

J SAINSBURY PLC/ASDA GROUP LIMITED MERGER INQUIRY

SUMMARY OF HEARING WITH LIDL HELD ON 6 NOVEMBER 2018

GROCERIES IN-STORE

Competitive offering

1. Lidl explained that they offer a smaller range of products than other grocery retailers (c. 2,000 products) with a stated aim to always be the most competitive in the market for comparable quality. Lidl explained that their model is based on efficiencies in terms of both operations and space.
2. Lidl said that they only stock products that sell quickly together with certain ranges that come as an 'in/out' promotions with world food themes such as French week, Spanish week or Greek week. Lidl said that they try to offer every product required for a full weekly shop but that they do not offer a large number of products because the model they operate is a limited range one.
3. Lidl explained that their range in their GB stores is sourced mainly from British suppliers, and the rest from overseas suppliers. Lidl noted that they source some products outside the UK because they are simply not available here, such as pineapples.
4. Lidl indicated that the majority of shoppers in the UK do not consider them as their first destination, but they use them as a top-up shop, or as the shop to buy basic products and then top-up somewhere else. Lidl explained that they do not mind having another non-discount food retailer geographically close to them, as customers could still buy everyday essentials with them and top-up somewhere else.
5. Lidl said that they operate very limited local variation because it allows them to be more efficient. By way of example, Lidl mentioned that having a centralised pricing policy is advantageous from a marketing perspective, as they do not have to prepare different advertising campaigns for each local area.
6. Lidl explained that they have a central policy of vouchers that can be executed locally if certain parameters are met, and those are in connection with local-

store performance and the local competition such as a competitor opening a new store.

Product market

7. Lidl indicated that the constraint exerted to one-stop shops by mid-size stores is lower than the constraint exerted by other one-stop stores due to the more restricted range and shopping facilities of mid-sized stores.

Competitors

8. Lidl explained that if the big four raise prices, there would not be sales diverted to their business, as the big four would increase prices in those ranges where they do not compete with discounters such as Lidl.
9. Lidl explained that they stock some branded products, and this is part of their differentiation with Aldi. Lidl noted that discounters, such as their business or Aldi, cannot satisfy shoppers who want to have predominantly branded products in their basket, as their range of branded products is very limited in comparison to traditional grocery retailers, such as the big four.
10. Lidl explained that their strategy is to be the cheapest player on both own-label and branded products. Lidl said that in branded products it is more difficult to keep a price gap with the big four given that suppliers of branded products have a strong bargaining power.
11. Lidl said that customers choose to shop at their stores for two main reasons: convenience (as customers can have a quicker shopping experience in comparison to the big four) and prices. Lidl indicated that the online grocery shopping services offered by the large grocery retailers can have an impact on their business, in particular if they do not charge for delivery, as online shopping also allows for the convenience of a quick shopping experience.

Expansion

12. Lidl said that they anticipate opening 50 to 60 stores per year in the next three years.

ONLINE GROCERIES

13. Lidl explained that having an online grocery business is costly.
14. Lidl confirmed that they do not have plans to enter the online groceries business in the short term.

15. Lidl explained that they cannot offer click-and-collect models because they do not have the required space in their stores and the infrastructure necessary to operate this model.
16. Lidl said that they expect the online groceries business to grow in the next few years, but not at a very extensive pace. Lidl noted that the online groceries business has some limitations as usually customers like to test and to see what they are buying.

PROCUREMENT OF GROCERIES

17. Lidl explained that they have three different ways to procure groceries:
 - (a) Lidl International will negotiate directly with suppliers globally and will choose a range of products that they consider could be sold in the different markets in which Lidl operates, including the UK. Lidl UK does not take part of these negotiations.
 - (b) For fresh products, Lidl explained that most of them are locally sourced, negotiated and purchased by Lidl UK.
 - (c) For certain categories of products such as Scotch whisky, shortbread or Scottish salmon, Lidl explained that they negotiate directly with the suppliers for Lidl UK, but also for the group, so other Lidl countries can use the offer given by the supplier.
18. Lidl said that some products available in their UK stores would also be available in the Lidl stores in other international markets.

GENERAL MERCHANDISE

Competitive offering

19. Lidl indicated that general merchandise ranges are selected and confirmed months in advance. Lidl said that they use historical data to determine which period is more successful for each 'themed week'.
20. Lidl indicated that general merchandise does not drive footfall to stores. Lidl said that general merchandise is not a category with a large potential for their business, as customers would buy these products only if they need them, and it may be the case that when they need them they are not available at the Lidl store.

SUPPLY CHAIN

Lidl said that the proposed merger will create a big player in the industry with significant power over suppliers. Lidl explained that, as a result of this, suppliers could be forced to terminate contracts with them due to (i) the challenge of supplying volume to both the merged entity and to Lidl or (ii) the merged entities asking for exclusivity arrangements to suppliers.

21. Lidl said that the proposed merger could lead to suppliers charging higher prices to other grocery retailers, such as Lidl. Lidl said that the merging parties have announced 10% reductions in the prices of everyday essential products. Lidl explained that the reductions that suppliers will give to the merging parties in these products will have to be recovered through other retailers, which will mean that these retailers, such as Lidl, will have to deal with higher prices.

MERGER EFFECT

22. Lidl said that they compete with the merging parties in a range of approximately 2,000 products (out of their ranges of c. 30,000 products). Lidl said that, in the rest of their range, the merging parties will have the capacity to increase prices and that the consumer will have less competition as a result of the proposed merger.