Anticipated acquisition by Amazon of a minority shareholding and certain rights in Deliveroo

Revised provisional findings report

Notified: 22 June 2020

The Competition and Markets Authority has excluded from this published version of the revised provisional findings report information which the inquiry group considers should be excluded having regard to the three considerations set out in section 244 of the Enterprise Act 2002 (specified information: considerations relevant to disclosure). The omissions are indicated by [✂]. Some numbers have been replaced by a range. These are shown in square brackets. Non-sensitive wording is also indicated in square brackets.

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Overview

1. The Competition and Markets Authority (CMA) has provisionally found that the anticipated acquisition by Amazon.com NV Investment Holdings LLC, a wholly-owned subsidiary of Amazon.com, Inc (Amazon) of certain rights and a 16% minority shareholding in Roofoods Ltd (Deliveroo) (the Transaction) has not resulted, and may not be expected to result, in a substantial lessening of competition (SLC) within a market or markets in the United Kingdom (UK) for goods and services.

2. In April 2020, we published provisional findings (the April Provisional Findings) which provisionally concluded that the Transaction would not be expected to result in an SLC on the basis that Deliveroo was likely to exit the market unless it received the additional funding available through the Transaction.[1] We understood that the situation was urgent and, therefore, sought to publish our provisional findings as quickly as possible. Given the conclusion at that time, it was not necessary to set out a full analysis of the effect of the Transaction on competition in the supply of goods and services in the UK.

3. Since April 2020, market conditions and Deliveroo's financial situation have changed materially. In light of this, we have revised our provisional findings and are now of the view that Deliveroo is no longer likely to exit the market as a result of the Coronavirus (COVID-19) pandemic. In light of this finding, we are now setting out our provisional findings based on a full analysis of the effects of the Transaction on competition against a counterfactual where Deliveroo remains in the market. Based on this analysis, we have provisionally concluded that the Transaction would not be expected to result in an SLC in either the market for online restaurant platforms or the market for online convenience groceries (OCG) in the UK, as set out in more detail below. This provisional conclusion reflects the size of Amazon's shareholding in Deliveroo, our assessment of Amazon's incentives given this investment, and the remaining constraints from other suppliers active in these markets.

4. We invite any interested parties to make representations to us on these provisional findings by no later than **5pm on Friday 10 July 2020**. Parties

[1] See April Provisional Findings, 16 April 2020.

should refer to the notice of revised provisional findings for details of how to do this.[2]

Background

5. The CMA is required to answer the following questions:[3]

   (a) whether arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation; and

   (b) if so, whether the creation of that situation may be expected to result in an SLC within any market or markets in the UK for goods or services.

6. If one or more SLCs are found, the CMA must decide what action it might take for the purpose of remedying them.

7. Our provisional findings with respect to the first of these questions, whether arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation are included in the April Provisional Findings.[4] As our provisional findings on those points have not changed materially, we have not repeated those findings in this report. Similarly, our provisional findings on the Parties and the Transaction included in the April Provisional Findings have not changed materially and are not repeated in this report.

8. We note that certain responses to the April Provisional Findings presented concerns about the possibility that the Transaction would remove Deliveroo as a competitor.[5] The Transaction involves an acquisition by Amazon of a 16% minority shareholding in Deliveroo. We are provisionally of the view that this shareholding, and associated rights, will give Amazon material influence over Deliveroo. We are assessing only the effect of that acquisition. If Amazon were to acquire a greater level of control over Deliveroo, either *de facto* control or full control, that would constitute a separate transaction and would itself be subject to possible review by the CMA.[6]

9. Finally, we note that a number of responses to the April Provisional Findings encouraged us to impose remedies on the Parties to this Transaction.[7] The CMA only has the power to impose remedies as part of a merger review

[2] See Amazon/Deliveroo merger inquiry webpage.
[3] The Act, section 36(1).
[4] See April Provisional Findings, 16 April 2020.
[5] See Amazon/Deliveroo merger inquiry webpage.
[6] Merger Assessment Guidelines (CC2 Revised) (MAGs), paragraph 4.31.
[7] See Amazon/Deliveroo merger inquiry webpage.

where it concludes that a transaction will result in an SLC. In the present case, we have provisionally concluded that the Transaction will not result in an SLC in any market in the UK. Absent a change in that conclusion, there is no basis for the CMA to impose remedies on the Parties in the context of this review although, as noted above, the CMA would have the opportunity to review any change which resulted in Amazon acquiring *de facto* or full control of Deliveroo.

