

ANTICIPATED MERGER BETWEEN J SAINSBURY PLC AND ASDA GROUP LTD

SUMMARY OF HEARING WITH AMAZON HELD ON 5 NOVEMBER 2018

ONLINE GROCERIES

Competitive offering

1. Amazon explained that they have different grocery offerings in the UK:
 - (i) AmazonFresh which is the channel with the broadest range of grocery products (c. 20,000 SKUs), allowing the consumer to do a full grocery shop. The products come from one fulfilment centre in London;
 - (ii) 'Core' Grocery' including Amazon Pantry which offers some everyday essentials groceries and ambient but not fresh or frozen products; and
 - (iii) Amazon Prime Now which has a groceries selection across ambient, chilled and fresh products but the range is narrower (c. 10,000 SKUs). Given that it is an ultra-fast service, the availability of these products will depend on where the customer is located.
2. Amazon said that they maintain the 'chill chain' (ie refrigerated delivery chain) from the central fulfilment centre in London. In some instances, drivers will deliver directly to customers from that building; in other situations, they will deliver to Prime Now delivery stations and then deliver from that Prime Now delivery station to the end customer.
3. Amazon explained that they use vouchering, but they do not target these vouchers to particular local areas or competitors. Amazon indicated that if a customer shopped less with AmazonFresh, they would consider how to re-engage with the customer with a discount. Amazon explained that the level of engagement that a customer has shown will have an impact on discounts that offered to them, and consequently, they send vouchers to both customers who have engaged in the past but have stopped shopping, and also to loyal customers.
4. In terms of delivery, Amazon explained that they do not undertake customer deliveries themselves, but that they have contracts with third-party providers,

which can be national carriers, independent service providers via Amazon logistics, or independent drivers via their Amazon Flex programme.

Product market

5. Amazon indicated that there is a single grocery market segment that encompasses both online and offline. According to Amazon, consumers are increasingly switching between the online and the off-line channels on a shop-by-shop basis. Consumers regularly check around to choose the best choice available, which is why Amazon's strategy is trying to offer a broad selection of products at competitive prices.
6. Amazon explained that when they set their online offer, they also consider both online and in-store competitors.

Competitors

7. Amazon said that they monitor the price of a large list of competitors, but that they do not systematically monitor Lidl or Aldi because they mainly offer their own private label products, so there is limited overlap with Amazon's range.
8. Amazon explained that they use an algorithm that allows them to respond to competitors' prices by altering their own. Amazon noted that prices are evaluated dynamically: if the algorithm suggests that the price should change, then it would automatically change at that point. Competitor prices are only one of a number of inputs into the pricing algorithm that define Amazon's price.
9. Amazon explained that they treat competitors differently according to the relevance of that competitor. Amazon noted that they monitor both competitors with an online offering and competitors who do not have online operations. They may consider the geographic coverage of their competitors when assessing their relevance.
10. Amazon confirmed that they have a national pricing policy and they do not have any regional pricing in any of their offerings.
11. Amazon confirmed that monitoring the prices and offers of their competitors in groceries is no more difficult than monitoring prices and offers of competitors in other parts of their business.

Future evolution

12. Amazon explained that AmazonFresh is a recent entrant in the UK. At the moment, they are focusing on how to improve the customer experience.

13. Amazon indicated that their main focus is on the customers and the areas that they are currently serving. They would like to improve the customer experience that they are offering to their current customers and improve how they operationally run the business. To improve the consumer experience, they would like to improve their offering in terms of selection, availability and price.
14. Amazon did not have any views on how the industry of online groceries will develop over the next couple of years. They stated that as a new entrant in the market segment, they have not currently produced any long-term projections for the market segment.
15. Amazon indicated that they always keep options under review in relation to investments and acquisitions in relation to both the groceries segment and other market segments in the UK.

GENERAL MERCHANDISE

Competitive offering

16. Amazon explained that they consider general merchandise as a market segment across both online and bricks and mortar stores, and competitors in brick and mortar stores and online are equivalent to them.

Competitors

17. As with the non-grocery business, Amazon explained that different competitors receive different treatment in their pricing algorithm. The algorithm monitors some of these competitors more frequently, and therefore they carry a greater weighting over others. Amazon explained that they monitor some competitors more closely because customers are more likely to take into account the customer experience from those competitors when comparing them to Amazon.

Interaction between grocery and general merchandise

18. Amazon indicated that the ability to offer both groceries and general merchandise does not impact their competitive position in groceries. Amazon explained that each of their business categories has standards for customer experience in relation to selection, pricing, availability and that this is independent from one category to another. One area in which there is some interaction between product categories is in the analysis of shopping baskets. Amazon may prompt a customer to consider products that are frequently bought together: this may include a combination of grocery and general merchandise items.