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Waitrose Limited

Response to the CMA's Issues Statement dated 16 October 2018 regarding the Anticipated Merger between J Sainsbury Plc and Asda Group Ltd

Waitrose welcomes the opportunity to respond to the CMA's Issues Statement. We consider that the proposed merger threatens to bring significant changes to the structure of the UK retail sector in a manner that we believe would be likely to substantially harm the competitive process and thereby consumers. We would like to take this opportunity to signpost some of our on-going concerns about the impact on competition the merger is likely to have.

Increase in retailer market power, impacting national as well as local competition

The merger would result in a fundamental shift in the dynamics of retail competition at the national level given the scale of the merged entity. It would result in two large national players which between them represent well over half the grocery market, with a significant presence in GM and Fuel markets, and which are each significantly larger than any other competing retailer - this conglomerate effect would particularly be the case in areas where both Sainsbury's and Asda have a significant local presence.

We are concerned that this could drive pricing and marketing activity that the smaller players simply cannot compete with effectively, especially given their limited presence in GM and Fuel markets - for example, sustained price investment or significant spending on above-the-line and below-the-line marketing campaigns. In the longer term, this could result in smaller players being forced out of the market or having to consolidate with others to remain viable, which may place upwards pressure on retail prices. At the same time, the large national players would not be as effectively constrained from raising prices (for example on certain product lines) which would adversely impact consumers. It could also result in lower levels of choice, quality and service available to consumers.

We understand that the CMA has stated that it will consider the strength of discounters such as Aldi and Lidl and whether they are potentially close alternatives to Sainsbury's/Asda for different types of shopping mission. We are concerned by this and believe that considering them would understate the impact on local competition should the proposed merger take place, given the material difference in terms of store environment, breadth of range, and level of customer service. The discounters only stock c.2,500 SKUs compared to >20,000 SKUs for a typical supermarket and, as such, are not able to offer customers a full assortment of products (across Food and GM). They should therefore not be considered to be full competitors in the context of this proposed merger.

Negative impact on online grocery market

The increase in market power resulting from the merger could have a particular impact on online grocery retail, which is one of the few areas of forecast sector growth. In this channel, where the scale of Sainsbury's/Asda could confer significant competitive advantage, we have concerns that the proposed merger may serve to increase barriers to entry or expansion for new/smaller players, thereby restricting customer choice and slowing down the pace at which the online customer offer develops.

Risk of coordination between the large national retailers

The merger would increase the risk of coordination between the resultant two large national retailers, which competing retailers – being so much smaller than either of them – would not be able to credibly undermine. For instance, at present, Tesco is very much the market leader on price. The consolidation in the market resulting from the merger would only further reinforce this dynamic, increasing the likelihood of coordination, particularly between the two largest entities, and thereby further limiting the opportunity for competition on price (as well as in other proposition levers). Ultimately this would make for a more homogenous market and less variety in terms of the customer offer available to shoppers.

Increase in buyer power with a resulting impact on suppliers

The increased buying power of the merged entity will put pressure on suppliers. Faced with a market dominated by two main players, suppliers may be forced either to supply only the two main players or to increase the cost of goods for the smaller retailers, thereby making it even harder for the smaller retailers to compete with the larger retailers. As large retailers merge and consolidate suppliers, the smaller retailers will, if they attempt to remain with the same suppliers, find themselves with a greatly reduced proportion of that supplier's business, even if they maintain market share. This will undoubtedly reduce the leverage of smaller players in supplier negotiations thereby hindering competition and making suppliers less likely to invest in the supply chain or in new product development for retailers with a smaller proportion of volume. These issues are likely to manifest themselves across both branded and own-label products, as well as GNFR (goods not for resale) and services.

There is also the possibility that, with their combined market share, the two main players might place so much pressure on suppliers to reduce COGS that product quality might suffer or some smaller suppliers might go out of business, thereby adversely impacting the breadth and quality of product ranges on offer to customers.