Market definition

10. Market definition provides a framework for assessing the competitive effects of a merger for a relevant product and geographic market. We have considered the impact of the Transaction on the supply of:

    (a) online restaurant platforms in the UK; and

    (b) online convenience grocery delivery in the UK, that is, groceries that are delivered within a short period of time after ordering.

Counterfactual

11. The counterfactual is an analytical tool used to help answer the question of whether a merger has or may be expected to result in an SLC. It does this by providing the basis for a comparison of the competitive situation on the market with the merger against the most likely future competitive situation on the market absent the merger.[8] The latter is the counterfactual.

12. Where there is more than one possible alternative scenario, during a phase 2 review the CMA will select the counterfactual it considers would be the most likely scenario to have arisen absent the merger.

13. Against this framework and in light of the Parties' submissions and the evidence we observed, we considered the likely future situations of both Amazon and Deliveroo in the absence of the Transaction. Our focus was on two key questions: (a) whether Deliveroo would exit the market in the absence of the Transaction, as Deliveroo argued prior to the April Provisional Findings; and (b) whether Amazon would re-enter the market for online restaurant platforms. We have also considered the relevant counterfactual in the market for OCG.

[8] MAGs, paragraphs 4.3.1 and 4.3.6.

Exiting Firm Counterfactual

14. As set out in the April Provisional Findings, when considering an 'exiting firm' scenario, the CMA examines whether the firm would have left the market and whether the transaction at issue is the best available outcome for consumers.[9] The CMA applies a three-limb test when making this assessment, considering:

    (a) Whether the firm would have exited (through failure or otherwise) absent the transaction.

    (b) Whether there would have been an alternative purchaser for the firm or its assets.

    (c) What the impact of exit would be, and how this would compare to the impact of the transaction.

15. In the April Provisional Findings, we noted that, as a loss-making business, Deliveroo is currently reliant on external funding in order to continue trading. Our view was that absent the Coronavirus (COVID-19) crisis it was likely both that Deliveroo would have had sufficient time to seek additional funding and that such funding would have been available.[10] This is consistent with the Parties' submission in the Merger Notice that, absent the Transaction, Deliveroo 'would have continued to compete as it currently does, including by seeking suitable investment to drive its expansion and innovation'. On this basis, Deliveroo would not have been considered a failing firm in the counterfactual absent the impact of the Coronavirus (COVID-19) pandemic.

16. The evidence gathered by the CMA at the time of our April Provisional Findings showed that Coronavirus (COVID-19) was having a severe impact on Deliveroo's business and Deliveroo advised the CMA that, as a result of its deteriorating cash position, if the company's directors did not have a reasonable expectation of receiving additional funds before Deliveroo ran out of cash in early Q3 2020, then they would shortly be required to initiate insolvency proceedings. The April Provisional Findings were based on Deliveroo's financial data from early-April 2020 (ie actual data up to early-April and forecast data based on the situation at that time). Deliveroo confirmed to the CMA shortly before notification of the April Provisional Findings on 16 April 2020 that there had been no material recovery in the business since the end of March 2020.

[9] See April Provisional Findings, 16 April 2020.
[10] See April Provisional Findings, 16 April 2020.

17. In the April Provisional Findings, we provisionally concluded that Deliveroo would have been likely to exit the market as a result of the Coronavirus (COVID-19) crisis without additional funds and that, as a result of Deliveroo's urgent need for alternative investment and the effect of the crisis on funding markets, Deliveroo was unlikely to be able to raise the funding required in the time it had available. We also provisionally concluded that Deliveroo exiting the market would have had a greater negative effect on competition and consumers than any effect from allowing the Transaction to proceed.[11]

18. There is now evidence that market conditions and Deliveroo's financial position have changed from the data provided in early-April 2020. We have, therefore, considered whether Deliveroo should continue to be considered an exiting firm.

