Appendices and Glossary

Appendix A: Terms of reference and conduct of the inquiry

Terms of reference

1. In exercise of its duty under section 22(1) of the Enterprise Act 2002 (the **Act**) the Competition and Markets Authority (**CMA**) believes that it is or may be the case that:

   (a) a relevant merger situation has been created, in that:

      (i) enterprises carried on by JD Sports Fashion plc (**JD Sports**) (which is 57% owned by Pentland Group Plc (**Pentland**)) have ceased to be distinct from enterprises carried on by Footasylum plc (**Footasylum**) (the **Parties**); and

      (ii) the condition specified in section 23(1)(b) of the Act is satisfied; and

   (b) the creation of that situation has resulted, or may be expected to result, in a substantial lessening of competition within a market or markets in the United Kingdom for goods or services, including:

      (i) the retail supply of sports-inspired casual apparel in-store on a national basis and thereby in each local area where one or more of the Parties' stores is present;

      (ii) the retail supply of sports-inspired casual footwear in-store on a national basis and thereby in each local area where one or more of the Parties' stores is present;

      (iii) the retail supply of sports-inspired casual apparel online at a national level; and

      (iv) the retail supply of sports-inspired casual footwear online at a national level.

2. Therefore, in exercise of its duty under section 22(1) of the Act, the CMA hereby makes a reference to its chair for the constitution of a group under Schedule 4 to the Enterprise and Regulatory Reform Act 2013 in order that the group may investigate and report, within a period ending on 16 March 2020, on the following questions in accordance with section 35(1) of the Act:

   (a) whether a relevant merger situation has been created; and

(b) if so, whether the creation of that situation has resulted, or may be expected to result, in a substantial lessening of competition within any market or markets in the United Kingdom for goods or services.

Colin Raftery
Senior Director, Mergers
Competition and Markets Authority
1 October 2019

Conduct of the inquiry

3. We published biographies on the members of the inquiry group conducting the investigation on our web pages on 1 October 2019 and an administrative timetable on 9 October 2019. We also published the issues statement setting out the areas on which the investigation would focus on 24 October 2019.

4. We invited all interested parties to comment on the Merger. We sent detailed questionnaires to retailers and suppliers. In addition, several of these third parties provided us with further information in hearings. Non-confidential versions of summaries of these hearings and a response to the issues statement were shared with the Parties before being published on 23 December 2019. We also used evidence from the CMA's phase 1 review of the Merger.

5. We commissioned two surveys. We commissioned DJS Research (DJS) to conduct an exit survey of the Parties' customers at a sample of the Parties' stores, and DJS to conduct a survey of a sample of the Parties' online customers. Copies of DJS' reports of the survey methodologies and the findings, including the questionnaires used, are published on the inquiry webpage alongside this document.

6. On 31 October 2019, members of the inquiry group, accompanied by CMA staff, visited Footasylum's store in Romford, and on 7 November 2019 visited JD Sports' store in Westfield London (White City).

7. We received written evidence from the Parties in the form of submissions and responses to our information requests. A non-confidential version of JD Sports' initial phase 2 submission was published on 23 December 2019. We also held separate hearings with each of the Parties on 16 December 2019.

8. Prior to our hearings with them, we sent a number of working papers to the Parties and our annotated issues statement, for comment. The Parties provided comments on those papers.

9. The Initial Enforcement Order issued in phase 1 continued in force and derogations were granted under it. On 26 November 2019 it was replaced by an Interim Order, served under section 81 of the Enterprise Act 2002 on Pentland and JD Sports. The Interim Order was published on 4 December 2019. Several derogations to the Interim Order have been published since.

10. On 11 February 2020, we issued a notice of extension due to receiving an exceptionally large volume of evidence that required additional time and resource to assess and the need to consider issues raised by the Parties' and

third parties' submissions, and to allow sufficient time to take full and proper account of comments that will be received in response to the Inquiry Group's provisional findings and to reach a fully reasoned final decision in the statutory timeframe. This changed the statutory deadline to 11 May 2020.

11. A non-confidential version of the provisional findings report has been published on the inquiry webpage. As we have provisionally concluded that the completed merger between JD Sports Fashion plc and Footasylum plc has resulted in the creation of a relevant merger situation, and that the creation of that situation has resulted, or may be expected to result, in a substantial lessening of competition (SLC) at a national level in: (i) the retail supply of sports-inspired casual footwear (in-store and online) in the UK; and (ii) the retail supply of sports-inspired casual apparel (in-store and online) in the UK, a notice of possible remedies has also been published on the inquiry webpage. Interested parties are invited to comment on both of these documents.

12. We would like to thank those who have assisted us in our investigation so far.

Appendix B: Parties' submissions relevant to our counterfactual assessment

Introduction

1. This appendix sets out evidence from the Parties which we have considered as part of our assessment of the appropriate counterfactual in chapter 5. This appendix also presents a summary of events leading up to the Merger.

2. This appendix sets out Parties' arguments that absent the Merger, Footasylum would have been a 'significantly weakened and less effective competitor' for two main reasons:

   (a) the impact of certain recent market developments; and

   (b) Footasylum's financial position.

Parties' views on market development

3. The Parties told us that the competitive dynamics of the industry had changed significantly (and would continue to change in the short term) and in a manner which the Parties submitted was 'critical' to the assessment of the competitive impact of the Merger. In particular, the Parties told us that:

   (a) Direct to Customer (DTC) sales by key branded suppliers such as Nike and adidas would increase substantially over the next 12-18 months, squeezing the products available to retailers outside DTC channels;

   (b) consumers were increasingly buying clothing and footwear online, and that well-resourced online retailers, including ASOS, Boohoo.com, Amazon and Zalando posed a substantial and growing competitive threat to the Parties as they expanded rapidly, attracting more customers through their digital offerings and building strong partnerships with branded suppliers;

   (c) high street retailers had expanded their ranges of athleisure clothing and footwear and invested in their store elevation strategies; and

   (d) an increasing convergence of traditional brick-and-mortar and online channels was placing further pressure on multi-channel retailers such as the Parties who had significant store networks.

4. The Parties submitted that the sale of products produced by Nike and adidas represented a substantial part of Footasylum's business (with Nike and adidas

together representing around [✂]% of Footasylum's gross sales of footwear and around [✂]% of footwear gross profit value over the three-year period from 2016 to 2018). [✂]

Parties' views on Footasylum's financial position

5. The Parties submitted that, absent the Merger, Footasylum's effectiveness as a potential competitor would be 'materially reduced' as a result of its financial position. The Parties submitted that Footasylum had:[1]

   (a) been experiencing significant trading difficulties for some time since early 2018 and undertaken a number of measures [✂][2];

   (b) issued three profit warnings for the last financial year (in June 2018, September 2018 and January 2019) resulting in significant share price drops; and

   (c) [✂]

6. [✂]

Footasylum's views on possible counterfactual developments

7. Footasylum also told us that absent the Merger, [✂].

Events leading up to the Merger

8. We set out below some background information relating to the events leading up to the Merger as relevant to the counterfactual, namely:

   (a) Footasylum's financial position leading up to the Merger;

   (b) Footasylum's strategic options considered at the time of the Merger; and

   (c) Footasylum's [✂].

Footasylum's financial position leading up to the Merger

9. Table 1 sets out Footasylum's financial performance from 2014/15 to 2018/19.

[1] JD Sports' initial phase 2 submission.
[2] [✂]

Table 1: Footasylum's historic financial performance from 2014/15 to 2018/19

£'m

	FY 2014/15	*FY 2015/16*	*FY 2016/17*	*FY 2017/18*	*FY 2018/19*
Total revenue	[✂]	[✂]	[✂]	[✂]	[✂]
Gross profit	[✂]	[✂]	[✂]	[✂]	[✂]
Operating cost	[✂]	[✂]	[✂]	[✂]	[✂]
Head office adjustments ł	[✂]	[✂]	[✂]	[✂]	[✂]
EBITDA	[✂]	[✂]	[✂]	[✂]	[✂]
Exceptional cost	[✂]	[✂]	[✂]	[✂]	[✂]
EBITDA post-exceptional	[✂]	[✂]	[✂]	[✂]	[✂]
GP margin before headoffice adjustment (%)	[✂]	[✂]	[✂]	[✂]	[✂]
EBITDA margin (%)	[✂]	[✂]	[✂]	[✂]	[✂]

ł Head office adjustments relate to revenue and cost of sales items.
Note: Footasylum's financial year runs from March to February.

10. Based on Table 1, between 2014/15 and 2017/18, Footasylum's revenue increased from £[✂] to £[✂] and EBITDA (before exceptional items) increased from £[✂] to £[✂]. The Initial Public Offering (IPO) of Footasylum took place in November 2017 when its shares were admitted to the AIM and each ordinary share was listed at 164p. By December 2017, the share price had increased to 260p. Footasylum's AIM admission document set out an EBITDA expectation for 2018/19 of £15 million and new store openings of eight to 10 per year in the medium term. In addition, Footasylum intended to [✂].

11. [✂]

12. Footasylum attributed the decline in its EBITDA margin to the decrease in gross margin, discounting of less popular products, provisions for stock shrinkage ([✂]), new warehouse migration and build that resulted in disruption and warehouse inefficiency leading to stock losses (£0.5 million), the cost of operating as plc (£0.5 million), restructuring cost (£0.5 million) and investment/store impairment (£1 million). These costs were offset against an early surrender of a store lease (£2.6 million) and an HMRC VAT and IPO adjustment (£0.7 million).

13. Exceptional items were higher in 2017/18 due to IPO costs (£4.1m) and an HMRC VAT provision (£1.9 million).

14. Footasylum told us that it issued three market announcements during its 2018/19 financial year and provided us with the timings of these market announcements and the developments around each announcement below:

(a) **June 2018** – on 19 June 2018, it issued a profit warning that its 2018/19 EBITDA expectations would be £2 million lower at £13 million due to lower sales and increasing capex and property costs:

(i) its share price subsequently decreased from 167.5p on 17 June 2018 to 79p on 19 June 2018.

(ii) [✂];

(iii) Footasylum told us that it considered further cost reductions in [✂] and

(iv) Footasylum [✂];

(b) **September 2018** – on 3 September 2018, Footasylum told us that it made a further announcement that its EBITDA expectations for the year would be around £5 million (less than half of the £12.5 million reported EBITDA in 2017/18) due to lower store sales in larger stores and that gross profit margins would be lower by 2.6 percentage points. [✂];

(i) Footasylum's share price subsequently decreased from 84p on 30 August to 33.5p on 4 September 2018;

(ii) [✂];

(iii) Footasylum told us that the market announcement [✂];

(iv) [✂];

(v) [✂]:

(vi) [✂];

(c) **January 2019** – on 8 January 2019, Footasylum told us that it issued its third market update because of a difficult Christmas trading in December 2018 and its 2018/19 EBITDA would be at the lower end of market expectations of £2.8 million;

(i) its share price decreased from 32.5p on 7 January 2019 to 27.5p on 9 January 2019;

(ii) Footasylum told us that in early January 2019 Nike contacted Footasylum to monitor Footasylum's financial position. Footasylum told us that [✂].However, Footasylum told us [✂];

(iii) [✂];

(v) [✂];

(vi) [✂];

(vii) [✂]; and

(viii) [✂]

Footasylum's options at the time of the Merger

15. [✂]. We provide details of each option below and the extent to which each was considered by the Footasylum Board.

[✂]

16. [✂]

17. [✂]

[✂]

18. [✂]

[✂]

19. [✂]

[✂]

20. [✂]

[✂]

21. [✂]

22. [✂]

23. [✂]

24. [✂]

[✂]

25. [✂]

26. [✂]

[✂]

27. [✂]

28. [✂]

[✂]

29. [✂]

30. [✂]

31. [✂]

[✂]

32. [✂]

33. [✂]

34. [✂]

Appendix C: Entry-exit analysis

Introduction

1. The CMA carried out a Performance Concentration Analysis (which we refer to as the entry-exit analysis) establishing how the Parties' stores' revenue varied in response to the entry and exit of stores belonging to different retailers within the local area of the Parties' stores. This analysis indicated the extent of competitive constraints on the Parties. We have estimated the extent of these constraints on JD Sports by alternative retailers. It was not possible to perform the analysis for Footasylum given that it has substantially fewer stores than JD Sports, meaning that there was less data available to estimate the econometric model robustly.

2. The entry-exit analysis forms part of the evidence base used to assess the competitive constraint imposed on JD Sports by Footasylum and other retailers in chapters 8 and 9. When the entry-exit results are considered, if a retailer is estimated to have a consistently negative and statistically significant impact on footwear revenue, and this result is robust to reasonable variation in the econometric specification used, this is treated as evidence suggesting that the retailer is a competitive constraint for JD Sports in the supply of sports-inspired casual footwear. This exercise is repeated for sports-inspired casual apparel. The analysis is subject to the following key caveats:

   (a) it relies on historic data and provides a static view of the constraints from other retailers;

   (b) it is not possible to estimate the constraints on Footasylum;

   (c) the results are likely to be subject to upward bias due to endogeneity meaning that the lack of a statistically significant and negative effect is not evidence for a lack of a competitive constraint; and

   (d) the analysis applies only to JD Sports' in-store offering.

3. While being mindful of the above, we consider that the analysis remains useful as evidence to indicate which retailers are a competitive constraint on JD Sports' in-store offering on a static basis.

4. This analysis considered the following what the impact on the performance of the Parties' stores is when a retailer opens or closes a store in the local area. We refer to this as 'store entry/exit' since it captures the impact of the opening/closure of a store belonging to a given retailer. This is equivalent to a retailer expanding its presence in a local area.

5. The larger the estimated negative effect of retailer or store entry and exit on the Parties' store performance, the greater the competitive constraint imposed on the Parties by the retailer in question. The competitive constraint arises from customers viewing the alternative retailer as a substitute and diverting to this retailer's stores instead of shopping at JD Sports. We present results for both store and retailer entry.

6. Store entry/exit may understate the competitive constraint from a given retailer. If the retailer already has many stores in the local area, the impact of an increase in the number of its stores by one may be limited due to the existing stores already exerting a large constraint. To investigate this, we present results using retailer entry/exit which considered what the impact on the performance of the Parties' stores is when a retailer opens a new store in a local area where it did not previously any stores or closes its only store in a local area. We refer to this as 'retailer entry/exit' since it captures the impact of the entry/exit of a retailer into a local market.

7. This appendix is technical in nature and therefore includes only limited interpretation of the results, the CMA's interpretation of the results is included in chapters 8 and 9. The remainder of this appendix is arranged as follows:

   (a) the data that was used for estimation is described and the related summary statistics are provided;

   (b) the econometric methodology that has been used is described;

   (c) the strengths and limitations of the analysis are considered; and

   (d) the results tables are presented.

Data

8. The data used for the entry-exit analysis was provided by the Parties. For each of the Parties' stores, the Parties provided data on weekly store revenue covering the period 2014 to 2019.[3] Each of the Parties provided the information for their own stores. Information on the location and the opening/closing dates of stores belonging to different retailers located within a 20-minute drivetime of a JD Sports store were provided by JD Sports.

