

J SAINSBURY PLC/ASDA GROUP LIMITED MERGER INQUIRY

SUMMARY OF HEARING WITH WAITROSE HELD ON 7 NOVEMBER 2018

GROCERIES IN-STORE

Competitive offerings

1. Waitrose said that if a competitor opens a store in a particular local area, they will initially review and consider various metrics before taking any action, including whether to take any steps to further secure their existing customer base.
2. Waitrose said that they had responded to openings that have been competitive to them. By way of recent example, Waitrose noted the openings of Aldi and Lidl stores in certain local areas had some impact on their business in these locations.

Product market

3. Waitrose is of the view that a mid-size store has a limited competitive constraint on a one-stop store. Waitrose said that this is due to mid-sized stores having a narrower range than one-stop stores, and as such not being able to cover some shopping missions. Waitrose explained that one-stop stores have categories that mid-size stores do not, such as general merchandise, food service, cafés or bigger pack sizes.
4. Waitrose said that it is a well-known industry view that convenience is one of the main factors determining where people will shop. Waitrose explained that customers may shop at a mid-sized store closer to their work or home but may need to go further afield for a broader range or specific categories of products to a one-stop shop.

Competitors

5. Waitrose is of the view that Aldi and Lidl are not ‘full competitors’ as they have a narrower assortment of products for a full shop. However, Waitrose noted that these discounters have seen significant growth and have invested a large

amount in certain categories. Waitrose further noted that they are increasing and are opening more stores.

6. Waitrose has noted that in some circumstances it can be complementary from a customer's perspective for discounters to be in close proximity to a bigger retailer, enabling customers to shop between them. The rationale being that customers will typically purchase cheaper ambient products from the discounters, whilst buying fresh produce and other products from the bigger retailer.
7. Waitrose noted that discounters are able to offer lower prices for staple products, but they do not have the same breadth of range as Waitrose. Waitrose said they try to differentiate itself from its competitors with higher quality products and service levels.
8. Waitrose stated they brand price match certain retailers on some parity lines to show customers that there is no difference in value.

Coordination

9. Waitrose is of the view that if the proposed merger goes ahead the likelihood of coordination would increase. Waitrose is of the view that the market would focus not only on price, but also on the range that the merged entity and Tesco would offer, resulting in increased prices over time.
10. Waitrose is of the view that, due to the increased scale the merging parties would have as a result of the merger, the merging parties would always have the capacity to match or undercut them on price.

ONLINE GROCERIES

Competitive offering

11. Waitrose stated that their vouchering strategy is based on observed customer behaviours. Waitrose confirmed that vouchering is an indirect way they respond to competitors. Waitrose noted that they are able to target customers through its myWaitrose card with a set of vouchers unique to them, and they believe this is something that other grocery retailers could do as well.
12. Waitrose said that the range and offers available to online customers depend on the store which their deliveries are picked, as they would only have access to the products and offers of that store. Waitrose stated that the offers are available to customers both online and in-store as the online offers reflect those in the store.

13. Waitrose said they do not charge for deliveries and that the minimum spend to be eligible for delivery, is uniform across the country.
14. Waitrose noted that they are aware of personalisation (i.e. the ability to show different options of a product on screen to entice customers to purchase certain products).

Approach to delivery coverage and expansion

15. Waitrose said that when considering the geographical coverage and their approach to delivery coverage and expansion, they consider three broad areas: demand, reach and financial attractiveness.
16. Waitrose noted that its online service is less profitable than its in-store business and that this is the general industry view.
17. Waitrose is of the view that scale is fundamental to online delivery services. Waitrose explained that in order to operate effectively online, there are significant requirements on both the technological and the fulfilment side. Waitrose stated that merging parties will benefit from the scale as they will have access to larger capital sums that will enable them to invest to deliver online services faster and more cheaply than Waitrose or other players in the market would be able to do.

Click and Collect

18. Waitrose stated that the typical characteristics of click and collect customers include customers who are less certain about their availability for delivery at home.
19. Waitrose noted that the ability for John Lewis to do click and collect in Waitrose stores has a significant benefit in their business, as this brings customers into their branches that ordinarily may not have shopped with them.

SUPPLIER RELATIONSHIPS / SUPPLY CHAIN

20. Waitrose stated that the merger could lead to higher prices from suppliers to grocery retailers such as Waitrose. Waitrose explained that after the merger there would be two big players in the market and suppliers would be pressured to reduce their costs of goods to them and consequently, the cost of goods to other smaller retailers would increase as they would have less buying power and less volume in order to negotiate with suppliers.

GENERAL MERCHANDISE

21. Waitrose stated that in terms of a retail operation, its brand is about quality food.
22. Waitrose stated that historically its competitors have invested in large retail space, out-of-town units in which they offer a significant general merchandise proposition as well as a food proposition. Waitrose noted that its own estate has never been geared around the investment in large retail spaces.
23. Waitrose explained that there is a subtle difference between general merchandise retailers that have both in-store and online operations and those who only offer online or in-store services. Waitrose explained that the in-store offer can be enhanced with the click and collect model by improving the convenience of having more locations to collect these items, but also improving the footfall in-store and therefore driving additional sales into the core grocery retail proposition. Waitrose gave the example of customers being able to pick up goods that they have purchased from the John Lewis website at a Waitrose store; or Sainsbury's offering something similar with products bought with Argos.
24. Waitrose is of the view that as a result of the merger Argos could potentially offer more locations for their products to be collected from and maybe more locations for Argos to have a shop-in-shop proposition if they were to roll out into Asda locations.
25. Waitrose noted that when pricing its general merchandise items in store, with the exception of a few cases, they do not pay any attention to the availability of those items online from other retailers and the prices they are setting, as they are mainly own-label products for which they seek to differentiate and offer good value for quality.

FUEL

26. Waitrose confirmed that they do not treat competitors who also sell groceries differently to those who do not when making decisions about their fuel business.

Interaction between grocery and fuel

27. Waitrose is of the view that fuel could drive increased grocery footfall. Moreover, Waitrose noted that having a fuel offer available at the same site is convenient as it allows the customer to only make one stop to refuel their car and to do their grocery shopping at the same time.

MERGER EFFECT

28. Waitrose is of the view that the proposed merger may affect competition and impact outcomes for consumers. Waitrose explained that the merger would increase the scale and buying power of the merging parties, the risk of coordination and it will have an impact on suppliers. Waitrose stated that the combination of these factors will lead to a homogeneous market, in which, customers will be offered a reduced range and, ultimately, an increase in prices.