Limb 1: whether Deliveroo would exit absent the Transaction

19. Since the publication of the April Provisional Findings, in response to requests for information from the CMA, we have been provided with updated financial information from Deliveroo. This information shows that Deliveroo's actual performance in April was significantly better than Deliveroo had forecast at the beginning of April. The recovery appears to have begun slowly in early-April 2020 and accelerated later in the month.

20. Although the Coronavirus (COVID-19) crisis initially had a severe impact on Deliveroo's order volumes, restaurant availability and, in turn, cash flow, this impact was short-lived. Deliveroo's actual performance in April 2020 was significantly better than had been forecast. The improvement in performance, together with working capital improvements and deferral of liabilities, has led Deliveroo to forecast a significantly improved cashflow to June 2020 (compared to the forecasts Deliveroo provided in early-April). This improved cashflow provides Deliveroo with more time to seek additional funding and to rationalise its business operations, potentially extending this cash runway further. The CMA considers that the improvement in Deliveroo's performance is primarily a result of changing market conditions, and would also have occurred in the counterfactual.

21. We do not agree with Deliveroo's submission that the evidence that Coronavirus (COVID-19) has had a less severe impact on its business than originally forecast is irrelevant to our consideration of the counterfactual. In the absence of evidence of a severe and ongoing financial decline to Deliveroo's actual business, we have no basis for finding that such a decline

[11] See April Provisional Findings, 16 April 2020.

would have occurred in the counterfactual (ie had Deliveroo accepted an alternative investment to Amazon).

22. Based on the evidence we have gathered that Coronavirus (COVID-19) has had a more limited impact than expected on Deliveroo's business, and notwithstanding the company's ongoing reliance on external funding, our view is that the most likely counterfactual is the one proposed by the Parties in the Merger Notice: that, absent the Transaction, Deliveroo 'would have continued to compete as it currently does, including by seeking suitable investment to drive its expansion and innovation'. On that basis, we no longer consider that Deliveroo would be likely to exit the market absent the Transaction.

Limb 2: whether there would be alternative investors in Deliveroo

23. On the basis of the evidence we had at the time of the April Provisional Findings, we believed that Deliveroo was facing a financial 'cliff-edge' as a result of the significant impact of Coronavirus (COVID 19) with no evidence of an improvement in the near future. That situation would have required funds to be raised in a very short period of time, during the period that investment sentiment was weakest.

24. While we have received evidence that it would have been challenging for Deliveroo to raise funds in March 2020, our view is that in the relevant counterfactual Deliveroo would likely have taken action to ensure that it was both more attractive to potential investors and to seek to avoid a 'cliff edge' in which it must secure funding very urgently. In addition, for the reasons set out above, the urgent funding need due to Coronavirus (COVID-19) envisaged in the April Provisional Findings no longer appears likely to have arisen.

25. We consider that the evidence that the impact of Coronavirus (COVID-19) on both Deliveroo and the funding markets has been more muted than expected at the date of the April Provisional Findings means that the most likely counterfactual is that Deliveroo would have continued to compete in the market, and to raise funds to do so, in the same way as it anticipated prior to the crisis.

Restaurants counterfactual

26. We have examined whether the most likely scenario, absent the Transaction, is that Amazon would choose to re-enter the supply of online restaurant platforms in the UK. Amazon previously had a limited presence in this market and exited in 2018. In order to assess the likelihood of Amazon re-entering the supply of online restaurant platforms in the UK, we have assessed Amazon's incentives and intention to re-enter, primarily by examining

evidence from Amazon's internal documents. We then assessed Amazon's ability to re-enter, again by examining Amazon's internal documents and looking at evidence from third parties.

27. When considering whether a business has the incentive, intention and ability to enter a market, it is not necessary to identify a single specific route by which that business would be more likely than not to enter the market. Nor do we consider it necessary to have internal documentary evidence setting out an explicit, concrete intention to enter within a defined timeframe. Rather, we must undertake an in-the-round assessment that reflects all of the available evidence with respect to a party's intention, incentive and ability to enter.