9. Using the store location data, the CMA calculated the drivetime between every combination of stores. This information allowed us to calculate the number of stores belonging to each retailer located within a 20-minute

[3] Weekly revenue for each of the Parties' stores. To smooth out the random variation that exists from week-to-week, the data was aggregated to a 4-weekly (monthly) and 12-weekly (quarterly) basis.

drivetime for each of JD Sports' stores. This is the key independent variable which underpins the entry-exit analysis.

10. The summary statistics for the outcome variables used in the entry-exit analysis are presented in Table 1.

Table 1: Monthly outcome summary statistics for JD Sports

	Mean	*Std. Dev.*	*Observations*	*Number of stores for which variable observed*
Total Revenue	[✂]	[✂]	[✂]	[✂]
Log Total Revenue	[✂]	[✂]	[✂]	[✂]
Footwear Revenue	[✂]	[✂]	[✂]	[✂]
Log Footwear Revenue	[✂]	[✂]	[✂]	[✂]
Apparel Revenue	[✂]	[✂]	[✂]	[✂]
Log Apparel Revenue	[✂]	[✂]	[✂]	[✂]
Proportion of products sold at full price (%)	[✂]	[✂]	[✂]	[✂]
Time since last refit (years)	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis of data provided by JD Sports, the competitor data was provided by JD Sports.

Note: The proportion of products sold at full price variable is not available for the first 18 months of the period under consideration as such the number of observations (and number of stores for which the variable is observed) is lower

11. Table 1 shows the average value and standard deviation for each measure used as an outcome variable in the entry-exit analysis for JD Sports. For the revenue variables, the mean is presented in both monetary terms and as the log-transformed value which was used for estimation.

12. One store in the dataset had no footwear revenue. Since it is not possible to log transform zero values, this store is omitted from the specifications that use footwear revenue as the outcome variable.

13. These figures were not been adjusted for inflation due to the presence of time fixed-effects in the econometric model. [✂]

14. Table 2 shows the proportion of JD Sports' stores that are located in each UK region across all the time periods observed in the dataset.

Table 2: Regional distribution of JD Sports stores

UK Region	*% of observations*	*Observations*	*Number of stores for which variable observed*
North East	[✂]	[✂]	[✂]
North West	[✂]	[✂]	[✂]
Yorkshire & The Humber	[✂]	[✂]	[✂]
East Midlands	[✂]	[✂]	[✂]
West Midlands	[✂]	[✂]	[✂]
London	[✂]	[✂]	[✂]
East	[✂]	[✂]	[✂]
South East	[✂]	[✂]	[✂]
South West	[✂]	[✂]	[✂]
Northern Ireland	[✂]	[✂]	[✂]
Scotland	[✂]	[✂]	[✂]
Wales	[✂]	[✂]	[✂]

Source: CMA analysis of data provided by JD Sports.

15. The regional definitions used in this table are those used in the model combining store and region-time fixed effects.

16. [✂] there are more stores in the East of England than for any other region in the UK and/or that the stores in the East have been open for a longer period of time.

17. Table 3 compares the average number of stores operated by a given retailer within a 20-minute drivetime of each JD Sports store.

Table 3: Store counts by retailer for JD Sports stores (full sample)

Retailer	*Average number of stores*	*Std. Dev.*	*Observations*	*Number of stores for which variable observed*
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis of data provided by JD Sports and Footasylum, the competitor data was provided by JD Sports.

18. [✂]

19. Table 4 shows the number of JD Sports observations in the dataset that are affected by entry or exit events for each of the retailers listed vertically in the table. The higher the number of affected observations the greater the robustness of the estimated impact of entry or exit, all else being equal. The entry and exit events are split into ‘store entry/exit’ and ‘retailer entry/exit’. A retailer entry/exit is one in which the number of stores belonging to a given retailer within a twenty-minute drivetime of a JD Sports store changes from zero to one or vice versa. By contrast, store entry/exit reflects any change in

the number of stores belonging to a given retailer regardless of the number of incumbent stores.

Table 4: Number of JD Sports store-week combinations affected by entry and exit events by retailer (full sample)

Retailer	*Number of affected observations*	
	Store entries/exits	*Retailer entries/exits*
[✂]	[✂]	[✂]
[✂]	[✂]	[✂]
[✂]	[✂]	[✂]
[✂]	[✂]	[✂]
[✂]	[✂]	[✂]
[✂]	[✂]	[✂]
[✂]	[✂]	[✂]
[✂]	[✂]	[✂]
[✂]	[✂]	[✂]
[✂]	[✂]	[✂]
[✂]	[✂]	[✂]
[✂]	[✂]	[✂]
[✂]	[✂]	[✂]
[✂]	[✂]	[✂]
[✂]	[✂]	[✂]
[✂]	[✂]	[✂]
[✂]	[✂]	[✂]
[✂]	[✂]	[✂]
[✂]	[✂]	[✂]
[✂]	[✂]	[✂]
[✂]	[✂]	[✂]
[✂]	[✂]	[✂]
[✂]	[✂]	[✂]
[✂]	[✂]	[✂]

Source: CMA analysis of data provided by JD Sports and Footasylum, the competitor data was provided by JD Sports.

20. [✂]

21. Table 5 considers the related and more intuitive concept of the number of store openings and closures. Table 4 is effectively the product of the number of openings or closures which lead to a change in the number of stores in a given period and the number of JD Sports stores that are within a 20-minute drivetime of the store that has opened or closed.

Table 5: Number of Entry and exit events by retailer (Sep 2014 – Sep 2019)

Retailer	*Number of stores*	
	Store openings	*Store closures*
[✂]	[✂]	[✂]
[✂]	[✂]	[✂]
[✂]	[✂]	[✂]
[✂]	[✂]	[✂]
[✂]	[✂]	[✂]
[✂]	[✂]	[✂]
[✂]	[✂]	[✂]
[✂]	[✂]	[✂]

[✂]	[✂]	[✂]
[✂]	[✂]	[✂]
[✂]	[✂]	[✂]
[✂]	[✂]	[✂]
[✂]	[✂]	[✂]
[✂]	[✂]	[✂]
[✂]	[✂]	[✂]
[✂]	[✂]	[✂]
[✂]	[✂]	[✂]
[✂]	[✂]	[✂]
[✂]	[✂]	[✂]
[✂]	[✂]	[✂]
[✂]	[✂]	[✂]
[✂]	[✂]	[✂]
[✂]	[✂]	[✂]
[✂]	[✂]	[✂]
[✂]	[✂]	[✂]

Source: CMA analysis of data provided by JD Sports and Footasylum, the competitor data was provided by JD Sports.

22. [✂]

Econometric model

23. The econometric model provides evidence on how the Parties' store performance, as measured by revenue, responds to local entry and exit by alternative retailers. Practically, this is done using a fixed effects model. The fixed effects model accounts for store-specific characteristics that do not vary over time using store fixed effects. The model accounts for time-specific characteristics that do not vary over time using time fixed effects. In practice, the following reduced form regression model is estimated:

$$Y_{it} = \sum_s \beta_s N_{s,it} + \delta_i + \delta_t + \varepsilon_{it}$$

24. Where Y_{it} is the log-transformed value of revenue for JD Sports store i in period t. $N_{s,it}$ is the number of stores belonging to retailer s within a 20-minute drivetime of JD Sports store i in time period t. δ_i and δ_t are store and time period fixed effects respectively. ε_{it} is the error term.

25. The retailers that are included in the regression model are: Footasylum, Foot Locker, Sports Direct, Office, Schuh, Adidas, Nike, Clarks, DW Sports, Decathlon, Deichmann, Flannels, H&M, Intersport, Next, Offspring, Outfit, Primark, River Island, Skechers, TK Maxx, Topman, USC and Zara.

26. The coefficient of interest is β_s, where β_s is the change in the outcome under consideration, when the number of stores belonging to retailer s, in the local area of the JD Sports' store, increases by 1. With this approach, β_s is an average effect across all stores and all post-entry (or exit) time periods. This means that the effect is independent of the number of stores belonging to

retailer s that already exist in the local area. If the number of stores belonging to retailer s in the local area were to increase from 0 to 1 it is reasonable to expect that this would have a larger impact than if the number of stores increased from 4 to 5. In other words, one may expect the impact of entry to be greater at the intensive margin i.e. when a retailer enters the local market for the first time than at the extensive margin i.e. when a retailer increases the number of stores it has in a local market by one from a number greater than zero.

27. For completeness, we use the following model to estimate the impact of entry at the intensive margin when the number of stores belonging to a given retailer changes from 0 to 1 or 1 to 0, referred to as retailer entry:

$$Y_{it} = \sum_s \beta_s I_{s,it} + \delta_i + \delta_{rt} + \varepsilon_{it}$$

28. The only difference in this specification is that rather than using the number of stores belonging to retailer s in the local area of JD Sports store i at time t, $N_{s,it}$, a binary indicator for the presence of retailer s in the local area of JD Sports store i at time t, $I_{s,it}$, is used. $I_{s,it}$ is equal to 0 if retailer s has no stores in the local area of JD Sports store i at time t and 1 otherwise. As such, the coefficients of interest β_s now show the impact of retailer entry in the local market by a given retailer.

29. When aggregating the data from weekly to monthly and quarterly, the average values of the outcome are used meaning that the outcome is average weekly revenue. The count variables become the average number of stores that were present in the period and the indicator variable becomes the proportion of the time period for which there was at least one store belonging to retailer s was present.

30. The data covers the period September 2014 to September 2019. If a JD Sports store opened after September 2014 its first week of trading is excluded from the analysis to avoid the impact of weeks in which the store was only partially open (ie open for only three days of the week). Similarly, stores that opened before September 2019 have the last week of trading excluded from the analysis to avoid weeks of partial revenue.

31. There are several weeks in the dataset around the time at which a store was refurbished where the store is closed for a week or part of a week. To deal with these observations in a systematic manner, all weeks in which the total store revenue is less than 25% of the mean value across all weeks for that store are excluded from the analysis. Before excluding these observations, each case was analysed in detail to ensure that the revenue pattern was

consistent with the observation relating to a partial revenue week rather than a volatile sales period.

32. As well as estimating the effect of entry and exit on revenue, we also sought to estimate the impact of entry and exit on the proportion of products stocked at full price and the time since the store was last refurbished using the same econometric approach.

Strengths and limitations

33. We have used a fixed effects approach which accounts for factors that are constant over time but different across local markets through the inclusion of store fixed effects. The approach also accounts for factors that are constant nationally but that vary over time through the inclusion of time fixed effects.

34. The primary limitation with this analysis is that the extent of competition is driven by local factors such as costs and characteristics of demand ie local variation in affluence which also affect store performance. If not accounted for, such issues would bias the results, as we would be incorrectly conflating these factors with the impact of competition on performance. Whether this bias causes the over or under estimation of the impact of competition would depend on how the omitted factors affect store performance.

35. As an example, if we fail to adequately capture income, this could result in an upward bias. An area with higher income may have more stores belonging to different retailers but also the Parties' stores will have higher revenues as a result of higher spending by affluent individuals. This relationship introduces a positive association between revenue and the number of stores belonging to a given retailer in the area thus confounding the competition effect.

36. As an extension, the model can account for factors that vary across regions and over time through the inclusion of time-region fixed effects.[4] This specification helps to deal with the fact that store performance and entry may be endogenous.

37. As an example, suppose that trainers became less fashionable in the West Midlands for a six-month period in 2016, this could lead to store closure (exit) on the part of a given retailer and a decrease in the performance of the local JD Sports store. As such, the coefficients estimated using linear regression would be biased because we are not able to separate the impact of exit and local demand on JD Sports' store revenue. The inclusion of region-time fixed

[4] To facilitate the inclusion of these fixed effects one must exclude the previously described time period fixed effects.

effects overcomes this limitation. However, if the same change in fashion was observed for one city within the West Midlands for a specific time period, this would not be captured by the region-time fixed effects. Therefore, endogenous entry within a region remains a limitation of the selected econometric approach.

38. Examples of potential scenarios where this could occur include:

(a) Increases in local demand are likely to attract new entrants and increase the revenue at stores. This would cause an upward bias in the results. The upward bias arises because entry would incorrectly be associated with increases in revenue. As a result of this conflation we could underestimate the effect of competition on revenue.

(b) Incumbent stores may react to entry with short-term promotional or advertising activity. This would reduce the effect of the entry on revenue, causing the impact of local competition to be underestimated. While this issue does not result in a bias from an econometric perspective, it may lead to the understatement of the true competitive constraint imposed on the Parties by different retailers.

39. As a result of the issues identified above, it is likely that the estimated coefficients suffer from an upward bias. The implication of such upward bias is that negative coefficients may be underestimated in absolute terms, potentially becoming insignificantly different from zero and in extreme cases even positive and significantly different from zero. This means that when interpreting the results, weight should only be given to negative and statistically significant coefficients and little attention should be paid to the estimated magnitude of the effect.

40. When a non-significant result is obtained, it is important to note that this means that the estimation is not sufficiently precise to capture a statistically significant effect. This means that statistical insignificance should be interpreted as the absence of evidence rather than evidence for the absence of a competitive constraint when considering the impact of local competition.

Results

41. The remainder of this appendix sets out the full results of the entry-exit analysis for JD Sports. The estimates show the impact of entry and exit[5] on the following measures:

    (a) total revenue,

    (b) footwear revenue,

    (c) apparel revenue,

    (d) the proportion of products sold at full price, and

    (e) the number of years since the store was last refurbished.

Impact of entry-exit on the revenue of JD Sports' stores

42. Table 6 shows the regression estimates measuring the change in revenue at a JD Sports store when the number of stores belonging to a given retailer (listed vertically) increases by one. As a rule of thumb, if one multiplies the listed coefficient by 100 this gives an approximation of the percentage change in revenue.

43. Column 1 shows the results estimated using the baseline specification which includes time and store fixed effects. Column 2 is a robustness check which includes store and region-time fixed effects. Columns 3 and 4 repeat the specifications of 1 and 2 but use quarterly rather than monthly data.

44. Estimates are provided for each retailer for which a negative coefficient is estimated. Statistical significance is indicated by the asterisks. Statistical significance is captured as follows: * statistically significant at the 5% level, ** statistically significant at the 1% level and *** statistically significant at the 0.1% level. The conventional cut-off for placing weight on estimated results is a significance threshold of 5%.

Table 6: Impact of store entry by different retailers on JD Sports total revenue

Retailer	*Store & month FE's* (1)	*Store & region-month FE's* (2)	*Store & quarter FE's* (3)	*Store & region-quarter FE's* (4)
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]

[5] When presenting the coefficient estimates we typically do so using the example of entry but the coefficient estimates could also be interpreted as the impact of exit.

