

## **ANTICIPATED MERGER BETWEEN J SAINSBURY PLC AND ASDA GROUP LTD**

### **SUMMARY OF HEARING WITH ALDI HELD ON 7 NOVEMBER 2018**

#### **GROCERIES IN-STORE**

##### ***Competitive offering***

1. Aldi said that their strategy is being structurally cheaper than some of their competitors, having a tighter range and a heavy bias on own-label products. Aldi explained that they have less than 10% of their goods by volume in promotion, and that the rest of their business operates an everyday-low-price strategy. Aldi indicated that only Lidl follows a similar strategy, and that the average volume sold on promotions by other competitors in the market is around 35%.
2. Aldi said that they operate a standardised and uniform business model nationally that provides customers with a consistent range of circa 1,800 products across all Aldi stores. Aldi indicated that they do not flex locally-set parameters from store to store, except for some regional products that they would only sell in a particular area.
3. Aldi explained that they choose their standard range based on market data and customers' feedback. Aldi noted that they believe their range covers over 90% of the grocery shopping requirements of customers who represent their target audience (namely those primarily interested in the discounter shopping model who do not require petrol, tobacco a wide range of branded products, etc and are shopping for a limited range), but that this varies by customer as their range is very limited in comparison to the range offered by the big four (by which Aldi meant Tesco, Sainsbury's, Asda and Morrisons).
4. Aldi mentioned that their range has increased over the last few years: from circa 1,200 products five years ago to currently 1,800 products. Aldi confirmed that they will not significantly increase their range because it would mean breaking the discount operation model, as this would make the operations and logistics of their business more complex.

5. Aldi said that they use vouchering locally only occasionally to support store openings or re-openings or to counter a direct discounter competitor (by which they meant Lidl or Jack's) opening a store near an Aldi store. Aldi do not advertise at the local level.
6. Aldi indicated that as discount grocery retailer, their strategy is to provide customers with the lowest grocery prices in the UK, by providing a typical discount of at least 15% on a basket of everyday items compared to the big four. To set their prices, Aldi said that they will consider the lowest price offered by any of the big four for these products and then apply the 15% discount. Aldi explained that they use a 15% discount because they believe it is sufficient for a customer to make the decision to switch to their stores.
7. Aldi noted that they select the location of their new stores based on the demographic and the density of a particular area, but that they do not take into account the competitors located in that area.
8. When opening a new store, Aldi indicated that the first week their sales are usually very strong, but then the following weeks will be weaker, until they stabilise and start to increase. Aldi explained that this would depend on how close the new Aldi store is to an existing Aldi store, as in some cases they are trying to positively cannibalise their own stores given that some of them are very busy and they do not have enough capacity for the population density in those areas.

### ***Product market***

9. Aldi said that the impact on one-stop shops is significantly greater when a similar sized store opens nearby compared to when mid-size stores or a discounter like Aldi open a new store in that area.

### ***Competitors***

10. Aldi confirmed that their closest competitor is Lidl and more recently Jack's – although this is not a significant competitor because of the very small number of stores. Aldi noted that other grocery retailers in the UK have a different business model. Aldi explained that they offer customers high quality at low prices and that customers coming to their stores do not have the same range or the same services (such as customer service desk or fuel stations) available to them that the big four offer.
11. Aldi said that they benchmark the constituent ingredients and product quality of brands as well as the own-label products of other grocery retailers to ensure their quality is at least as good as theirs.

12. Aldi confirmed that they do not see any of the big four as a closer competitor to their business than any of the others.
13. Aldi said that they do not consider bargain store such as B&M close competitors because they are more focused on branded products and in a different shopping mission.

### **Expansion**

14. Aldi explained that the main constraint that would prevent their business to grow faster is the speed at which they can open new stores due to the price and availability of land. There are also other operators in the market, such as Lidl or Jack's, that would be looking for the same store size, and therefore, they would be competing for the same estate.
15. Aldi said that they do not have plans to expand their business in any other format, such as one-stop shops.

### **ONLINE GROCERIES**

16. Aldi confirmed that they offer wine, general merchandise and some beauty and health products online. Aldi said that the decision to sell these products online is driven by supply-side considerations, as they are ambient, have a long shelf life and are easy to deliver. Aldi explained that they use a third-party distributor to deliver these products to consumers.
17. Aldi said that they do not have plans to enter the online groceries business for fresh products for the foreseeable future.

### **PROCUREMENT OF GROCERIES**

18. Aldi explained that they have an international buying team which mainly negotiates the procurement of non-food products. Aldi said that 77% sales are generated by products sourced from UK suppliers. Aldi noted that they source a large quantity of UK products because they believe UK customers like to buy national products.
19. Aldi said that they believe they are buying products at similar costs as the big four. Aldi explained that the big four have a wide range of options for the same product, whereas Aldi has only one product and this allows them to buy more volume from that particular supplier. Aldi said that volume is a key factor in the negotiations with suppliers, but that there are other factors such as being sustainable and providing suppliers with certainty that also play an important role.

## **GENERAL MERCHANDISE**

### ***Competitive offering***

20. Aldi explained that none of their general merchandise products are permanently listed but, instead, they bring new general merchandise items to their stores twice a week. Aldi said that they offer the same general merchandise products across all their stores in the UK. Aldi confirmed that the range of general merchandise in UK stores is a decision taken by Aldi's UK team.
21. Aldi explained that general merchandise products are linked to a particular theme and they expect to sell them within two weeks.
22. Aldi explained that they contract with their general merchandise suppliers eight or ten months in advance, and that two weeks before the on-sale date their distribution centre will agree the delivery with these suppliers. Aldi said that the items are in their warehouse for one day and then they are delivered to their stores. Aldi noted that this system also allows them to keep their costs down, as they do not hold the stock.
23. Aldi noted that their general merchandise business used to bring footfall to their stores ten years ago, when customers were not familiar with Aldi's food offering. Aldi said that this still happens to a certain extent, but that their food business is more mature now, and both businesses (ie food and general merchandise) complement each other.

### ***Competitors***

24. Aldi said that the pricing strategy for general merchandise and grocery products is closely aligned and is based on offering customers a discount compared to the rest of the market. Aldi said that to do this they benchmark competitors' prices and establish a price gap of 15% against them.
25. Aldi indicated that the strategy is set centrally and applied uniformly to all their stores.

## **SUPPLY CHAIN**

26. Aldi said that the proposed merger could lead to suppliers increasing their prices to other grocery retailers. Aldi said that the merging parties have announced 10% cost savings and in Aldi's opinion these savings will be borne by suppliers of tertiary brands and own-label products. Aldi is concerned that this pressure for lower supplier costs would force suppliers to increase prices for other retailers in order to secure sustainable margins.

27. Aldi said that the proposed merger will have an impact in the suppliers' ability to innovate, as they will be squeezed in their costs and will not have margin to invest in new products.
28. Aldi said that the increased purchasing power of the merged entity may lead to pressure for exclusivity deals, prohibiting other retailers from accessing key suppliers.

## **MERGER EFFECT**

29. Aldi said that discounters have a very different model to the merging parties or any of the other big four. Aldi said that the channel in which they operate is categorically different, and it is used differently by customers, to the channel in which the big four operate. Aldi explained that this is because their range is much more limited, their average net sales area is smaller, they do not sell fresh groceries online or fuel or tobacco, or offer additional services such as customer service desk, cafes, butchers counters etc, and they do not offer a year-round selection of general merchandise lines as the merging parties do. Aldi said that all these differences should be taken into account when considering the impact of the proposed merger in the market.