28. We have taken into account a range of evidence, including evidence of the way that Amazon operates its business in practice (and in particular its so-called 'test and learn' approach to innovating and expanding its product offerings). We have also carefully considered evidence relating to the broader commercial strategy of the Amazon business, and the perceived potential importance of the online restaurant platform market within this strategy. Our assessment was also informed by Amazon's current strategies for Prime, and its assessment of the role that food offerings play within these strategies, evidence relating to Amazon's previous attempt at supplying a restaurant platform (Amazon Restaurants), and evidence relating to its interest and subsequent investment in Deliveroo.

Amazon Prime

29. Promoting and growing Prime is very important to Amazon, and it has successfully continued to grow Prime membership globally in recent years. After the US, the UK is Amazon's [✂] largest territory in terms of Prime subscription revenue and Prime household penetration. The number of Amazon Prime customers in the UK has grown rapidly in recent years. Amazon has invested heavily in its Prime proposition in the UK, and part of its [✂].

30. The fact that Amazon has not increased the price of Prime in the UK in recent years, [✂], indicates that Amazon is not solely focused on short-run profitability at this stage. The available evidence indicates that growing its Prime membership is the more important objective for Amazon at this time.

Offering restaurant delivery as part of Amazon Prime

31. Food, in general, appears to be an area which Amazon sees as high-use and of value to its Prime customers, and [✂]. Restaurant delivery is seen as a useful benefit for Prime. First, this was shown by Amazon's expectations of

Amazon Restaurants. Second, the attraction and benefit of restaurant delivery [✂] for discussion with Jeff Bezos (CEO) and other members of Amazon's senior leadership team.

32. The UK is one of the largest markets for restaurant delivery in the world and is the largest in Europe. Amazon would have a significant advantage over other operators seeking to enter the UK as it can benefit from its existing relationships with millions of customers in the UK, including engaged Prime customers. We also consider that Amazon may have a different time horizon for profitability compared to other potential entrants and the financial resources to support this.

33. There is evidence that Amazon sees offering fast delivery of a range of products as a way to enhance the value of Prime, which the evidence shows is important to Amazon's overall global corporate strategy. Amazon has considered restaurant delivery on a global level in the context of its desire to attract and retain the customers of its Prime subscription service and to be known for fast delivery. Amazon has a global strategy, as explained below, of expanding its grocery offering and increasing the speed of delivery. Restaurant delivery through Amazon Restaurants was expected to play an important role in this. The benefits Amazon has identified from restaurant delivery in internal documents include: [✂].

Amazon's food strategy

34. F3 is an Amazon business area, which used to also include Amazon restaurants. F3 operates internationally and is focused on developing Amazon's online grocery offering including through the roll-out of its ultra-fast grocery (UFG) plan.

35. Several internal emails from within F3 refer to the importance of offering restaurant delivery as part of Amazon's food strategy, and in particular using the assets or expertise of Deliveroo in other parts of Amazon's food businesses. In addition, emails from the corporate development team show consideration of wider benefits to Amazon from acquiring Deliveroo including [✂].

36. Evidence shows the current priority for F3 is to expand Amazon's position in online groceries globally, with a strong focus on [✂], and it is investing heavily in its delivery and distribution capabilities in the US and UK. Alongside this, Amazon's interest in restaurant delivery has continued for the past five years, is international, and extends across the F3 team, as well as to senior executives at the highest level within Amazon, including Jeff Bezos. There is no evidence to suggest that Amazon is no longer interested in restaurant

delivery or that it no longer expects it to be an important area providing benefits such as differentiation in its offering, flywheel[12] effects for Prime, and enhanced logistical capabilities.

37. While Amazon is currently focused on its groceries business, capabilities it is developing in this context would also support restaurant food delivery. For example, as part of its US grocery offering, [✂], and has further plans to increase the speed of its grocery offering. Delivery speed and [✂] were among the main challenges Amazon faced when operating Amazon Restaurants.

38. We have considered whether the effect of the Coronavirus (COVID-19) pandemic would change this assessment. Although the longer term effects of Coronavirus (COVID-19) are not clear, based on the data available at this time, we have no evidence to suggest that the pandemic will make the UK a less attractive country for Amazon to operate an online restaurant platform, or that Amazon's incentive or ability to enter this segment will be significantly negatively affected. Therefore, we do not consider that the effect of the pandemic changes our assessment of Amazon's food strategy or its incentives to re-enter restaurant delivery.