[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
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[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
	[✂]	[✂]	[✂]	[✂]
Other retailers included in the specification but where no negative impact was observed in the baseline specification:	[✂]			
N	[✂]	[✂]	[✂]	[✂]
R^2	[✂]	[✂]	[✂]	[✂]
Adj-R^2	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis of data provided by JD Sports and Footasylum, the competitor data was provided by JD Sports.

Note: This table shows the impact of store entry by a given retailer on the total revenue of JD Sports' stores.
Estimates are provided for each retailer in the dataset but as mentioned above, attention should only be paid to statistically significant and negative estimates. In the table, statistical significance is indicated by the asterisks. Statistical significance is captured as follows: * statistically significant at the 5% level, ** statistically significant at the 1% level and *** statistically significant at the 0.1% level. The conventional cut-off for placing weight on estimated results is a significance threshold of 5%. Columns (1) and (2) use the monthly data while columns (3) and (4) use the quarterly data. Columns (1) and (3) are the results from the specification using store and time fixed effects. Columns (2) and (4) relate to the specification using store and region-time fixed effects.

45. [✂]

46. Table 7 repeats the analysis and presents the results in the same manner, however, rather than estimating the impact of a marginal increase in the number of stores belonging to a given retailer (store entry), it estimates the impact on total revenue of there being a store belonging to a given retailer within a twenty-minute drivetime of the local JD Sports store, relative to the case where there is no store belonging to said retailer (retailer entry).

Table 7: Impact of retailer entry by different retailers on JD Sports total revenue

Retailer	*Store & month FE's* (1)	*Store & region-month FE's* (2)	*Store & quarter FE's* (3)	*Store & region-quarter FE's* (4)
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
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[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
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[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
Other retailers included in the specification but where no negative impact was observed in the baseline specification:	[✂]			
N	[✂]	[✂]	[✂]	[✂]
R^2	[✂]	[✂]	[✂]	[✂]
Adj-R^2	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis of data provided by JD Sports and Footasylum, the competitor data was provided by JD Sports.

Note: This table shows the impact of retailer entry by a given retailer on the total revenue of JD Sports' stores. A retailer entry is defined as a case where in the initial time period there were no stores belonging to a retailer while in the following period there was at least one.
Estimates are provided for each retailer in the dataset but as mentioned above, attention should only be paid to statistically significant and negative estimates. In the table, statistical significance is indicated by the asterisks. Statistical significance is captured as follows: * statistically significant at the 5% level, ** statistically significant at the 1% level and *** statistically significant at the 0.1% level. The conventional cut-off for placing weight on estimated results is a significance threshold of 5%. Columns (1) and (2) use the monthly data while columns (3) and (4) use the quarterly data. Columns (1) and (3) are the results from the specification using store and time fixed effects. Columns (2) and (4) relate to the specification using store and region-time fixed effects.

47. [✂]

48. Table 8 shows the regression results estimating the change in footwear revenue at a JD Sports store when the number of stores belonging to a given retailer (listed vertically) increases by one. The results are displayed in an identical manner to those when total revenue was considered.

Table 8: Impact of store entry by different retailer on JD Sports footwear revenue

Retailer	*Store & month FE's* (1)	*Store & region-month FE's* (2)	*Store & quarter FE's* (3)	*Store & region-quarter FE's* (4)
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
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[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
Other retailers included in the specification but where no negative impact was observed in the baseline specification:	[✂]			
N	[✂]	[✂]	[✂]	[✂]
R^2	[✂]	[✂]	[✂]	[✂]
Adj-R^2	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis of data provided by JD Sports and Footasylum, the competitor data was provided by JD Sports.

Note: This table shows the impact of entry by a given retailer on the footwear revenue of JD Sports' stores. In this setting, entry is defined as an increase in the number of stores belonging to a given retailer by 1.

Estimates are provided for each retailer in the dataset but as mentioned above attention should only be paid to statistically significant and negative estimates. In the table, statistical significance is indicated by the asterisks. Statistical significance is captured as follows: * statistically significant at the 5% level, ** statistically significant at the 1% level and *** statistically significant at the 0.1% level. The conventional cut-off for placing weight on estimated results is a significance threshold of 5%.

Columns (1) and (2) use the monthly data while columns (3) and (4) use the quarterly data. Columns (1) and (3) are the results from the specification using store and time fixed effects. Columns (2) and (4) relate to the specification using store and region-time fixed effects.

49. [✂]

50. Table 9 repeats the analysis and presents the results in the same manner, however, rather than estimating the impact of an increase in the number of stores belonging to a given retailer, Table 9 estimates the impact on footwear revenue of there being a store belonging to a given retailer within a twenty-minute drivetime of the local JD Sports store relative to the case where there is no store belonging to said retailer (retailer entry).

Table 9: Impact of retailer entry by different retailer on JD Sports footwear revenue

Retailer	*Store & month FE's* (1)	*Store & region-month FE's* (2)	*Store & quarter FE's* (3)	*Store & region-quarter FE's* (4)
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
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[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
Other retailers included in the specification but where no negative impact was observed in the baseline specification:	[✂]			
N	[✂]	[✂]	[✂]	[✂]
R^2	[✂]	[✂]	[✂]	[✂]
Adj-R^2	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis of data provided by JD Sports and Footasylum, the competitor data was provided by JD Sports.

Note: This table shows the impact of retailer entry by a given retailer on the footwear revenue of JD Sports' stores. A retailer entry is defined as a case where in the initial time period there were no stores belonging to a retailer while in the following period there was at least one.
Estimates are provided for each retailer in the dataset but as mentioned above, attention should only be paid to statistically significant and negative estimates. In the table, statistical significance is indicated by the asterisks. Statistical significance is captured as follows: * statistically significant at the 5% level, ** statistically significant at the 1% level and *** statistically significant at the 0.1% level. The conventional cut-off for placing weight on estimated results is a significance threshold of 5%.

Columns (1) and (2) use the monthly data while columns (3) and (4) use the quarterly data. Columns (1) and (3) are the results from the specification using store and time fixed effects. Columns (2) and (4) relate to the specification using store and region-time fixed effects.

51. [✂]

52. Table 10 shows the regression estimates measuring the change in apparel revenue at a JD Sports store when the number of stores belonging to a given retailer (listed vertically) increases by one. The results are displayed in an identical manner to the case when total revenue and footwear revenue were considered.

Table 10: Impact of store entry by different retailer on JD Sports apparel revenue

Retailer	*Store & month FE's* (1)	*Store & region-month FE's* (2)	*Store & quarter FE's* (3)	*Store & region-quarter FE's* (4)
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]

[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
Other retailers included in the specification but where no negative impact was observed in the baseline specification:	[✂]			
N	[✂]	[✂]	[✂]	[✂]
R^2	[✂]	[✂]	[✂]	[✂]
Adj-R^2	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis of data provided by JD Sports and Footasylum, the competitor data was provided by JD Sports.

Note: This table shows the impact of entry by a given retailer on the apparel revenue of JD Sports' stores. In this setting, entry is defined as an increase in the number of stores belonging to a given retailer by 1.
Estimates are provided for each retailer in the dataset but as mentioned above attention should only be paid to statistically significant and negative estimates. In the table, statistical significance is indicated by the asterisks. Statistical significance is captured as follows: * statistically significant at the 5% level, ** statistically significant at the 1% level and *** statistically significant at the 0.1% level. The conventional cut-off for placing weight on estimated results is a significance threshold of 5%.

Columns (1) and (2) use the monthly data while columns (3) and (4) use the quarterly data. Columns (1) and (3) are the results from the specification using store and time fixed effects. Columns (2) and (4) relate to the specification using store and region-time fixed effects.

53. [✂][6]

54. Table 11 repeats the analysis and presents the results in the same manner, however, rather than estimating the impact of an increase in the number of stores belonging to a given retailer, Table 11 estimates the impact on apparel revenue of there being a store belonging to a given retailer within a twenty-minute drivetime of the local JD Sports store relative to the case where there is no store belonging to said retailer (retailer entry).

Table 11: Impact of retailer entry by different retailer on JD Sports apparel revenue

Retailer	*Store & month FE's* (1)	*Store & region-month FE's* (2)	*Store & quarter FE's* (3)	*Store & region-quarter FE's* (4)
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]

[6] [✂]

[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
Other retailers included in the specification but where no negative impact was observed in the baseline specification:	[✂]			
N	[✂]	[✂]	[✂]	[✂]
R^2	[✂]	[✂]	[✂]	[✂]
Adj-R^2	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis of data provided by JD Sports and Footasylum, the competitor data was provided by JD Sports.

Note: This table shows the impact of retailer entry by a given retailer on the apparel revenue of JD Sports' stores. A retailer entry is defined as a case where in the initial time period there were no stores belonging to a retailer while in the following period there was at least one.
Estimates are provided for each retailer in the dataset but as mentioned above, attention should only be paid to statistically significant and negative estimates. In the table, statistical significance is indicated by the asterisks. Statistical significance is captured as follows: * statistically significant at the 5% level, ** statistically significant at the 1% level and *** statistically significant at the 0.1% level. The conventional cut-off for placing weight on estimated results is a significance threshold of 5%.

Columns (1) and (2) use the monthly data while columns (3) and (4) use the quarterly data. Columns (1) and (3) are the results from the specification using store and time fixed effects. Columns (2) and (4) relate to the specification using store and region-time fixed effects.

55. [✂]

Impact of entry-exit on elements of JD Sports' offering

Impact of entry/exit on discounts

56. Table 12 shows the regression estimates measuring the change in the proportion of products sold at full price at a JD Sports store when the number of stores belonging to a given retailer (listed vertically) increases by one. The listed coefficient is the percentage point change in the proportion of products sold at full price.

57. Column 1 shows the results estimated using the baseline specification which includes time and store fixed effects. Column 2 is a robustness check which includes store and region-time fixed effects. Columns 3 and 4 repeat the specifications of 1 and 2 but use quarterly rather than monthly data.

58. Estimates are provided for each retailer for which a negative coefficient was estimated. Statistical significance is indicated by the asterisks. Statistical significance is captured as follows: * statistically significant at the 5% level, **

statistically significant at the 1% level and *** statistically significant at the 0.1% level. The conventional cut-off for placing weight on estimated results is a significance threshold of 5%.

Table 12: Impact of store entry by different retailers on the proportion of JD Sports products sold at full price

Retailer	*Store & month FE's* (1)	*Store & region-month FE's* (2)	*Store & quarter FE's* (3)	*Store & region-quarter FE's* (4)
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
Other retailers included in the specification but where no negative impact was observed in the baseline specification:	[✂]			
N	[✂]	[✂]	[✂]	[✂]
R^2	[✂]	[✂]	[✂]	[✂]
Adj-R^2	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis of data provided by JD Sports and Footasylum, the competitor data was provided by JD Sports.

Note: This table shows the impact of entry by a given retailer on the proportion of products sold at full price in JD Sports' stores. In this setting, entry is defined as an increase in the number of stores belonging to a given retailer by 1.
Estimates are provided for each retailer in the dataset but as mentioned above attention should only be paid to statistically significant and negative estimates. In the table, statistical significance is indicated by the asterisks. Statistical significance is captured as follows: * statistically significant at the 5% level, ** statistically significant at the 1% level and *** statistically significant at the 0.1% level. The conventional cut-off for placing weight on estimated results is a significance threshold of 5%. Columns (1) and (2) use the monthly data while columns (3) and (4) use the quarterly data. Columns (1) and (3) are the results from the specification using store and time fixed effects. Columns (2) and (4) relate to the specification using store and region-time fixed effects.

59. [✂]

60. Table 13 repeats the analysis and presents the results in the same manner, however, rather than estimating the impact of an increase in the number of stores belonging to a given retailer, Table 13 estimates the impact on the proportion of products sold at full price of there being a store belonging to a given retailer within a twenty-minute drivetime of the local JD Sports store relative to the case where there is no store belonging to said retailer (retailer entry).

Table 13: Impact of retailer entry by different retailers on the proportion of JD Sports products sold at full price

Retailer	*Store & month FE's* (1)	*Store & region-month FE's* (2)	*Store & quarter FE's* (3)	*Store & region-quarter FE's* (4)
[✂]	[✂]	[✂]	[✂]	[✂]

[✂]		[✂]	[✂]	[✂]	[✂]
[✂]		[✂]	[✂]	[✂]	[✂]
[✂]		[✂]	[✂]	[✂]	[✂]
[✂]		[✂]	[✂]	[✂]	[✂]
[✂]		[✂]	[✂]	[✂]	[✂]
[✂]		[✂]	[✂]	[✂]	[✂]
[✂]		[✂]	[✂]	[✂]	[✂]
[✂]		[✂]	[✂]	[✂]	[✂]
[✂]		[✂]	[✂]	[✂]	[✂]
[✂]		[✂]	[✂]	[✂]	[✂]
[✂]		[✂]	[✂]	[✂]	[✂]
[✂]		[✂]	[✂]	[✂]	[✂]
[✂]		[✂]	[✂]	[✂]	[✂]
[✂]		[✂]	[✂]	[✂]	[✂]
[✂]		[✂]	[✂]	[✂]	[✂]
[✂]		[✂]	[✂]	[✂]	[✂]
[✂]		[✂]	[✂]	[✂]	[✂]
[✂]		[✂]	[✂]	[✂]	[✂]
[✂]		[✂]	[✂]	[✂]	[✂]
[✂]		[✂]	[✂]	[✂]	[✂]
[✂]		[✂]	[✂]	[✂]	[✂]
[✂]		[✂]	[✂]	[✂]	[✂]
[✂]		[✂]	[✂]	[✂]	[✂]
[✂]		[✂]	[✂]	[✂]	[✂]
[✂]		[✂]	[✂]	[✂]	[✂]
[✂]		[✂]	[✂]	[✂]	[✂]
[✂]		[✂]	[✂]	[✂]	[✂]
Other retailers included in the specification but where no negative impact was observed in the baseline specification:	[✂]				
N		[✂]	[✂]	[✂]	[✂]
R^2		[✂]	[✂]	[✂]	[✂]
Adj-R^2		[✂]	[✂]	[✂]	[✂]

Source: CMA analysis of data provided by JD Sports and Footasylum, the competitor data was provided by JD Sports.

Note: This table shows the impact of *retailer* entry by a given retailer on the proportion of JD Sports products sold at full price in JD Sports' stores. A retailer entry is defined as a case where in the initial time period there were no stores belonging to a retailer while in the following period there was at least one.
Estimates are provided for each retailer in the dataset but as mentioned above, attention should only be paid to statistically significant and negative estimates. In the table, statistical significance is indicated by the asterisks. Statistical significance is captured as follows: * statistically significant at the 5% level, ** statistically significant at the 1% level and *** statistically significant at the 0.1% level. The conventional cut-off for placing weight on estimated results is a significance threshold of 5%.

Columns (1) and (2) use the monthly data while columns (3) and (4) use the quarterly data. Columns (1) and (3) are the results from the specification using store and time fixed effects. Columns (2) and (4) relate to the specification using store and region-time fixed effects.

