of scale efficiencies.	National (subject to Commerce Commission assessment), NZ First policy
Separate wholesale and retail operations	Vertical separation	Better wholesale access, but restructuring costs and potential loss of efficiencies.	Labour policy
Establish publicly owned KiwiMart using divested stores and distribution assets	Publicly supported entry	More competition, but public costs and commercial viability risks.	Green Party policy
Prohibit excessive supermarket pricing	Excessive-pricing prohibition	Limits effects of market power, but difficult to define and enforce excessive prices.	Labour, Green Party policy
Streamline consenting and entry requirements	Access to suitable land	Easier entry, but underlying scale constraints remain.	National (government measures), ACT (election policy)
Strengthen wholesale access and reform supplier payments	Wholesale access and purchasing arrangements	Could improve smaller retailers' purchasing terms, but underlying scale constraints may still limit entry and expansion.	Labour policy
Strengthen competition enforcement powers	Competition regulation	Could deter anti-competitive conduct, but does not remove structural constraints.	NZ First, Green Party, Opportunity Party policy

Source: NZIER

A bigger question than supermarkets

The challenges facing New Zealand's grocery market raise a broader question about how competition policy should operate in a small economy. In larger markets, there may be sufficient demand to support many competing businesses, each operating at an efficient scale. In New Zealand, the small and geographically dispersed population can make this more difficult. Businesses need to achieve substantial scale to operate efficiently, but the size of the market limits how many can do so. This challenge is not unique to supermarkets.

This creates a tension between economies of scale and competition that extends across industries. Larger businesses can benefit from lower average costs, more efficient operations and stronger purchasing power, potentially

benefiting consumers through lower prices and better services. However, these same advantages can make it difficult for smaller competitors to enter and expand, potentially allowing established firms to exercise undue market power. Established firms may also face incentives to protect their market position by making it harder for rivals to compete.

For competition policy more broadly, the challenge is to distinguish between concentration that reflects genuine efficiencies and concentration reinforced by unnecessary barriers or anti-competitive behaviour. In practice, the two can coexist; an established retail group may benefit from an efficient distribution network that lowers its operating costs, while also enjoying purchasing advantages that make it difficult for smaller competitors to compete on equal

terms. This means that market concentration alone is not necessarily a reliable indicator of how effectively competition is working.

Conclusion

New Zealand's supermarket debate has generated many proposals to increase the number of 'players', yet there is little evidence that these measures will deliver benefits to consumers. The question is not simply what the Government can do to increase competition. Rather, the key questions are: what is preventing stronger competition from developing, which constraints can realistically be addressed, and whether the benefits of intervention outweigh the costs?

At the heart of the supermarket puzzle lies the tension between scale and competition. The economics of achieving efficient scale in New Zealand's small, geographically dispersed market may be a fundamental constraint on stronger competition. These structural characteristics can reinforce the advantages of established supermarket groups, while barriers such as limited wholesale access make it harder for smaller competitors to enter and expand. The challenge is to address barriers that unnecessarily restrict competition without sacrificing the potential efficiencies arising from economies of scale.

The evidence points to wholesale access as an important area for further policy attention, although improving access alone may not be sufficient to generate substantially stronger competition. Even where reforms succeed in strengthening competition, they may not lead to lower grocery prices, given the underlying costs of supplying New Zealand's small, geographically dispersed market.

Direct interventions may also warrant consideration, but their effectiveness will depend on whether they can overcome the constraints facing competitors without sacrificing the economies of scale that benefit consumers. Ultimately, the case for any intervention depends on whether it would

deliver benefits to consumers sufficient to justify its costs.

The objective is not to engineer a particular number of supermarket chains, but to create the conditions for effective competition. New Zealand's supermarket puzzle is unlikely to have a simple solution. The challenge is to identify what is genuinely holding back competition, and to ensure that the solution does not cost more than the problem it seeks to solve.

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