

EXPLANATION OF PAYMENTS TOWARDS BUSINESS ACTIVITIES

Background

- 1 Under the Grocery Supply Code (**Code**), Foodstuffs North Island Limited and our member stores (**we, us, our** or **Foodstuffs**) can only require a supplier to directly or indirectly make a payment towards the cost of business activities if:
 - 1.1 a grocery supply agreement provides for the payment; and
 - 1.2 the payment is reasonable in the circumstances.
- 2 Under the Code, we are also required to give suppliers a clear and full explanation of why we consider the above requirements are met. This document sets out that explanation.

Reasonableness of payments

Logistics activity

- 3 Where a supplier supplies groceries to our stores through one or more of our distribution facilities, we agree a discount/charge with the supplier. This reflects the benefits and costs of Foodstuffs providing the distribution facilities and related transport services to transport the groceries from the distribution facilities to our stores.
- 4 We consider that these discounts/charges are reasonable having regard to the following:
 - 4.1 The level of discounts/charges is agreed on a good faith basis with each supplier and the supplier's contribution to the costs of the logistics activity reflects the volume of groceries supplied to (and therefore use of) Foodstuffs' distribution facilities.
 - 4.2 The benefits to the supplier from Foodstuffs' provision of the logistics activities, including:
 - (a) avoiding or reducing the financial and environmental costs of transport and logistics services which would otherwise be incurred to deliver directly to member stores;
 - (b) avoiding or reducing the need for, and costs of, holding inventory and warehousing/storage;
 - (c) improved on-shelf availability due to increased frequency of deliveries, when compared to typical 3PL (third-party logistics) providers; and
 - (d) increased efficiency and service levels to member stores as a result of investment by Foodstuffs in centralised technology and inventory management systems.
 - 4.3 The benefits to Foodstuffs and its member stores from the logistics activities, including:

- (a) ensuring continuity of supply of groceries to member stores to meet customer needs; and
- (b) increased efficiency due to centralised logistics and inventory management systems and processes (including environmental and sustainability benefits through removal of supply chain duplication).

4.4 Some of the relevant costs for the logistics services are borne by Foodstuffs.

Centre-led promotional activity

- 5 An important part of the relationship between Foodstuffs and its grocery suppliers is agreed promotional activity, which includes centre-led promotional activity in a banner, for example, inclusion in the online mailer or a digital evolution of the mailer or other advertising medium (centre co-op) and instore display activity (store co-op). In the case of Gilmours, suppliers agree to an annual sales and marketing programmes to drive customer awareness of the supply partners range in the Gilmours' banner.
- 6 We agree a charge with the supplier reflecting the benefits and costs of this centre-led promotional activity. For efficiency reasons, these charges (centre and store co-op) are calculated on a percentage of scanned sales, rather than on an activity-by-activity basis.
- 7 We consider that these charges are reasonable having regard to the following:
- 7.1 the level of charges is agreed on a good faith basis with each supplier and there is provision for the charges to be reviewed having regard to the level of promotional activity;
 - 7.2 the benefits to the supplier from Foodstuffs' provision of the centre-led promotional activity, which include increased visibility for the supplier's products and associated increases in likely sales to customers;
 - 7.3 the benefits to Foodstuffs and its member stores from the centre-led promotional activity, which include attracting customers to stores wishing to take advantage of the relevant promotional activity and increased sales; and
 - 7.4 some of relevant costs for the centre-led promotional activity are borne by Foodstuffs.

In-store promotional activity (outside of centre led category reviews)

- 8 For suppliers that have not been through a centre-led category review, in-store promotional activity agreed at a store level is also a key part of the Foodstuffs members' relationships with suppliers. This includes, but is not limited to, display activity.
- 9 Charges are agreed at a member store level with the supplier reflecting the benefits and costs of in-store promotional activity. The frequency of store level charges will reduce over time as more product categories become centrally managed.
- 10 We consider that these charges are reasonable having regard to the following:

- 10.1 the level of charges is agreed on a good faith basis with each supplier and there is provision for the charges to be reviewed as required;
- 10.2 the benefits to the supplier from the member's provision of the in-store promotional activity, which include increased visibility for the supplier's products and associated increases in likely sales to customers;
- 10.3 the benefits to Foodstuffs and its member stores from the in-store promotional activity, which include attracting customers to stores wishing to take advantage of the relevant promotional activity and increased sales; and
- 10.4 some of relevant costs for the in-store promotional activity are borne by the member store and/or Foodstuffs.

Merchandising activity

- 11 Effective and efficient merchandising of groceries is critical for Foodstuffs and its suppliers to deliver great outcomes for customers.
- 12 Where Foodstuffs, or its member store, undertakes merchandising, we agree a charge with the supplier for that merchandising. The charge reflects the transfer of responsibility and cost from the supplier to a member store for carrying out merchandising activity in the store.
- 13 Where it is agreed centrally that Foodstuffs is to be responsible for merchandising, a charge is agreed, calculated as a percentage of scanned sales, rather than on an activity-by-activity basis. Where a supplier remains responsible for merchandising activity, different merchandising arrangements and associated charges can still be agreed from time to time at a member store level, reflecting the particular needs of the relevant store and suppliers.
- 14 We consider that these charges are reasonable having regard to the following:
 - 14.1 The level of charges is agreed on a good faith basis with each supplier and there is provision for the centrally led charges to be reviewed having regard to the level of merchandising activity.
 - 14.2 The benefits to the supplier from Foodstuffs' provision of the merchandising activity, which includes:
 - (a) avoiding the direct financial and environmental costs of merchandising services being provided by the supplier in each store;
 - (b) increased efficiency and indirect savings from outsourcing responsibility for merchandising to Foodstuffs; and
 - (c) where provision is on a temporary basis, providing continuity of merchandising where the supplier is unable to, or otherwise does not, perform those services.
 - 14.3 The benefits to Foodstuffs and its member stores from the provision of the merchandising activity, which includes:
 - (a) a consistent standard of merchandising for the benefit of customers;

- (b) increased efficiency and environmental benefits in comparison with external merchandising services travelling between stores;
- (c) reduced health and safety risks; and
- (d) some of relevant costs for the merchandising activity are borne by Foodstuffs and/or the member store.

Grocery Supply Agreement provides for the payment

- 15 Suppliers will only be required to pay the above charges where they have agreed in writing to do so (including as part of their centrally agreed, overarching grocery supplier contract with Foodstuffs).