61. [✂]

Impact of entry-exit on store refurbishments

62. Table 14 shows the regression estimates measuring the change in the number of years since the local JD Sports store was last refurbished when the number of stores belonging to a given retailer (listed vertically) increases by one. The results are displayed in an identical manner to the case when the proportion of products sold at full price was considered.

Table 14: Impact of store entry by different retailers on the number of years since the JD Sports store was last refurbished

Retailer	*Store & month*	*Store & region-*	*Store & quarter*	*Store & region-*

	FE's	*month FE's*	*FE's*	*quarter FE's*
	(1)	(2)	(3)	(4)
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]
Other retailers included in the specification but where no negative impact was observed in the baseline specification: [✂]				
N	[✂]	[✂]	[✂]	[✂]
R^2	[✂]	[✂]	[✂]	[✂]
Adj-R^2	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis of data provided by JD Sports and Footasylum, the competitor data was provided by JD Sports.

Note: This table shows the impact of entry by a given retailer on the number of years since the JD Sports store was last refurbished. In this setting, entry is defined as an increase in the number of stores belonging to a given retailer by 1.

Estimates are provided for each retailer in the dataset but as mentioned above attention should only be paid to statistically significant and negative estimates. In the table, statistical significance is indicated by the asterisks. Statistical significance is captured as follows: * statistically significant at the 5% level, ** statistically significant at the 1% level and *** statistically significant at the 0.1% level. The conventional cut-off for placing weight on estimated results is a significance threshold of 5%.

Columns (1) and (2) use the monthly data while columns (3) and (4) use the quarterly data. Columns (1) and (3) are the results from the specification using store and time fixed effects. Columns (2) and (4) relate to the specification using store and region-time fixed effects.

63. [✂]

64. Table 15 repeats the analysis and presents the results in the same manner, however, rather than estimating the impact of an increase in the number of stores belonging to a given retailer, Table 15 estimates the impact on the number of years since the last refurbishment of there being a store belonging to a given retailer within a twenty-minute drivetime of the local JD Sports store relative to the case where there is no store belonging to said retailer (retailer entry).

Table 15: Impact of retailer entry by different retailers on the number of years since the JD Sports store was last refurbished

Retailer	*Store & month FE's*	*Store & region-month FE's*	*Store & quarter FE's*	*Store & region-quarter FE's*
	(1)	(2)	(3)	(4)
[✂]	[✂]	[✂]	[✂]	[✂]

[✄]		[✄]	[✄]	[✄]	[✄]
[✄]		[✄]	[✄]	[✄]	[✄]
[✄]		[✄]	[✄]	[✄]	[✄]
[✄]		[✄]	[✄]	[✄]	[✄]
[✄]		[✄]	[✄]	[✄]	[✄]
[✄]		[✄]	[✄]	[✄]	[✄]
[✄]		[✄]	[✄]	[✄]	[✄]
[✄]		[✄]	[✄]	[✄]	[✄]
[✄]		[✄]	[✄]	[✄]	[✄]
[✄]		[✄]	[✄]	[✄]	[✄]
[✄]		[✄]	[✄]	[✄]	[✄]
[✄]		[✄]	[✄]	[✄]	[✄]
[✄]		[✄]	[✄]	[✄]	[✄]
[✄]		[✄]	[✄]	[✄]	[✄]
[✄]		[✄]	[✄]	[✄]	[✄]
[✄]		[✄]	[✄]	[✄]	[✄]
[✄]		[✄]	[✄]	[✄]	[✄]
[✄]		[✄]	[✄]	[✄]	[✄]
[✄]		[✄]	[✄]	[✄]	[✄]
[✄]		[✄]	[✄]	[✄]	[✄]
[✄]		[✄]	[✄]	[✄]	[✄]
[✄]		[✄]	[✄]	[✄]	[✄]
[✄]		[✄]	[✄]	[✄]	[✄]
[✄]		[✄]	[✄]	[✄]	[✄]
[✄]		[✄]	[✄]	[✄]	[✄]
[✄]		[✄]	[✄]	[✄]	[✄]
[✄]		[✄]	[✄]	[✄]	[✄]
Other retailers included in the specification but where no negative impact was observed in the baseline specification:	[✄]				
N		[✄]	[✄]	[✄]	[✄]
R^2		[✄]	[✄]	[✄]	[✄]
Adj-R^2		[✄]	[✄]	[✄]	[✄]

Source: CMA analysis of data provided by JD Sports and Footasylum, the competitor data was provided by JD Sports.

Note This table shows the impact of retailer entry by a given retailer on the number of years since the JD Sports store was last refurbished. A retailer entry is defined as a case where in the initial time period there were no stores belonging to a retailer while in the following period there was at least one.

Estimates are provided for each retailer in the dataset but as mentioned above, attention should only be paid to statistically significant and negative estimates. In the table, statistical significance is indicated by the asterisks. Statistical significance is captured as follows: * statistically significant at the 5% level, ** statistically significant at the 1% level and *** statistically significant at the 0.1% level. The conventional cut-off for placing weight on estimated results is a significance threshold of 5%.

Columns (1) and (2) use the monthly data while columns (3) and (4) use the quarterly data. Columns (1) and (3) are the results from the specification using store and time fixed effects. Columns (2) and (4) relate to the specification using store and region-time fixed effects.

65. [✄]

Appendix D: Local flexing of parameters of competition

Introduction

1. Local flexing refers to the process of retailers varying some aspects of their offering locally, having had regard to local competitive conditions (ie varying certain parameters of PQRS from store to store in response to local competition). For example, a retailer may set the prices (or discounts from a standard price) available at a store implicitly or explicitly taking into account the number and type of competitors present in the local area where the store is located. Other examples of local flexing may include changing staffing levels or opening hours, or investing in the presentation of products in its store, in order to respond to local competition.

2. Retailers may also vary some parameters of PQRS locally for some other reasons not directly related to competition, such as customer demographics or the layout or the size of the store. In this Appendix, when discussing local flexing, we have focused on whether the Parties vary some parameters locally in direct response to competition and/or in response to factors likely to be influenced by competition (such as sales levels).

Parties' views

3. We set out more general views of the Parties on local flexing in this section and explore a number of more detailed comments by the Parties in our assessment. Footasylum submitted that all aspects of its offering are set centrally and individual stores [✂].[7]

4. JD Sports submitted that individual stores do not have the ability to vary their offering from the national level and that decisions on PQRS are determined centrally, however, there is local variation in some centrally set elements of its offering.

Our assessment

Homogeneity of competitive conditions

5. Based on store location data provided to the CMA by the Parties we observed that all Footasylum stores have a JD Sports store within a twenty-minute

[7] We note that while the offering is set centrally this does not mean that the offering does not vary on a local basis.

drivetime.[8] [✂] Sports Direct store [✂] Schuh, Foot Locker or Office within 20 minutes.

6. [✂] of JD Sports stores there is a Footasylum store within 20 minutes and for [✂] there is a Sports Direct. [✂] JD Sports stores also have [✂] Schuh, Foot Locker and Office within 20 minutes.[9]

7. Therefore we found that the competitive environment as measured by the retailers that are present and the time taken to drive to the nearest store is broadly similar across the country for Footasylum. This homogeneity limits the potential for local variation in competitive parameters to be driven by differences in local competitive conditions. However, there is much more variation in competitive conditions when one considers JD Sports' stores. This suggests that all else being equal JD Sports would be more likely to have an incentive to flex competitive parameters locally in response to local competition than would Footasylum.

Parties' strategies and operations

8. The CMA has taken account of submissions from the Parties and third parties. We have carried out a targeted, in-depth review of more than 2,500 relevant internal documents provided by the Parties; the CMA considered the evidence in these documents that was relevant to the local flexing of competitive parameters.

Local flexing of price

9. The Parties have submitted that [✂]. It has been submitted to the CMA that varying [✂] on a local basis would be associated with [✂] on the behalf of the Parties. Footasylum submitted that [✂][10] JD Sports submitted that it also adopts a [✂] and which [✂].

10. One exception to the [✂] setting of price across Footasylum's stores is the application of student discount. Some Footasylum stores participate in student events [✂]. An internal document from October 2017 noted that [✂]

11. [✂]

12. [✂]

[8] A 20-minute drivetime was used due to [✂].
[9] Figures calculated by the CMA using the store location data provided by the Parties.
[10] The CMA notes that the [✂].

13. The evidence shows that pricing is carried out nationally and [✂]. There are exceptions to this in terms of student discounts, student events, clearance and discounting of damaged goods.

Local flexing of quality

14. Footasylum submitted that store quality [✂] and that store refurbishments can be prompted by [✂]. Internal documents submitted by Footasylum are consistent with this view noting that [✂].

15. JD Sports submitted that it does not focus on [✂] but does periodically assess store fitness around [✂]. When assessing store fitness JD Sports takes into account factors such as [✂] at which point a decision about whether to [✂].

16. JD Sports submitted that [✂].

17. [✂]. Stores which face more intense competition are likely to underperform all else being equal. In practice, store performance and the extent of local competition could be positively correlated due to local increases in demand which could both encourage other retailers to open stores and improve local performance. Given this complex relationship, the relationship between store performance and store quality does not necessarily imply a clear relationship between local competition and store quality.

Local flexing of service

18. Footasylum submitted that staffing decisions are made [✂] but are not directly related to [✂]. Footasylum stated staffing decisions take account of [✂].

19. [✂]

20. JD Sports submitted [✂].

21. [✂]

22. [✂]

23. From our review of internal documents we found that service levels are on the whole set nationally. Staffing decisions appear to be made based on practical merit rather than in direct response to direct competition and the bulk of marketing spend is national.

Local flexing of range

24. [✂][11]

25. Footasylum sets range on a [✂], the result of which is that [✂]. Footasylum has submitted that such variation does not take into account the product range of competitors and is instead the [✂]. Footasylum submitted that in some instances store managers [✂]. Footasylum has submitted that whether such requests are approved is linked to the [✂]. Such requests also take into account [✂].

26. [✂]

27. [✂]

28. The CMA believes that [✂]

29. JD Sports submitted that while [✂] may vary from store to store and that decisions are [✂]. JD Sports acknowledged that store managers make requests for [✂] but that such decisions cannot be taken unilaterally.

30. The CMA's review of JD Sports' documents has not found evidence of it flexing its range in response to competition. The CMA has only found evidence of an incentive to flex range. In a decline report for the [✂], it is noted that the [✂] from the local [✂] store which stocks products from suppliers such as [✂] is having an impact on the JD Sports store [✂].

31. [✂]

[11] [✂]

Appendix E: Parties' submissions on the surveys and our assessment

Introduction

1. We commissioned two surveys in the course of our inquiry: a face-to-face store exit survey of customers from JD Sports and Footasylum stores, and an online survey of the Parties' online customers.

2. Both surveys were carried out by DJS Research, an independent market research agency. Further details on the findings, methodologies, and questionnaires of both surveys, are provided in separate reports.[12]

3. This appendix sets out the Parties' submissions on the surveys and our consideration of these.

Parties' submissions

Survey design

4. The Parties submitted a number of comments on the draft survey questionnaires and the choice of stores for the store exit survey. In summary, the Parties submitted that:

   (d) the sample size of 28 stores from each of the Parties in the store exit survey was too small to be representative of the UK store network and thus insufficient to provide robust estimates of diversion;

   (e) the CMA should have asked questions about the specific products bought, rather than about the basket, as the diversion responses would be clearer and more economically meaningful when customers consider and compare specific individual items, rather than assess the overall choice and value of their basket;

   (f) in relation to the phrasing of the diversion questions in the store exit survey, references to the adverse change prompting diversion having been discovered 'today' were problematic as by then the respondent may, for example, be committed to an in-store rather than online purchase. The Parties submitted that therefore the questions should have been phrased

[12] See inquiry webpage.

to make it clear the hypothetical adverse change had been in place for a significant time; and

(g) The Parties also made detailed submissions on specific questions for both draft survey questionnaires.

Survey results

5. The Parties submitted that they had concerns about the reliability of the diversion results, in particular that:

(a) shopping for footwear and apparel is a less frequent event for consumers than shopping for other goods (such as groceries), so it is more likely to involve forward planning and research by the consumer. By using the word 'today' in the diversion question, the questionnaire reduced the range of retailers the customer could consider to be viable alternatives;

(b) high diversion between Footasylum and JD Sports (and vice-versa), does not necessarily translate into sales. The Parties stated that the diversion ratios are indicative of the next place where consumers would look but there is no guarantee they would have found and bought a suitable product from the second retailer;

(c) the analyses of footwear and apparel customers should have excluded respondents who purchased both footwear and apparel together. The Parties submitted that the structure of the surveys, which required respondents who purchased both footwear and apparel to give a single response to the diversion question, introduced potential bias in the responses from respondents who purchased both types of products and who might have diverted to two different retailers for the different products;

(d) it is not clear that a hypothetical 5% price increase across in-store and online would correctly identify the relevant marginal customers. A price increase across in-store and online would imply a combined theory of harm across both in-store and online. The question does not identify the correct marginal customers if the CMA's theory of harm is instead specific to in-store;

(e) restricting the sample size to such marginal customers would reduce the sample size too much to draw robust estimates of diversion; and

(f) the results produced by the CMA's 'stratum weights' reweighting methodology were counter-intuitive.

Our assessment

Survey design

6. We have considered the submissions made by the Parties in relation to the survey sample and questionnaire design:

   (a) we consider the sample size for the store exit survey is sufficient. We developed our sampling approach to ensure good representation of the Parties' in-store customers across the UK. The sample enabled us to achieve about 3,000 interviews per party across 28 of each of the Parties' stores. It is one of the largest merger surveys of its type that the CMA has commissioned. We judged this would provide sufficiently precise estimates for the inquiry's purposes, while also being achievable within the time available;

   (b) we disagree that the questions should have been focused on individual items within a basket. We consider it reasonable for respondents to answer based on their basket in general. Practically, adopting the Parties' suggested approach would also have made the surveys more complicated and longer, reducing respondents' ability to engage with it. We also note that only a small proportion of respondents purchased more than one item, in either the in-store or online survey;

   (c) we do not think the use of the word 'today' in the phrasing of the diversion question in the store exit survey led to any notable bias. The question was phrased to encourage respondents to think about the purchases they had made on the day of being surveyed, rather than footwear and apparel purchases generally. Survey participants would have been aware that they had the option of switching online, as a question about shopping online had been asked earlier in the survey; and

   (d) we carefully considered the Parties' submissions on individual questions within the draft questionnaires and made a number of changes to the questionnaires as a result.

