



J Sainsbury PLC and Asda Group Ltd: Response to the CMA's Issues Statement

Introduction

- 1.1 Moto Hospitality Ltd ("Moto") welcomes the opportunity to comment on the CMA's issues statement of 16 October 2018 ("Issues Statement"), published in connection with its in-depth investigation into the proposed combination of J Sainsbury PLC ("JS") and ASDA Group Limited ("ASDA", and, together with JS, the "Parties") (the "Proposed Merger").
- 1.2 We note that the Issues Statement set outs a number of key areas that the CMA intends to further examine during its Phase 2 review. Given the focus of our business these comments are limited to the retail supply of fuel. We are not well-placed to comment on the other markets and issues identified in the Issues Statement.
- 1.3 In summary, as the Proposed Merger will create the largest retailer of fuel in the UK by volume of fuel sold, we agree that the CMA should carefully examine the impact of the Proposed Merger on the retail supply of fuel. Although the rationale for the Proposed Merger is focused on other areas, it is still important for the impact of the Proposed Merger on the fuel sector to be examined in detail given the potential effect it may have on competitors and consumers. Whilst JS and ASDA compete very closely with each other – and with other grocery retailers – in the retail supply of fuel they also compete closely with all types of non-grocery fuel retailers. This is because the proximity of petrol filling stations ("PFS") is the single most important factor that determines the nature of competition between PFS. When assessing competition in the retail supply of fuel it is also important to understand the asymmetric nature of the competition between grocery retailers and other operators of PFS.

2. The Nature of Competition between PFS

- 2.1 JS and ASDA both operate large networks of supermarkets with PFS in the UK. As such, the Parties are very close competitors on the market for the retail supply of fuel. On this market, the Parties also closely compete with other fuel suppliers, both grocery retailers and non-grocery retailers.
- 2.2 In fact, for reasons explained below, although grocery retailers and non-grocery retailers closely compete in the supply of fuel, the supermarkets exert a stronger constraint on non-grocery retailers, than vice versa. In all of our locations, the Parties and other supermarkets are our most important competitors.
- 2.3 We believe that the Parties are even closer competitors in the PFS market than they are in the market for the supply of groceries. This is because fuel is a homogenous product. There is no branding of the fuel and we believe it likely that consumers would be happy to fill up with petrol or diesel at any PFS, whereas some consumers may have a preference for one

grocery retailer over another (e.g. due to brand, reputation, range of products, market positioning, taste of own brand products etc.)

- 2.4 The main drivers of competition on the retail fuel market are price and the proximity of the nearest alternative PFS. Other factors, such as quality and service standards as well as other available facilities (e.g. range of food and beverage options) may be important to some customers, but their primary consideration when choosing a fuel supplier is likely to be price.
- 2.5 Customers are generally well aware of the price of fuel. They regularly pass PFS when driving and so are exposed to the prices on offer. This means that when they need to fill up they are very conscious of the prevailing price. If customers are not satisfied with the fuel price, they can easily seek a better value alternative and purchase fuel from an alternative supplier, be it a grocery retailer or a non-grocery retailer – very often not very far away.
- 2.6 In general, large grocery fuel retailers, such as JS and ASDA, are able to offer customers lower fuel prices than other PFS. This is for two reasons. First, the large grocery retailers such as JS, ASDA and Tesco use their buying power given the volume of fuel they purchase. They benefit from both the lowest prices available and economies of scale in operating their PFS – because of the number of sites they operate and also because they are able to spread the costs of operating PFS with the costs of operating their grocery stores from the same location (e.g. security, maintenance, cleaning etc. can be shared with the grocery stores). In other words, the Parties and other large grocery stores offering fuel are likely to have much lower operating costs for PFS than other fuel retailers.
- 2.7 Secondly, the Parties offer low fuel prices as a means of generating footfall in their stores and are then able to recuperate any lost margins from the sale of other products (and also use groceries as a way to encourage the use of their PFS). Although non-grocery retailers (including Moto) often operate small shops alongside their PFS, the range of products provided is generally much more limited, for example to hot and cold drinks, essential items (e.g. milk), and food to go. Whilst some stores offer also a limited range of food to eat / prepare at home, the sale of these products is too limited to attract customers such that any loss of margin from discounted fuel prices could be recouped from the sale of other goods. The limited range of goods on offer is not a sufficient incentive to attract a customer in the first place.
- 2.8 The way grocery retailers use fuel to influence customer behaviour is illustrated by the attached photo: a voucher currently being offered by Tesco when shopping for groceries online. It is delivered with the groceries. The voucher shows the interdependency between groceries and fuel and how they are bundled (note the graphics showing a full shopping trolley and petrol pump). This example shows how grocery retailers use low fuel prices to attract customers in store, and also use offers on fuel to encourage customers to shop at the grocery retailer. Non-grocery fuel retailers (for which fuel is their sole or primary offering) cannot make similar offers, the effect of which is to strengthen the position of grocery retailers in the fuel retail market.
- 2.9 The relationship between groceries and fuel is underlined by the fact that many customers who fill up with fuel at a large grocery store are likely to also shop at the same time. In other words, when a customer does a shop, if they need to fill up they will do so at the same time. Or if they need to fill up if they are near a supermarket, they will often choose to do a shop as well if they have the time.
- 2.10 The combination offered by the Parties and other supermarkets enabling consumers to do a grocery shop and fill up with fuel puts them in a unique position. This means that other grocery retailers and other PFS operators cannot compete with them as effectively as they can compete with each other. In other words, in the retail supply of fuel, whilst all PFS compete with each other the nature of that competition is asymmetric because grocery retailers can offer something that non-grocery retailers cannot.

3. Conclusion

- 3.1 However the grocery market is defined (on which we are not well-placed to express a view), the Parties are significant competitors in the market for the retail supply of fuel, to each other, to other grocery retailers with PFS and to non-grocery retailers such as ourselves.
- 3.2 Competition mainly takes place based on price. Large grocery retailers consistently offer customers lower fuel prices than other PFS. This is not only because of their ability to benefit from the lower costs and economies of scale, but also because they have the possibility of offsetting any reduction in fuel margins with profits from their adjacent grocery stores. In fact, they use their low fuel prices as a mean of attracting customers to their stores and then have the ability to recuperate any potential loss from reduced fuel margins from sales of other products. They also offer discounts on fuel if a customer shops at the grocery retailer.
- 3.3 Additionally, grocery retailers offer customers the ability to combine their fuel and grocery shopping in a single trip. Customers may often choose to fill up their car when they are shopping for groceries because it is convenient and allows them to perform two essential chores in one single trip. This ability to bundle a grocery and fuel offering means the grocery retailers exert a particularly strong competitive constraint in the PFS market.
- 3.4 JS and ASDA are already significant competitors in the market for the retail supply of fuel and exert a stronger constraint on non-grocery retailers than vice versa. Although Moto does not have sufficient information to evaluate the precise impact the Proposed Merger is likely to have on the market for the retail supply of fuel, it is clear that it will strengthen the Parties' position and increase their market power, both locally and nationally, creating a leading retail fuel supplier in the UK. This is likely to alter their ability and incentive to price fuel and the grocery/fuel proposition they offer to customers.

29 October 2018