Amazon Restaurants

39. Amazon Restaurants was trialled in Seattle, and then launched more widely in 2015, when Amazon started building its own delivery service for restaurants and added Amazon Restaurants to its Prime Now offering. Amazon Restaurants was launched in the UK in 2016. Amazon Restaurants closed in the UK in 2018 and in the US in 2019.

40. Evidence of Amazon's expectations for its restaurant delivery business shows that Amazon considered the online restaurant platform business to have strategic value for the wider Amazon business. Amazon's expectations included that restaurant delivery would be an important part of a wider food offering for consumers, it would be an [✂], and that the technology used for the fast delivery of restaurant food would benefit the wider Amazon business as it could be rolled out to other areas, including grocery and retail goods, in the UK, US and elsewhere.

41. The evidence shows that Amazon appears to have made some operational errors and strategic misjudgements in the way it implemented Amazon

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[12] The term 'flywheel' is used at Amazon to describe something similar to a virtuous cycle, which powers the business. For example, lower prices lead to more customer visits, more customer visits increase the volume of sales, and that results in more commission-paying third-party sellers to the site. [✂].

Restaurants in the UK. [✂]. Although it took some remedial action, [✂], it was not sufficient to turn the struggling business around to the satisfaction of Amazon's senior executives. Amazon Restaurants also struggled in the US and Amazon did not appear to be willing to invest significantly more in order to achieve scale in the market, given the preference ultimately expressed by Jeff Bezos [✂].

42. Internal documents prepared by Amazon when it closed the restaurants business indicate the potential for Amazon to re-enter this area [✂] gained from Amazon Restaurants across different countries. Evidence from internal documents also shows [✂].

43. We do not consider that Amazon's decision to exit the UK means that it was no longer interested in this market – indeed, just months after the closure of the UK business Amazon began due diligence on a potential transaction with Deliveroo, suggesting a continuing interest in the UK restaurant platform market.

44. Furthermore, the decision to close the Amazon Restaurants business in the US and the decision to invest in Deliveroo were taken almost simultaneously, and both decisions were taken by the CEO, Jeff Bezos. [✂]. Even though [✂], evidence indicates that it sees restaurant delivery as 'strategically aligned' with its business overall.

45. Although Amazon has submitted that the decisions to invest in Deliveroo and to close Amazon Restaurants were taken separately, the CMA considers that there is evidence suggesting these decisions were linked. Given the appearance that these two decisions were linked, the CMA has repeatedly provided Amazon with opportunities to clarify the rationale for these decisions, but Amazon failed to do so. We consider that that the evidence indicates that the decision to close Amazon Restaurants US was influenced by Amazon having an alternative route to enter restaurant delivery internationally.

Conclusion on Amazon's incentives and intention

46. We believe that Amazon has a strong and continued interest in online restaurant platforms and an incentive to offer this service to Prime customers in order to differentiate its offering, realise flywheel benefits, and develop useful logistical capabilities that would be deployed elsewhere in its business. Evidence shows that the UK is a large and growing market for online restaurant platforms, and the UK is an important and attractive market to Amazon as a result of high levels of Prime membership. Since the closure of Amazon Restaurants, we have observed in Amazon's internal documents continued global interest in online restaurant food delivery.

Amazon's ability to re-enter

47. There are a number of possible routes that Amazon could take to re-enter the supply of online restaurant platforms. We believe there are three main ones: (i) building its own offering; (ii) acquiring or investing in an existing restaurant platform or adjacent business; and (iii) partnering with an existing restaurant platform or adjacent business. For the purposes of establishing the counterfactual in this case, we need only consider the viability of these options with a view to determining whether the most likely scenario is that Amazon would enter via one or other of these routes. We do not need to determine which of these routes would be most likely.

48. As explained above, Amazon has rolled out some of the technology that was used in Amazon Restaurants to support its F3 business, and has continued to develop this technology. Amazon is also using technology from Amazon Restaurants in other areas such as the Amazon India restaurant delivery business. The continued use of this technology indicates that Amazon Restaurants allowed Amazon to learn and develop an offering that is useful in operating this type of business, and that the technology is transferrable. Third parties active in online restaurant delivery have told us that the technology powering their platform and delivery network is generally transferable between countries.