Survey results

7. In response to the Parties' submissions on our survey results:

   (a) the diversion question was very carefully worded. We included 'Today' to eliminate any ambiguity about the reference purchase. The question was also explicit that there was an online option. The question wording also attempted ('before deciding to come here today') to put the respondent in

the mindset of the relevant decision moment of where to shop. Nevertheless, we acknowledge the difficulties in wording diversion questions and that their hypothetical nature necessitates careful interpretation;

(b) we note that the diversion questions were intentionally framed using the word 'buy'. We considered that it was important for the interpretation of the diversion analysis that respondents should think about where they would actually spend the money. Additionally, respondents were given the option of 'Don't know' if they were unsure of their response and the proportions selecting this response were fairly low;

(c) we disagree that diversion ratios for footwear and apparel customers should have excluded customers who bought both. Excluding these customers would have reduced the sample size and the precision of the estimates. It could have also introduced its own bias;

(d) in chapter 7 we have defined the relevant markets as combined across online and in-store and our assessment of diversion is consistent with this definition;

(e) we recognise that 'price marginal' customers may be a more appropriate group of customers to assess, given those customers are the ones that may react to changes in PQRS. We assessed both of these groups and found that there was little difference between them. Most of our analysis is therefore based on all customers to take advantage of the greater precision from larger sample sizes. However, for completeness we present estimates for all customers and price marginal customers in Appendix F; and

(f) we have changed our method of calculating 'stratum weights' and no longer use respondents' spend in the calculation.

8. We consider that the store exit survey was robustly designed and carried out to a very high standard. We have given it full evidential weight in our assessment of this Merger.

9. We consider that the online survey was designed and conducted to a high standard. However, we note that the response rates achieved (3.8% amongst JD Sports customers and 4.7% amongst Footasylum customers) were below the 5% minimum threshold that we consider necessary to give full evidential weight to survey results. We therefore do not place full evidential weight on its results in our competitive assessments. While we report the actual results from the online survey, we have considered the overall magnitudes rather than precise figures and considered the extent to which the online survey

results are consistent with the store exit survey. We have generally assessed the results alongside other evidence.

Appendix F: GUPPI methodology

Our approach

1. We conducted store exit survey and an online survey, which allowed us to estimate diversion ratios. These diversion ratios have been combined with information on the Parties' variable profit margins and the ratio of the Parties prices to estimate Gross Upward Pricing Pressure Indices (GUPPIs).

2. The GUPPI provides an estimate, based on current market conditions, of the incentive that the merged entity faces to worsen PQRS post-merger.[13] Worsening one or all of these competitive parameters for either of the Parties, gives rise to a merger effect.

3. The rationale underpinning the GUPPI is that post-merger, it is less costly for one of the Parties to worsen its offering as it will recoup the profit on recaptured sales from those customers that purchase products from the other merging party.

4. As an example, suppose that post-Merger Footasylum increased its prices by 5%. A proportion of Footasylum's customers (price marginal customers) will switch to purchase the same or comparable product(s) at an alternative retailer or to forego the purchase altogether. Of these customers, some will complete their purchases at a JD Sports store (or on the JD Sports website). Pre-Merger, Footasylum would have lost the margin from the price marginal customers who divert to JD Sports. However, post-Merger these sales would remain within the merged entity. This recapture alters the incentives of the merged entity which may give rise to the potential for unilateral merger effects.

Methodology

5. We estimated a GUPPI for each of the Parties separately, recognising that the constraints between the parties may not be symmetric.

6. In line with our national market definition (see chapter 7) and national approach to our competitive assessment (see chapters 8 and 9), we have estimated a national GUPPI. The diversion ratios used to calculate the GUPPI

[13] We note that in this context a deterioration is relative to the counterfactual and as such a deterioration in PQRS could amount to a failure to improve PQRS to the extent that would have occurred absent the merger.

have been calculated from a weighted average of the individual stores used to reach nationally representative diversion estimates.

7. We have calculated GUPPIs separately for each of the in-store and online segments as well as for the combined in-store and online market.[14] As discussed in chapter 6, the low response rate for our online survey means that we have not given full evidential weight to the results from this survey. As such we do the same with both the online and combined GUPPIs.

Calculations

8. In practical terms, for Footasylum, its GUPPI is equal to the product of the diversion ratio from Footasylum to JD Sports, JD Sports' variable profit margin and the price ratio of the Parties. The diversion ratio is the proportion of Footasylum's customers who state that if they knew that all Footasylum (and other Footasylum fascia) stores had closed and their website was closed down, that they would have completed their purchases at JD Sports. The variable profit margin is the difference between incremental sales revenue and the incremental cost of achieving this revenue. If prices are different across the Parties, the GUPPI would also need to be scaled according to the corresponding price ratio.

9. Below is the formula that the CMA has used to calculate the in-store GUPPIs. In doing so, the following notation was used for the relevant inputs:

   (a) p refers to the price level of a given supplier,

   (b) m refers to a margin, and

   (c) $DR_{A \to B}$ refers to the diversion ratio from party A to party B.

10. The CMA also used the following subscripts to refer to the relevant parties:

    (a) J refers to a JD Sports store, and

    (b) F refers to a Footasylum store.

11. The CMA used the following superscripts to refer to the relevant distribution channel:

[14] We calculated the combined GUPPI by weighting and summing the diversion in-store and online. We used weights based on the Parties share of in-store and online revenues from the most recent complete calendar year, 2018. For footwear, this gave weights of [✂] and [✂] for in-store for JD Sports and Footasylum respectively. For apparel, this gave weights of [✂] and [✂] for in-store for JD Sports and Footasylum respectively.

(c) O refers to online, and

(d) S refers to in-store

12. The formula is shown below for Footasylum. For the reverse case (JD Sports' GUPPI) and for the online segment of the market an analogous formula is used.

$$GUPPI_{F\to J} = \big(([diversion\ from\ a\ Footasylum\ store\ to\ JD\ Sports\ store] \cdot [JD\ Sports'\ in-store\ variable\ margin]) + ([diversion\ from\ a\ Footasylum\ store\ to\ JD\ Sports\ online] \cdot [JD\ Sports'\ online\ variable\ margin])\big) \cdot [Ratio\ of\ JD\ Sports'\ price\ to\ Footasylum's\ price]$$

13. Or, algebraically:

$$GUPPI_{F\to J} = \left(DR^{SS}{}_{F\to J} m^{S}{}_{J} + DR^{SO}{}_{F\to J} m^{O}{}_{J}\right)\left(\frac{p_J}{p_F}\right)$$

***Diversion ratios*[15]**

14. There are several different options for the methodology for calculating diversion ratios which we discuss below.

Spend weighting or unweighted

15. We have used unweighted rather than spend weighted estimates of the diversion ratios for our GUPPI estimates. Spend weighting would mean that the weight afforded to an individual's diversion destination choice would be greater the higher their spend. Often spend-weighted diversion ratios are used in the analysis of survey findings; however, the decision whether to spend-weight or not involves a trade-off between precision and potential bias of the estimates (both of which are aspects that contribute to the overall robustness of survey estimates). Spend-weighting invariably increases the variance, and so reduces the precision, of survey estimates. Using unweighted diversion ratios makes little difference to the findings, compared with using non-spend-weighted diversion ratios and is therefore unlikely to lead to any substantive bias. There is very little difference between the GUPPI estimated using spend weighting and those that do not (the difference

[15] Estimates of diversion reported in this section have been weighted to make them nationally representative of the Parties' entire store estate. This is different to the unweighted diversion tables in the DJS exit survey report.

between the two is 0 to 0.7 percentage points). For these reasons, the unweighted estimates of diversion for both surveys are used.

Including or excluding all own-party diversion

16. When asked where they would divert in response to store or website closures, some respondents may answer that they would divert to another store of the same fascia or one of the same Party's other fasciae. In these cases, the CMA asked a follow-up question as to what they would do if that fascia was unavailable.

17. It is therefore possible to calculate diversion either permitting customers to divert to the same Party (whether in-store or online) or not. We have excluded all own party diversion as the incentive to increase prices or worsen QRS post-merger would be the same across all of the Parties' fascia post-Merger. The result of this would be that price rises (or QRS deterioration) at one fascia would be replicated in other fascia belonging to the Parties. GUPPIs estimated using diversion ratios where own-party diversion is not allowed will be higher than those estimated where own party diversion is allowed. To test the importance of this Table 16 and Table 17 show the diversion ratios estimated when own-party diversion is allowed and when it is not.

18. The GUPPIs we calculated are national GUPPIs – ie they measure the incentives for the Parties to raise prices, or worsen QRS, post-merger across their overall in-store estate and online. It is highly unlikely that a consumer who leaves one store would divert to another store/website belonging to the same Party given that any deterioration would likely also have occurred at that store/website. Therefore, for the purposes of calculating national GUPPIs, we exclude the possibility of customer diverting to the same Party at which it shopped.

19. The inclusion of other own-party fascia (e.g. allowing Footasylum online customers to divert to Footasylum's in-store proposition) would decrease the diversion ratios by between 8% and 45%. A comparison is provided in Table 1.

Table 16: Footwear diversion ratios with no spend-weighting, excluding and including own-party diversion

	JD Sports to Footasylum		*Footasylum to JD Sports*	
	Excluding own-party	*Including own-party*	*Excluding own-party*	*Including own-party*
In-store	21%	14%	68%	54%
Online	16%	12%	46%	41%

Source: Diversion ratios as measured by DJS surveys.

Table 2: Apparel diversion ratios with no spend-weighting, excluding and including own-party diversion

	JD Sports to Footasylum		*Footasylum to JD Sports*	
	Excluding own-party	*Including own-party*	*Excluding own-party*	*Including own-party*
In-store	17%	11%	69%	51%
Online	14%	9%	61%	52%

Source: Diversion ratios as measured by DJS surveys

All customers, price marginal or range marginal customers

20. We have considered whether to present estimates on the basis of all customers, price marginal customers (ie those that said they would not have bought the same items had prices increased by 5%) or range marginal customers (ie those that said they would not have done their shopping with the Party if the specific item they bought was unavailable).

21. We recognise that price or range marginal customers are more likely to be reflective of those customers that might react to a merger effect. However, using these customers reduces sample size and hence robustness of the estimates. We also had some concerns about customers' ability to interpret the range marginal question.

22. We have found relatively little difference in the diversion estimates for all customers and price or range marginal customers and therefore use all customers in our subsequent assessments.[16] Regardless, our conclusions would not change if we were to focus only on price or range marginal consumers.

Table 3: Footwear diversion ratios with no spend-weighting excluding own-party diversion, all and price marginal

	JD Sports to Footasylum		*Footasylum to JD Sports*	
	All	*Price Marginal*	*All*	*Price marginal*
In-store	21%	24%	68%	64%
Online	16%	20%	46%	50%

Source: Diversion ratios as measured by DJS surveys.

[16] JD Sports' in-store footwear diversion ratio increases from [✂] when all customers are considered to [✂] when price marginal customers are considered, the in-store apparel diversion ratio increases from [✂] to [✂].
Footasylum in-store footwear diversion ratio decreases from [✂] when all customers are considered to [✂] when price marginal customers are considered, the in-store apparel diversion ratio decreases from [✂] to [✂].
JD Sports' online footwear diversion ratio increases from [✂] when all customers are considered to [✂] when price marginal customers are considered, the online apparel diversion ratio decreases from [✂] to [✂].
Footasylum online footwear diversion ratio increases from [✂] when all customers are considered to [✂] when price marginal customers are considered, the online apparel diversion ratio increases from [✂] to [✂].

Table 4: Apparel diversion ratios with no spend-weighting excluding own-party diversion, all and price marginal

	JD Sports to Footasylum		*Footasylum to JD Sports*	
	All	*Price marginal*	*All*	*Price Marginal*
In-store	17%	22%	69%	67%
Online	14%	12%	61%	59%

Source: Diversion ratios as measured by DJS surveys

Diversion ratios

23. Table 5 to Table 8 present the relevant diversion ratios that were used to calculate the GUPPIs for footwear and apparel:

Variable margins

24. The CMA has used variable margins for the purposes of calculating the GUPPI. This is because the GUPPI is concerned with the marginal incentives of the merged entity, i.e. those that reflect the profit or loss resulting from the incremental change in associated sales volumes in the relevant market as a result of the merger. The CMA's 'Retail mergers commentary' states that 'variable margins are made up of the sales of the relevant products which both Parties supply less their variable costs. In past cases the CMA has considered that cost variability depends on the period over which the Parties could change their retail offer. The decisions on how to derive variable margins have therefore been made on a case-by-case basis and have required an element of judgement.'[17]

25. The Parties provided variable margin estimates relevant to apparel and footwear for both in-store and online channels, shown in Table . The Parties also provided accounting data to show the cost variability of individual cost items.

Table 9: The Parties' instore and online variable margin estimates for apparel and footwear

				%
	JD Sports		*Footasylum*	
	Apparel	*Footwear*	*Apparel*	*Footwear*
In-store	[✂]	[✂]	[✂]	[✂]
Online	[✂]	[✂]	[✂]	[✂]

[17] *Mergers: Retail mergers commentary (CMA62)*, technical box 1.

26. We largely agree with the assumptions the Parties have used to determine their variable margin figures. However, [✂]. We disagree with this assumption and consider that [✂].

27. As a result, on the basis that staff cost includes both [✂], we have taken the average of the percentage split between [✂] and adjusted it upward to take into account [✂]. As a result, we consider it is appropriate to treat [✂] as being [✂]% variable.

28. After applying this adjustment to the employed staff costs, Table shows the estimated national variable margins that were used to calculate the GUPPIs.

Table10: CMA variable margin estimates for apparel and footwear

%

	JD Sports		*Footasylum*	
	Apparel	*Footwear*	*Apparel*	*Footwear*
In-store	[✂]	[✂]	[✂]	[✂]
Online	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

Using a price ratio of one

29. The CMA has assumed a price ratio of one since the [✂], and descriptive data analysis confirms, that the Parties broadly do not tend to [✂].

30. The GUPPIs along with their interpretation and discussion are provided in the main body of chapters 8 and 9 for footwear and apparel respectively.

Appendix G: Market shares and product overlap

Introduction

1. In this appendix we explain the methodology we have used and the resulting estimates of retail market shares and our analysis of product overlaps.

2. Our estimates of market shares are used in our competitive assessment in chapters 8 and 9 to give an indication of the Parties' presence. Our product overlaps analysis is used in our competitive assessment in chapters 8 and 9 to provide an indication of the similarity in offerings between the Parties and between the Parties and other retailers.

Market shares

3. The CMA may calculate market shares and measures of concentration.[18]

4. However, measures of concentration such as market shares may not capture the closeness of competition between retailers and suppliers in a market and therefore the extent to which competitors constrain the parties to a merger. This is particularly true in differentiated product markets, as in this case.

5. We have estimated market shares in the relevant markets - sports-inspired casual footwear and apparel.[19] We note that these market shares are subject to several limitations, including:

   (a) the Parties operate in a differentiated goods market, meaning that there likely exist a range of close but imperfect substitutes.[20] As such market shares do not necessarily provide a good indication of the relative competitive constraints between retailers;

   (b) identifying which products should be classified within the market, and which outside the market, is challenging and may vary over time. A detailed product-by-product assessment is unlikely to be a useful exercise given that the lack of clear boundaries between products in and out of the market (and the availability of better ways in which to measure closeness of competition, such as the GUPPIs); and

[18] CMA Guidance, paragraphs 5.31-5.36.
[19] See chapter 7 on market definition for details on the CMA's approach to defining the relevant market in this case.
[20] CMA Guidance, paragraph 5.3.2

(c) participants in the market may not hold data in categories that match those of sports-inspired casual products or in a manner in which allows estimates to be reliably made that match the sports-inspired definition.