49. Amazon could also acquire an overseas online restaurant platform. As described above, we believe that the evidence shows Amazon has an incentive to offer this service in the UK based on the attractiveness of the UK restaurant delivery market and Amazon's broader presence in the UK. We believe that if Amazon looked to enter through acquisition, it could offer this service in the UK in the short to medium-term (ie within five years).

50. A further option would be for Amazon to re-enter the supply of online restaurant platforms through contractual arrangements with a business that either offers an online restaurant platform already, or that would enable Amazon to offer an online restaurant platform by addressing one or more of the barriers to entry that Amazon faces. Evidence shows that companies are interested in working with Amazon in this market.

51. We consider that the benefit to Amazon of acquiring, investing in, or partnering with a third party is that one or other of these approaches would allow it to more easily overcome the barriers to entry in the supply of online restaurant platforms in the UK. An internal email shows [✂].

52. In pursuing any route to entry, Amazon would need to attract customers, restaurants and couriers to its platform. Amazon has access to [✂] Prime

subscription customers in the UK, a number which has [✂] compared to when it launched Amazon Restaurants in the UK. As this is a subscription service offering a wide range of benefits to subscribers, these customers are likely to regularly engage with Amazon products. This gives Amazon multiple avenues for engaging with customers and marketing a new service to them, thus saving significant amounts on marketing and advertising compared to other players.

53. Overall, there are multiple possible routes to entry for Amazon and there is evidence of interest in alternative providers as targets or partners. There exist a number of potential partners and/or targets, including non-UK restaurant platforms as well as UK-based logistics specialists, that could help Amazon overcome the barriers to entry in supplying a restaurant platform in the UK, including those that hampered its previous attempt in this market. Amazon could use the learning from Amazon Restaurants to avoid repeating the same strategic mistakes, or could invest in or partner with an alternative provider to gain additional expertise in this market.

Conclusion on re-entry by Amazon in the counterfactual

54. On the basis of the evidence set out above, we believe that Amazon has a continued interest in online restaurant platforms and an incentive to offer this service to Prime customers in order to differentiate and add to its offering and develop useful logistics capabilities that would be deployed elsewhere in its business. Although much of the evidence considered relates to markets internationally rather than being limited to the UK, we consider that the UK is an attractive market for restaurant delivery and is an important market for Amazon. We consider the evidence shows there are multiple possible routes for entry for Amazon absent the Transaction. While entry into the UK market by Amazon may not occur imminently, we consider that, absent the investment in Deliveroo, the most likely scenario would involve Amazon choosing to re-enter in the short to medium term (ie within five years). We therefore provisionally conclude that, in the counterfactual, Amazon is likely to re-enter the supply of online restaurant platforms in the UK.

Groceries counterfactual

55. With respect to the market for OCG, we considered whether the development and expansion plans of the Parties should be taken into account in the counterfactual. The online convenience grocery market is nascent and many market participants are at an early stage of trialling their offerings, or gradually rolling them out across geographical areas. Views vary considerably as to how the market will develop. In our view, future OCG market developments

are not sufficiently foreseeable to include in a counterfactual. We have, however, taken account of possible changes in the market, including the expansion plans of the Parties and their competitors, in our competitive assessment. We have therefore adopted a counterfactual in which the Parties would have continued to develop and strengthen their OCG propositions independently of one another absent the Transaction.

Supply of online restaurants platforms in the UK

56. The CMA's Merger Assessment Guidelines provide a framework for the assessment of unilateral effects arising from the loss of potential competition as a result of a merger. The guidance sets out two questions to be addressed when considering 'actual potential competition':[13]

(a) would the potential entrant be likely to enter in the absence of the merger; and

(b) would such entry lead to greater competition?

57. The guidance also states that the CMA will consider whether there are other potential entrants before reaching a conclusion on the SLC test.

58. In line with the CMA's guidance on assessing the loss of potential competition, we considered (a) whether Amazon is likely to enter, and (b) would this entry lead to greater competition.