6. For these reasons, we have primarily examined market shares as an indicator of the presence that different retailers have in the relevant markets. While we consider market shares informative to our understanding of the relevant markets, we have put these market shares evidence to limited use.

Data

7. We examined retail market shares based on retailers' revenue in the sports-inspired casual footwear and apparel markets.

8. We asked retailers to provide revenue data for the relevant sports-inspired casual apparel and footwear markets and to distinguish between in-store and online revenues.

9. We collected revenue data at both phase 1 and phase 2 of the Merger Inquiry. Where we deemed retailers were of limited relevance to our investigation and phase 1 data was sufficient, we did not recollect data at phase 2. We did collect data from some retailers at phase 2 which we did not receive data from at phase 1.

10. The phase 2 data was based on an updated questionnaire and explicitly requested UK revenues for sports-inspired casual footwear and, separately, apparel markets, split by distribution channel[21].

11. For some of the retailers contacted at both phase 1 and phase 2 we received different revenue data, which lead to materially different market shares estimates. Given the magnitude of the differences in the data for one retailer in particular (Sports Direct), we calculated two estimates of market shares, using each of these different revenue estimates.

Products included

12. When providing data, several retailers told us that they do not recognise the description of the market that we used or that they do not classify their sales into such a category in the ordinary course of business. We could have specified precise products or brands that should be included within the definition, but recognised that this itself would be subject to debate. Instead,

[21] At phase 1, data was provided on total UK revenues in 2018 in the sports-inspired/athleisure market. If this was unavailable, data was provided on total UK revenues in 2018 in the market in which the third party deemed the Parties to compete.

we asked respondents to self-categorise their data into our description of the market. The inclusion or exclusion of sales revenues from specific products is therefore at the discretion of the retailers from whom we requested information, but we review below our approach to some of the key retailers and where retailers gave important caveats to their data.

JD Sports

13. For JD Sports, we have used its own estimates of sports-inspired casual footwear and apparel revenues.

Footasylum

14. For Footasylum, we have taken its total footwear and apparel revenues, excluding, categories we considered clearly outside the market.[22]

Frasers Group

15. Frasers Group submitted revenue data at phase 2 which was materially different to the revenue data it submitted at phase 1. It submitted that this was because it was able to refine its methodology and manually create datasets that it does not generate in the ordinary course of business.

16. At phase 1, Frasers Group provided total revenues, per product category and distribution channel, relating to athleisure and sports categories. Frasers Group noted that it does not report sales of athleisure separately, so segmentation of the revenue is not readily available. Nevertheless, Fraser Group submitted that it had attempted to separate out its sporting clothing and footwear, but that it was not possible to exclude these categories in their entirety.

17. At phase 2, Frasers Group submitted revised data and gave the following notes to this: [✂]

18. We consider that the substantial difference between its phase 1 and phase 2 data is primarily driven by its including only products in the [✂] at phase 2. This is likely to exclude a large volume of revenues that it placed in a different category such as sporting goods. We recognise that some but not all of these sporting goods may belong within the market we have defined. As such we consider that the two estimates are likely to be bounds to the appropriate value; the phase 2 figures are most likely to underestimate their share of

[22] We excluded bags (incl junior and mini), denim, denim/fashion pants, sandals, sports shorts, swim shorts, underwear and swimwear.

supply, whereas the phase 1 figures are likely to be overestimates. Therefore we consider that its share is likely to lie somewhere between these estimates. We have therefore calculated and used both estimates of market shares.

Primark

19. Primark outlined that it does not have an explicit athleisure category. It aggregated revenue figures from sub sections across Women's, Men's and Kid's departments.

[✂]

20. [✂] said that it does not, in the ordinary course of business, categorise the products offered in its stores as "sports-inspired casual footwear/apparel". It provided data when the CMA requested revenues for a list of 10 major brands.[23] [✂].

Zalando

21. Zalando revenues were converted in GBP at the average EURO/GBP fx rate for the respective year. Its revenue figures include commissions to partner programmes and therefore we consider they are overstated.

Distribution channels

22. In cases where revenues were provided for the sports-inspired and athleisure market without any split across distribution channels, if the third party provided total revenues sales (by product type) by distribution channel, then these proportions were applied to the revenues provided (by product type) in respect of the sports-inspired market.

Retail market shares

23. We present below our estimates of the retail market shares using two different methodologies.

    (a) Methodology 1: We have used data provided by retailers containing the broadest set of product from their submissions. As such the overall size of the market is estimated to be larger than under methodology 2.

[23] These brands were agreed with the CMA on 30 October 2019.

(b) Methodology 2: We have used data provided by retailers containing the narrowest set of product from their submissions. As such the overall size of the market is estimated to be smaller than under methodology 1.

24. We note that the majority of the difference between methodology 1 and methodology 2 is driven by different estimates for the revenues of Sports Direct and USC, reflecting the inclusion or exclusion of different products.

Market shares - the market for sports-inspired casual footwear

25. Table 1 shows the market shares for the sports-inspired footwear retail market for the calendar year 2018:

Table 1: market shares for sports-inspired casual footwear in calendar year 2018

	Combined market		In-store segment		Online segment	
	Methodology 1	Methodology 2	Methodology 1	Methodology 2	Methodology 1	Methodology 2
adidas	[0-5]	[5-10]	[0-5]	[0-5]	[10-20]	[10-20]
ASOS	[0-5]	[0-5]	[0-5]	[0-5]	[5-10]	[5-10]
Foot Locker	[5-10]	[5-10]	[5-10]	[5-10]	[0-5]	[0-5]
Footasylum	[0-5]	[5-10]	[0-5]	[5-10]	[0-5]	[0-5]
JD Sports	[20-30]	[20-30]	[20-30]	[30-40]	[10-20]	[10-20]
Nike	[5-10]	[10-20]	[5-10]	[5-10]	[10-20]	[10-20]
Office	[5-10]	[5-10]	[5-10]	[5-10]	[0-5]	[5-10]
Primark	[0-5]	[0-5]	[0-5]	[5-10]	[0-5]	[0-5]
Schuh	[5-10]	[5-10]	[5-10]	[5-10]	[0-5]	[0-5]
Shop Direct	[0-5]	[0-5]	[0-5]	[0-5]	[5-10]	[5-10]
Sports Direct	[20-30]	[0-5]	[30-40]	[0-5]	[10-20]	[0-5]
Other	[10-20]	[10-20]	[5-10]	[10-20]	[20-30]	[20-30]

Source: CMA analysis of Parties' and third parties' data.

26. Our estimates of market share within the UK across all distribution channels suggest that JD Sports is the largest supplier of sports-inspired casual footwear [✂]. The next largest competitors are Office [✂], Nike [✂], Foot Locker [✂] and Schuh [✂]. Sports Direct is also potentially a significant player, but its share varies substantially between [✂] depending on how products are defined. Footasylum is smaller than JD Sports, accounting for [✂] of the market.

Market shares - the market for sports-inspired casual apparel

27. Table 2 shows the market shares of the sports-inspired apparel retail market for the calendar year 2018:

Table 2: market shares for sports-inspired casual apparel in calendar year 2018

	Combined market		In-store segment		Online segment	
	Methodology 1	Methodology 2	Methodology 1	Methodology 2	Methodology 1	Methodology 2
adidas	[0-5]	[0-5]	[0-5]	[0-5]	[0-5]	[5-10]
ASOS	[0-5]	[0-5]	[0-5]	[0-5]	[5-10]	[10-20]

Foot Locker	[0-5]	[0-5]	[0-5]	[0-5]	[0-5]	[0-5]
Footasylum	[0-5]	[0-5]	[0-5]	[0-5]	[0-5]	[0-5]
JD Sports	[20-30]	[30-40]	[30-40]	[40-50]	[10-20]	[10-20]
Next	[0-5]	[5-10]	[0-5]	[0-5]	[10-20]	[10-20]
Nike	[5-10]	[5-10]	[5-10]	[5-10]	[0-5]	[5-10]
Primark	[10-20]	[10-20]	[10-20]	[20-30]	[0-5]	[0-5]
Shop Direct	[0-5]	[0-5]	[0-5]	[0-5]	[5-10]	[10-20]
Sports Direct	[30-40]	[0-5]	[30-40]	[5-10]	[30-40]	[0-5]
Other	[5-10]	[10-20]	[5-10]	[10-20]	[10-20]	[10-20]

Source: CMA analysis of Parties' and third parties' data.

28. Our estimates of market share within the UK across all distribution channels suggest that JD Sports is the largest supplier of sports-inspired casual apparel [✂]. The next largest competitors are Primark [✂], Nike [✂], Next [✂] and adidas [✂]. Sports Direct is also potentially a significant player, but its share varies substantially between [✂] depending on how products are defined, as discussed above. Footasylum is much smaller than JD Sports, accounting for [✂] of the market.

Product overlap

29. We have identified the extent to which Nike and adidas products sold by the Parties were also sold by other retailers. This gives some indication of the similarity of different retailers' offerings.

Methodology

30. The data used for this analysis was sourced from Nike and adidas. It includes revenues over time for a given product[24] and retailer. The data from Nike is monthly and covers January 2015 to August 2019, whilst the data from adidas is annual and covers 2016 to June 2019.

Limitations

31. The data has some limitations. These are as follows.

    (a) it only covers Nike and adidas products. In 2018, these brands accounted for approximately: [✂]% of JD Sports' footwear sales, [✂]% of Footasylum's footwear sales, [✂]% of JD Sports' apparel sales and [✂]% of Footasylum's apparel sales;

    (b) the adidas data only covers its top 10 UK retailers (by revenue);

[24] Products are defined in the analysis by product name and colourway.

(c) the Nike data includes indoor football footwear products (this accounts for approximately [✂]% of the observations in Nike's footwear products dataset); and

(d) Nike and adidas were only able to provide data on sales to retailer's European accounts (for retailers active in continental Europe as well as the UK).

Parties' submissions

32. The Parties submitted that they had conducted a product overlap analysis, finding a lower level of overlap due to the inclusion of brands other than Nike and adidas. The Parties further submitted that our analysis is subject to the following limitations:

(a) it doesn't use UK data from Nike;

(b) it only covers six months;

(c) it only includes data from Nike and adidas;

(d) it is not sales-weighted; and

(e) it only looks at products sold by each of the Parties – it does not look at the set of products sold by both Parties and identify which other retailers sell these products.

33. Finally, the Parties submitted that the national overlap figures calculated in our analysis overstate the degree of overlap at individual stores.

34. We consider that the Parties' finding of a lower level of overlap isn't necessarily explained by the sample of brands – this could be due to other differences in methodology, such as the time period. Our views on the specific limitations mentioned by the Parties are as follows. The data we received from Nike (and adidas) covers retailer accounts established in Europe, although the majority are established in the UK. We consider that these data are suitable for the purposes of this analysis, as even the retailer accounts established in Europe are likely to make a similar offering available in the UK as elsewhere. [✂], for instance, submitted that its offering is broadly the same across Europe, and [✂].

35. We acknowledge that there is a trade-off between assessing product overlap over a shorter period and over a longer period. Over a shorter period, the assessment may better reflect competitive dynamics at that point in time (recognising that some retailers may only gain access to some products later

in their lifecycle). Assessing product overlap over a longer period will test whether competitive dynamics have persisted over time. We consider that a shorter period is likely more relevant for our competitive assessment, and have therefore looked at the most recent 6 month period.

36. We have sourced data from Nike and adidas to ensure that we are comparing like for like in terms of products. Given the majority of sports-inspired casual products are supplied by Nike and adidas, we consider this analysis to be informative, although recognise that it does not cover every product available in the market.

37. Sales-weighting could have an impact on our results, although we note that unweighted product overlap provides an indication of the degree of similarity of product offerings, rather than focusing on products with the highest sales. Furthermore, the results of the Parties' analysis suggest that sales-weighting would likely increase the degree of overlap between the Parties.

38. The aim of our analysis is to provide an indication of the degree of similarity of the Parties' offerings, rather than the similarity of other retailer's offerings to the set of overlap products.

39. Finally, in response to the Parties' submission that the national overlap figures calculated in our analysis overstate the degree of overlap at individual stores, we note that assessing the degree of overlap at individual stores is not particularly relevant for our competitive assessment, given our view that in-store and online exert constraints on each other, and should be assessed jointly and nationally[25].

Results

40. Table 3 shows the number of Nike footwear products sold by the Parties that were also sold by other retailers during the 6 months to June 2019. Of the [✂] products sold by JD Sports, 56% or less were sold by another individual retailer, with [✂]% being sold by [✂]. Footasylum sold [✂], but a greater proportion of these were also sold by other individual retailers, with [✂] selling [✂]%.

[25] See chapter 7 on Market definition.

Table 3: Number of Nike footwear products sold by the Parties that were also sold by other retailers (6 months to June 2019)

Retailer	Number of products	Proportion of products
JD Sports	[✂]	
Retailer 1	[✂]	56%
Retailer 2	[✂]	40%
Retailer 3	[✂]	33%
Retailer 4	[✂]	32%
Retailer 5	[✂]	32%
Retailer 6	[✂]	28%
Retailer 7	[✂]	22%
Retailer 8	[✂]	19%
Retailer 9	[✂]	18%
Retailer 10	[✂]	16%

Retailer	Number of products	Proportion of products
Footasylum	[✂]	
Retailer 1	[✂]	83%
Retailer 2	[✂]	78%
Retailer 3	[✂]	62%
Retailer 4	[✂]	41%
Retailer 5	[✂]	39%
Retailer 6	[✂]	32%
Retailer 7	[✂]	30%
Retailer 8	[✂]	26%
Retailer 9	[✂]	25%
Retailer 10	[✂]	24%

Source: CMA analysis of data received from Nike and adidas.

41. Table 4 shows the number of adidas footwear products sold by the Parties that were also sold by other retailers during the 6 months to June 2019. Of the [✂] products sold by JD Sports, [✂]% or less were sold by another individual retailer, with [✂]% being sold by [✂]. Footasylum [✂], but a greater proportion of these were also sold by other individual retailers, with [✂] selling [✂]%.

Table 4: Number of adidas footwear products sold by the Parties that were also sold by other retailers (6 months to June 2019)

Retailer	Number of products	Proportion of products
JD Sports	[✂]	
Retailer 1	[✂]	24%
Retailer 2	[✂]	24%
Retailer 3	[✂]	22%
Retailer 4	[✂]	20%
Retailer 5	[✂]	20%
Retailer 6	[✂]	17%
Retailer 7	[✂]	15%
Retailer 8	[✂]	13%
Retailer 9	[✂]	12%
Retailer 10	[✂]	6%

Retailer	Number of products	Proportion of products
Footasylum	[✂]	
Retailer 1	[✂]	51%
Retailer 2	[✂]	42%
Retailer 3	[✂]	38%
Retailer 4	[✂]	36%
Retailer 5	[✂]	31%
Retailer 6	[✂]	28%
Retailer 7	[✂]	28%
Retailer 8	[✂]	25%
Retailer 9	[✂]	11%
Retailer 10	[✂]	4%

Source: CMA analysis of data received from Nike and adidas.

42. Table 5 shows the number of Nike apparel products sold by the Parties that were also sold by other retailers during the 6 months to June 2019. Of the [✂] products sold by JD Sports, [✂]% or less were sold by another individual retailer. Footasylum [✂], but a greater proportion of these were also sold by other individual retailers, with one retailer selling [✂]%.

Table 5: Number of Nike apparel products sold by the Parties that were also sold by other retailers (6 months to June 2019)

Retailer	Number of products	Proportion of products
JD Sports	[✂]	
Retailer 1	[✂]	49%
Retailer 2	[✂]	31%
Retailer 3	[✂]	23%
Retailer 4	[✂]	20%
Retailer 5	[✂]	18%
Retailer 6	[✂]	17%
Retailer 7	[✂]	16%
Retailer 8	[✂]	15%
Retailer 9	[✂]	15%
Retailer 10	[✂]	14%

Retailer	Number of products	Proportion of products
Footasylum	[✂]	
Retailer 1	[✂]	59%
Retailer 2	[✂]	47%
Retailer 3	[✂]	41%
Retailer 4	[✂]	34%
Retailer 5	[✂]	31%
Retailer 6	[✂]	25%
Retailer 7	[✂]	25%
Retailer 8	[✂]	23%
Retailer 9	[✂]	20%
Retailer 10	[✂]	14%

Source: CMA analysis of data received from Nike and adidas.

43. Table 6 shows the number of adidas apparel products sold by the Parties that were also sold by other retailers during the 6 months to June 2019. Of the [✂] products sold by JD Sports, [✂]% or less were sold by another individual retailer. Footasylum [✂], but a greater proportion of these were also sold by other individual retailers, with one retailer selling [✂]%.

Table 6: Number of adidas apparel products sold by the Parties that were also sold by other retailers (6 months to June 2019)

Retailer	Number of products	Proportion of products
JD Sports	[✂]	
Retailer 1	[✂]	38%
Retailer 2	[✂]	28%
Retailer 3	[✂]	17%
Retailer 4	[✂]	10%
Retailer 5	[✂]	8%
Retailer 6	[✂]	8%
Retailer 7	[✂]	5%
Retailer 8	[✂]	4%
Retailer 9	[✂]	2%

Retailer	Number of products	Proportion of products
Footasylum	[✂]	
Retailer 1	[✂]	49%
Retailer 2	[✂]	42%
JD Sports	[✂]	36%
Retailer 4	[✂]	36%
Retailer 5	[✂]	8%
Retailer 6	[✂]	5%
Retailer 7	[✂]	4%
Retailer 8	[✂]	0%
Retailer 9	[✂]	0%

Source: CMA analysis of data received from Nike and adidas.

Appendix H: Submissions on barriers to entry and expansion

Introduction

1. In this appendix, we present the evidence from the Parties and third parties we considered as part of our assessment in chapter 11 of entry and expansion as a potential countervailing factor. Specifically, this appendix sets out:

   (a) third parties' views on support from suppliers and access to their products;

   (b) the Parties' and third parties' views on timescales and costs to establish a national in-store footprint;

   (c) third parties' views on online entry and expansion;

   (d) third parties' views on retailer branding and positioning; and

   (e) the expansion plans of some of the competitors in the relevant markets.

Third parties' views on support from suppliers and access to their products

2. This section sets out the evidence from third parties on support from the suppliers and access to their products as a potential barrier to entry and expansion.

3. We set out below the views of third parties on the importance of gaining access to Nike and adidas products and some of the challenges faced in relation to access to the requested products and volumes:

   (a) [✂] told us that Nike and adidas were 'by far' its most important suppliers.

   (b) [✂] told us that no retailer would enter without 'brand support' and that it could not think of an example where past entry without brand support had been successful. [✂] also told us that its ability to gain access to a wide range of products from key brands such as Nike and adidas was a 'critical factor' for it in [✂] attracting consumers to its new stores. It added that the success of its 'premium lifestyle' offering also relied on Nike and adidas supplying their 'premium and most desirable products' to [✂] so that it could attract customers. However, it told us that it had no 'negotiating power' with Nike and adidas, and that its frequent requests for

access to ‘restricted products’ had ‘repeatedly been denied’. It also told us that [✂].

(c) [✂] told us that it was under ‘significant pressure’ from not being able to supply the products that its target market (16-24 year olds) currently found ‘desirable’ (eg Nike).

(d) One retailer ([✂]) told us that it had [✂] brands and that its ‘top 10 brands’ accounted for 40% of its turnover and that 60% of its turnover came from the remaining [✂] brands. It told us that it ‘suffered disproportionately getting supply of the important key styles from Nike and adidas’. It added that if it had access to the ‘adidas and JD monopoly styles’, then it would not have 60% of its turnover in its ‘remaining [✂] lesser brands’ and that it would clearly have a ‘better representation of these top brands’, and as a consequence the total turnover of the top 10 brands would ‘far exceed the current 40% level’.

4. We set out below the evidence from some of the third party retailers, which indicates that JD Sports was perceived to have a particularly strong incumbency advantage in relation to brand access (compared with other incumbent competitors). For example:

(a) [✂] told us that [✂] had sometimes refused its product requests by stating that it did not provide ‘SMU exclusivity in the UK’, even though [✂] understood that [✂] offered ‘SMU exclusivity’ to JD Sports in the UK for ‘at least some products’. It added that it understood that JD Sports was able to request ‘specific colours’ from [✂], which were then ‘pulled from the range’ before they were offered to other retailers.

(b) [✂] told us that the Merger would ‘significantly’ increase the ‘leverage and influence’ that JD Sports already had over suppliers, in particular over access to brands, sub-brands, franchises and models’ that were the ‘most desired’ within the ‘sports-inspired fashion market’.

(c) [✂] told us [✂]. It added that brands including [✂], already regarded JD Sports as a ‘premier retailer’ and that the Merger would ‘only fuel this desirability’. [✂] also told us that with ‘brands’ stating that they wished to ‘significantly contract the number of retail partners’ they had (partly to pursue their own online DTC business), it was ‘likely that [✂] would ‘become squeezed even more by being unable to buy the most popular lines/brands, losing out to JD Sports’. [✂].

(d) [✂] told us that it had ‘little leverage’ with its ‘largest suppliers’ as its turnover was ‘dwarfed’ by that of JD Sports. It added that the product assortments it was offered by its ‘largest suppliers’ of sports-inspired

footwear products were ‘always missing the most important key new marketed styles’. It told us that its repeated requests for ‘top selling styles’, was ‘always rebuffed’ and that in its view, these ‘top selling styles’ were held back from [✂] for the benefit only of JD Sports.

5. While JD Sports told us that [✂], we note that there were instances of competitors citing difficulties in accessing certain apparel products (although these instances appeared less frequent than for footwear). For example:

   (a) [✂] told us that it was ‘very difficult’ for a retailer to negotiate ‘Exclusives’ from brands such as adidas or Nike without the retailer having a large scale (ie a large number of stores). [✂] told us that it considered ‘Exclusives’ on ‘Sports Footwear’ as essential to stand out from other retailers, and on ‘Sports Apparel’, it was also ‘very important’ as it allowed the retailer to target the product to its particular customer demographic.

   (b) [✂] told us that the [✂] was an example of a product set that it had been able to access one season but not the following season [✂].

   (c) [✂] told us that its difficulties in accessing the products it wanted from Nike and adidas were not limited to footwear only and also applied to apparel.

   (d) [✂] told us that in relation to both footwear and apparel, brands, such as Nike and adidas were 'must have' brands for consumers and, therefore, for retailers. It added that it had sought to obtain supplies of the ‘best/premium’ apparel offerings from the brands, such as Nike, without success and even on a non-exclusive basis. [✂].

Parties’ and third parties’ views on timescales and costs to establish a national in-store footprint

6. This section sets out the evidence from the Parties and third parties on the timescales and costs to establish a national in-store footprint as a potential barrier to entry and expansion. We consider:

   (a) the necessary scale to have a national footprint; and

   (b) the costs and timescales to establish a national footprint.

Necessary scale to ensure a national in-store footprint

7. [✂]

8. [✂]

9. In relation to whether there was a minimum efficient scale for operating with a national presence in the relevant markets:

(a) [✂]

(b) [✂]

10. A number of third parties told us that there were advantages to operating a large number of physical stores, eg access to the key branded products and having a presence in more locations. For example:

(a) [✂] told us that customers often believed that large chains were 'more reliable' and able to be more competitive on price. It added that in the 'branded sports market', the key brands were 'not even interested in dealing with small players'. It also told us that large chains could get 'better' products because they had 'better brand relations' and therefore, independent retailers had a hard time competing against chains.

(b) [✂] told us that larger scale operations 'inevitably' were better placed to offer a wider product range and were present in more locations. It added that while there was scope for smaller chains to compete for consumers, this was on the basis of differentiating their offering in some way (eg Sports Edit had sought a luxury positioning and others had focused on a particular ethical/sustainability product offering).

Costs and timescales to establish a national in-store footprint

11. In relation to the costs and timescales for opening a single store, the evidence from the Parties and third parties provided a wide range of costs (given the different sizes and specifications of a store, but at least £0.2 million) and timescales (as quickly as two months and up to one year):

(a) [✂]

(b) [✂]

(c) [✂] told us that it might take around 12 months to open a new store and require an investment ranging from at least £0.5 to £1 million, depending on store size, location and lease terms.

(d) [✂] estimated that a new store could be opened within two to six months, with the costs varying depending on the construction work that needed to be done.

(e) [✂].In relation to new market entry, [✂] told us that a 'new national player' would need the capital to start up (as well as the relationships with

suppliers in the ‘right products and in the right quantities’). It told us that while it did not consider the UK to be a ‘difficult market’ to expand in, the ‘most pressing’ barrier to expansion would be the ‘capital restraints’ it faced to get its shareholders to provide funding, and to make an investment proposal that would meet certain ‘internal hurdles’.

(f) [✂] told us that opening a new store would require an investment of around £0.2 million per store.

(g) [✂] told us that the costs of opening a new store was primarily in the freehold cost of the property (around £[✂]) and the ‘fit-out’ costs for an [✂] (typically around £[✂] per square foot). It told us that [✂] was a minimum of [✂] (with an implied minimum fit-out cost of £[✂].

Third parties’ views on online entry and expansion

12. This section sets out evidence from the third parties on the costs of establishing a national online business in the relevant markets as a potential barrier to entry and expansion.

13. One third party ([✂]) told us that there were numerous barriers to being an effective new national competitor in the market for sports-inspired footwear and apparel. In particular, [✂] told us that the sector had become very crowded in terms of numbers of retailers, making it harder to create the type of business and infrastructure, and to have the marketing investment, to be able to create a differentiated retail offering. [✂] also identified product access as a barrier to entry and old us that this would be a barrier for both the online and’ brick and mortar’ markets.

14. There was also a broad consensus from third parties that there were very few barriers to expanding online. Warehousing capacity was cited as the main constraint, which third parties did not cite as a material concern. For example:

(a) [✂] told us that given the ‘right operational infrastructure’, ‘digital revenue’ could be scaled ‘very rapidly’, but added that gaining share in an ‘ultra-competitive digital marketplace for sportwear’ was ‘increasingly difficult and more costly’.

(b) [✂] told us that expansion of its online business did not require ‘significant time’ as it was driven by adding a ‘deeper selection of products, better value proposition and improving customer experience’ (eg delivery).

(c) [✂] told us that unlike in-store expansion, ‘online expansion’ was not constrained by ‘physical space’ issues and therefore, it was easier to

expand ‘more quickly’ up to the point where it ran out of warehousing space. It added that if it reached this point, it would prioritise the product ranges it stocked, based on return on profit, until more warehousing space was made available.

Third parties’ views on retailer branding and positioning

15. This section sets out the evidence from the Parties and third parties on retailer branding and positioning and their importance in the relevant markets.

16. We note that the Parties recognised the importance of a retailer’s brand, eg in relation to ensuring the success of any entry or expansion, but considered that the costs of doing so or the access to the relevant advertising medium (eg social media) were not incumbency advantages: [✂]

17. We also noted the following evidence from third parties, which indicated the importance of a retailer’s brand and market position (eg because of the younger target customers in the relevant markets):

    (a) [✂] told us that ‘recognition, credibility and authenticity of the retailer as a brand within this sector’ was ‘critical - in particular to the younger demographic to which JD and Footasylum orientate their marketing and product proposition’. It added that exclusivity of product and of brands was also ‘particularly important’. It told us that JD Sports had ‘successfully built a reputation for model exclusivity’, and used this as a ‘key marketing story’.

    (b) [✂] told us that ‘most’ customers shopped with friends and visited the ‘retailers that they think are cool’. It also told us that ‘vendors have a tiered distribution approach and provide the coolest products to the coolest retailers first’.

    (c) [✂] told us that the ‘major brands’ managed their distribution ‘very carefully’ as access to ‘tiers’ was not only based on the turnover of the retailer, but also the retailer’s ‘market position’, eg if a retailer’s market position was at the very ‘top end’, it may get access to the ‘hottest’ styles before another retailer with a much higher turnover.

18. In terms of estimating what a new national competitor in the relevant markets might spend in terms of advertising and digital marketing, we noted that [✂].

19. Evidence from the Parties and third parties also indicated that the presentation of physical stores was considered relevant to the extent to which a retailer gained access to the suppliers’ relevant branded products:

(a) [✂]

(b) [✂]

(c) [✂] told us that the presentation of the stores and the online store needed to attract the younger target customer base. It added that having a presence on social media was particularly important given the younger demographic of the target customer base.

(d) [✂] told us that while it offered products within the sporting goods channel across a range of price points within the product segmentation ('good', 'better', 'best'), it was still subject to Nike's and adidas's distribution policies and discretion [✂].

Expansion plans of competitors in the relevant markets

20. This section sets out the evidence from the competitors in the relevant markets in relation to their expansion plans. The plans of Frasers Group and Foot Locker are discussed in more detail in chapters 8 and 9.

21. Based on the responses we received from a relatively wide range of retailers, we found that other than [✂], which planned to open around [✂] stores (excluding relocations) in the UK and the Republic of Ireland over the next two years, no other retailer or competitor had any material store openings planned over the next two years (see footnotes for details of the number of new stores planned by each retailer).[26] Behind [✂] in terms of the number of new store openings planned over the next two years, [✂] had a far lower rate of new store openings planned. In this regard, [✂] told us it planned to open [✂] to [✂] new stores over the next two years. [✂] also told us that with respect to [✂], as the market grew, it expected to experience 'normal' business growth for its in-store and online business, with around [✂] to [✂] new store openings a year. However, it told us that [✂] only sold footwear and not apparel, and that it did not deal with Nike or adidas.

22. We also noted that none of the online-only retailers or competitors we approached told us that it had plans to enter into in-store supply and open any physical stores over the next two years (namely, [✂]). For example, in the case of [✂], it told us that in relation to in-store supply, it currently had 'no specific or concrete expansion plans' in the UK over the next two to three years.

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[26] We provide the number of stores each retailer or competitor provided in response to the question of how many stores it planned to open (excluding relocations) over the next two years: *(a)* [✂]: 2; *(b)* [✂]: 1; *(c)* [✂]: 7; *(d)* [✂]: 5; *(e)* [✂]: 2; and *(f)* [✂]: 1. [✂] told us that it planned to open around [✂] over the next two years.

23. In relation to new entry into online supply in the relevant markets, we have seen no evidence of any plans for material new entry, eg with regards to product range similar to those offered by the Parties or with regards to achieving online sales similar to those of Footasylum's online business (of around £[✂]). In relation to the online expansion plans of multi-channel competitors, we noted that a number of competitors were planning to invest in their online businesses over the next two to three years. We also noted that [✂] and [✂] had plans to continue to expand their existing online businesses.

Appendix I: Efficiencies as a countervailing factor

Introduction

1. As part of our assessment set out in chapter 11 of whether there are any efficiencies arising from the Merger which may be a potential countervailing factor, this appendix sets out:

   (a) the CMA's assessment framework for the consideration of efficiencies as a potential countervailing factor;

   (b) the Parties' submissions on efficiencies; and

   (c) our assessment.

CMA assessment framework

2. Our Guidance states that efficiencies arising from a merger may enhance rivalry, with the result that the merger does not give rise to an SLC. For example, a merger of two of the smaller businesses in a market resulting in efficiency gains might allow the merged entity to compete more effectively with the larger business.[27]

3. Our Guidance states that in forming a view on whether any claimed efficiencies will enhance rivalry so that the merger does not result in an SLC, the CMA must expect that the following criteria will be met: *(a)* the efficiencies must be timely, likely and sufficient to prevent an SLC from arising; and *(b)* the efficiencies must be merger-specific.[28]

4. Accordingly, we considered it necessary to assess the source of any synergies, and the implied incentives on the Parties to determine the extent of any rivalry-enhancing efficiencies.

Parties' submissions on efficiencies

JD Sports

5. JD Sports told us that its decision to acquire Footasylum was driven by the following considerations: [✂]

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[27] *CMA Guidance*, paragraph 5.7.2.
[28] *CMA Guideline*, paragraph 5.7.4.

6. We provide further details of each consideration below.

[✂]

7. JD Sports told us that: [✂]

[✂]

8. JD Sports submitted that: [✂]

[✂]

9. JD Sports told us that [✂] In this regard, JD Sports told us that: [✂]

10. JD Sports told us that: [✂]

11. JD Sports also submitted that [✂]

[✂]

12. JD Sports told us that: [✂]

Footasylum

13. Footasylum told us that JD Sports' acquisition of Footasylum [✂]. It told us that the following synergies were likely to arise as a result of the Merger: [✂]

14. [✂]

15. We provide further details of each below.

[✂]

16. Footasylum told us that [✂].

[✂]

17. Footasylum told us that [✂].

[✂]

18. Footasylum told us that [✂]

[✂]

19. Footasylum told us that [✂]

[✂]

20. Footasylum told us that as [✂]

[✂]

21. Footasylum considered that the potential synergies in [✂]. Table shows Footasylum's estimates of the discounted cashflows arising from synergies.

Table 1: Footasylum's discounted synergies cashflows

£m

	Year 1	Year 2	Year 3	Year 4	Year 5
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

22. Footasylum also estimated that it would have an [✂] per year, and a revenue increase of £[✂] per year from the sale of Footasylum's own-brands in JD Sports' store fasciae.

Our assessment

23. We considered whether the efficiencies submitted by the Parties would meet the cumulative criteria set out in paragraph 3 above: *(a)* timely; *(b)* likely; *(c)* sufficient; *(d)* Merger-specific; and *(e)* incentivise the Parties to improve their customer offer in the relevant markets.[29]

Timeliness

24. We consider that, for the reasons set out below, the following the synergies submitted by [✂] would be timely (ie within two years):

    (a) [✂], would be delivered within a timely manner. JD Sports submitted that an initial strategic review of Footasylum would have taken place within the first [✂], but that this did not occur due to the CMA's Initial Enforcement Order which was issued on 17 May 2019;[30]

    (b) [✂] We consider that these [✂].

[29] *CMA Guidance*, paragraph 5.7.4.
[30] JD Sports' initial phase 2 submission, paragraph 351.

(c) [✂]

Likelihood

25. We considered the extent to which the Merger is likely to generate efficiencies, based on the submissions and evidence provided by the Parties. We also considered whether the Parties would have an incentive to make the efficiencies, and whether the planned efficiencies would be likely to occur.

26. We consider that it would be likely that Footasylum's financial position would be stabilised as part of JD Sports, and JD Sports could [✂]. Additionally, we consider that [✂] would be likely as it would ensure that the stores met 'the retail quality standards required of the brands' and so aid with retaining supply of products from the key suppliers.

27. JD Sports submitted that [✂] and therefore efficiencies are likely for Footasylum's business model if JD Sports is able to retain these allocations from key suppliers.

28. However, we do not consider, on the basis of the evidence, that the key suppliers are likely to terminate the Parties' supply agreements. Furthermore, [✂] (see also chapter 5). Therefore, we have not seen evidence that Footasylum would require intervention to ensure continuation of supply.

29. However, we note that the brands have made changes to retailers' segmentation, such as allocations of lower tier stock. For example, [✂] told us that changes to [✂] distribution strategy in early 2019 had altered [✂]. [✂] told us that the change in distribution strategy was to reflect consumer profiles and store formats, and to result in greater product relevance for customers across all retailers and therefore not specific to Footasylum. Therefore, we consider that there is insufficient evidence that the Merger would alter the stock allocation decisions [✂].

30. We consider that the other proposed efficiencies would be likely occur. [✂] would benefit JD Sports. JD Sports told us that [✂].

31. We also note that JD Sports told us that [✂].

32. Further, we consider the [✂].

Sufficiency

33. The Parties have provided some examples of efficiencies that they consider will arise from the Merger. However, we consider this evidence to be limited and, in most instances it does not quantify the benefits to customers in terms

of reduction in prices or an improvement in quality of services (ie store refurbishments). Therefore, we have been unable to assess the extent of their sufficiency to allow the Parties to compete more effectively relative to the competition that is lost as a result of the Merger. It remains unclear as to how they would be sufficient.

34. As set out in our Guidance,[31] we do not in general give as much weight to savings in fixed costs because such savings may often represent private gains to firms and are less important in short-run price formation. We note that the Parties have not indicated whether quantified efficiency savings in fixed costs would be passed on to customers. As a result, we consider that they cannot be considered to be rivalry-enhancing. However, we note that, even if the Parties were to invest the quantified savings of [✂], as shown in Table 1 above, this represents less than [✂]% of the Parties' combined turnover.[32]

35. We consider any quantified rivalry-enhancing efficiencies that meet our criteria as a downward pricing pressure when considering the interpretation of the GUPPI. However, consider the rivalry-enhancing efficiencies, if any, are likely to be very small.

Specific to the Merger

36. We consider here whether the efficiencies submitted by the Parties are a direct result of the Merger (ie would not occur in the counterfactual). In our counterfactual assessment, our provisional view is that Footasylum would have stabilised its financial position absent the Merger.

37. JD Sports told us that it would extend its [✂] expertise to Footasylum post-Merger, an area which [✂].

38. We acknowledge that JD Sports may [✂] in an expedite manner. However, we consider that these improvements could be achieved by other methods, such as outsourcing or employing specialists. We consider that given the veer towards digital experiences and optimisation both online and within 'bricks and mortar', the proposed investment into customer efficiencies would occur absent the Merger due to competitive pressure to improve the 'retail experience' and customer journeys within stores and online.

39. JD Sports submitted [✂], these could occur due to the scale of JD Sports and the given the similarity of the two companies. However, these have not been

[31] *CMA Guidance*, paragraph 5.7.9.
[32] Fixed cost savings represent [✂] of the merged entity's turnover

quantified by the Parties and we have not seen further evidence to support the claim.

40. JD Sports submitted [✂].

41. In our view, this investment is not entirely Merger-specific [✂]. Footasylum highlighted [✂].

42. JD Sports told us that [✂]. However, we consider that JD Sports could achieve the same efficiency to acquire these products absent the Merger through [✂].

43. JD Sports' rationale for the Merger [✂]. This would be an efficiency to JD Sports [✂]. However, [✂]. JD Sports could gain this expertise without having to acquire Footasylum.

44. We consider the [✂] to be Merger-specific as [✂] and the benefits occur as a result of greater post-Merger scale.

Parties' incentives to improve their customer offering

45. We considered whether the proposed efficiencies benefit consumers and are rivalry-enhancing efficiencies in terms of PQRS.

46. Usually in retail mergers, efficiencies arise from purchasing synergies, and particularly from the merged entity buying at lower prices owing to its larger scale. We note that JD Sports has submitted that in the relevant markets [✂]. Therefore, we do not consider [✂], and that there is a lack of price efficiencies at the wholesale level which the merged entity would be able to pass on to consumers.

47. We consider that the Parties have not submitted sufficient evidence to show that the financial investment by JD Sports and the stabilisation of Footasylum's financial position are rivalry-enhancing efficiencies. While an improvement in financial position may reduce finance costs and lead to better terms, these costs savings would largely be fixed.

48. As mentioned above, our Guidance states that we normally give less weight to fixed costs savings as they are less likely to be passed onto consumers. The Parties have not provided evidence otherwise, therefore, it is our provisional view that the Merged Entity may have the incentive to retain the savings, rather than investing in their customer offer (eg by lowering prices).

49. [✂]. Therefore, we consider it unlikely that [✂], would be reflected in cost reductions for consumers. Any efficiencies that would occur would therefore

be through QRS. Given that we do not consider that there would have been any restriction in supply in the absence of the Merger, we did not consider that ensuring this supply would represent a rivalry-enhancing efficiency.

50. JD Sports told us that [✂]. We consider [✂], it would seem unlikely that JD Sports would be able to [✂].

51. JD Sports told us that [✂]. We consider that this is not a rivalry-enhancing efficiency, as the [✂] would be no better than Footasylum would have on its own.

52. We note that there may be an increase in the quality and range of products available at JD Sports stores, which customers would previously not have had access to unless they shopped at Footasylum's 70 stores. However, we consider that this synergy is limited because it is only a benefit to customers of JD Sports that do not shop in Footasylum in-store/online and so are least likely to be interested in Footasylum's own-brand and Bedroom brands.

53. Similarly, we note that [✂] could improve the functioning in-store and online for Footasylum's customers, in terms of collection points, customer service, and payment possibilities. Footasylum told us [✂]. However, this does not contribute to an overall increase in rivalry in the market, as it would only bring the Footasylum part of the Merged Entity up to the pre-Merger standard of JD Sports, and would not represent an improvement to the Merged Entity's offer.

54. [✂]. We have not seen any evidence that these fixed cost savings would be reinvested in the customer proposition rather than being retained by shareholders.

Glossary

Phrase	Definition
the Act	The Enterprise Act 2002
adidas	Adidas AG
AIM	Alternative Investment Market
Apparel	**Sports-inspired casual** apparel unless otherwise specified
Athleisure	**Sports-inspired casual** apparel and footwear
Brand	Term often used by retailers to refer to a supplier of branded apparel and footwear
Brick and mortar store	Physical retail outlet
Channel	Route to customers ie. **online** and **in-store** channel
Clicks and bricks	Retailer with a mix of in-store and online outlets
CMA	Competition and Markets Authority
CMA Guidance	Merger assessment guidelines (CC2/OFT1254), published 1 September 2010
Counterfactual	The counterfactual is a benchmark against which the expected effects of the Proposed Merger can be assessed. The counterfactual takes events of circumstances and their consequences into account to the extent that they are foreseeable
DJS Research	Independent market research agency commissioned by the **CMA** to conduct a **store exit survey** and **online survey.**
DTC	Direct-to-consumer; direct retail sale between supplier and individual consumers.
EBITDA	Earnings before interest, taxes, depreciation and amortisation
Fascia	The fascia on a store front is any surface on the outside of the store that displays the company name, company logo and company colour scheme. By fascia we refer to different retailers (eg **JD Sports**, **Footasylum**, Foot Locker, Sports Direct).
Footasylum	Footasylum Limited (formerly, Footasylum plc)
Footwear	Sports-inspired casual footwear unless specified otherwise
Frasers Group	Frasers Group plc (formerly Sports Direct International plc until 17 December 2019).
GUPPI	Gross upward pricing pressure index
Higher-tier branded products	Branded footwear and apparel products which are most in demand by consumers in the **relevant markets**, including exclusive limited supply products.
Inquiry Group	The appointed panel members and decision-makers of the **CMA's** phase 2 investigation into the **Merger**.
In-store	Physical retail outlet.
Initial Enforcement Order	Initial Enforcement Order made by the **CMA** on 17 May 2019 pursuant to section 72(2) of the **Act** and addressed to Pentland Group plc and **JD Sports**.
Interim Order	Interim Order made by the **CMA** on pursuant to section 81 of the **Act** and addressed to Pentland Group Limited (Jersey), Pentland Group Limited and **JD Sports**.

Issues Statement	Issues Statement on the **Merger** published on 24 October 2019
JD Sports	JD Sports Fashion plc
the key suppliers	**adidas** and **Nike**
the Merged Entity	The combined business following the completed merger between **JD Sports** and **Footasylum**
the Merger	The completed acquisition by **JD Sports** of **Footasylum**
Mono-brand retailer	Retailer which sells one brand
Multi-brand retailer	Retailer which sells multiple different brands
Multi-channel	Use of both **in-store** and **online** channels to sell products to consumers
Nike	Nike, Inc.
Online	Selling of products via the internet
Online survey	The online survey that **DJS Research** conducted on behalf of the **CMA** with a sample of the **Parties' online** customers
the Parties	**JD Sports** and **Footasylum**
Pentland	Pentland Group Limited (Jersey), formerly known as Pentland Group plc, the majority owner of **JD Sports**
PQRS	Price, quality, range or service
the relevant markets	**In-store** and **online** retail supply of sports-inspired casual footwear and sports-inspired casual apparel in the UK
Restricted products	Nike and adidas special make-up/exclusive and high-end/premium products that are currently supplied to only a limited number of **multi-brand** retailers.
SLC	Substantial lessening of competition
Sports-inspired casual products	Sports-inspired casual apparel and footwear which covers athletic-inspired products primarily used for leisure purposes.
Store exit survey	The face-to-face store exit survey that **DJS Research** conducted on behalf of the **CMA** at a sample of the **Parties'** stores.
Suppliers of branded products	Suppliers of branded apparel and/or footwear to retailers, including but not limited to for example adidas, Nike, Puma, Under Armour.