59. In order to assess whether Amazon would re-enter the supply of online restaurant platforms in the UK, we have considered evidence around its intention, incentives and ability to re-enter. As set out above, we believe that in the counterfactual Amazon would be likely to re-enter the supply of online restaurant platforms in the UK in the absence of the Transaction.

60. For the purposes of our competitive assessment, we must compare the situation arising in the counterfactual to the situation arising as a result of the Transaction and consider what impact the Transaction has on the potential future competition between Amazon and Deliveroo. This assessment must take into account the fact that the Transaction is the acquisition of a 16% shareholding as opposed to an acquisition of a larger stake, which (together with other rights) might give rise *de facto* control or a full merger.

61. If Amazon had acquired 100% of Deliveroo, the acquisition would result in alignment of incentives between Amazon and Deliveroo and we would not

[13] MAGs, paragraph 5.4.15.

expect there to be any future competition between them because their incentives are aligned. We would not expect Amazon still to enter independently as well as acquire Deliveroo outright.

62. It is possible that a 16% shareholding could change Amazon's incentives such that it would no longer enter independently. It is also possible that Amazon could enter the market independently while retaining a minority shareholding in Deliveroo, leading to Amazon having two competing investments in the same market. The effect of a 16% shareholding could vary depending on the circumstances of the case, for example the rights that accompany the shareholding, the strategies of the businesses involved, the nature of the markets at issue and the constraints from other competitors in those markets.

63. We have considered two scenarios through which harm could arise as a result of the Transaction:

(a) unilateral effects on the entry decision (meaning the 16% shareholding is Amazon's route to entering, and therefore it would not enter via another route); and

(b) post-entry unilateral effects, where Amazon re-enters the market notwithstanding its investment in Deliveroo, but it either (i) competes less strongly to internalise 16% of Deliveroo's profits; or (ii) influences Deliveroo to compete less strongly against it.

Amazon relying on Deliveroo for its presence in online restaurant platforms

64. We have considered first the effect that a 16% shareholding would be expected to have on Amazon's incentive to enter the market. The effect of a 16% shareholding is limited in comparison with the effect of a full merger: with a 16% shareholding, if Amazon enters the market then, for every sale Amazon wins from Deliveroo, it loses only the 16% share in the profit Deliveroo would have gained from that sale. If Amazon wholly owned Deliveroo, for every sale it won from Deliveroo, it would lose the full benefit that Deliveroo would have gained from that sale. In our provisional view, if there was a strong financial incentive for Amazon to re-enter, it is unlikely the 16% shareholding in Deliveroo would materially reduce Amazon's incentive to re-enter the supply of online restaurant platforms in the UK.

65. As described above, we believe the evidence shows that Amazon views restaurant delivery as part of an international wider food strategy, [✄]. Amazon is already developing certain logistics technology in its [✄] business similar to that used in restaurant delivery and developing an [✄]. Therefore, any business decision Amazon takes as to whether to re-enter restaurants is

unlikely to be substantially changed by the financial return of the 16% investment.

66. There is evidence suggesting Deliveroo could be considered Amazon's 'foot in the door' and route to re-entry in online restaurant platforms. This evidence may suggest that Amazon would have less incentive and/or intention to invest in either acquiring or building an alternative online restaurant platform business following the investment in Deliveroo.

67. Amazon has submitted that its development of restaurant food delivery in India shows that Amazon is innovating globally and that 'it is fanciful that a 16% minority investment in a single service in a single country would prevent this deeply held commitment to innovation' and application of this innovation to the UK. We consider that Amazon's investment in India supports our conclusion that Amazon may have an interest in pursuing multiple entry routes into supplying online restaurant platforms.

68. We consider there is mixed evidence on what impact the Transaction has on whether Amazon would re-enter the supply of online restaurant platforms in the UK. Based on this evidence, we do not currently believe it is sufficiently likely that the investment in Deliveroo would deter re-entry by Amazon if there was a strong financial incentive for Amazon to re-enter.

Amazon competing less aggressively in online restaurant platforms

69. We also assessed whether the Transaction could lead to a lessening of competition as a result of Amazon choosing to enter (despite having invested in Deliveroo) but having less incentive to compete strongly against Deliveroo because of the Transaction, giving rise to horizontal unilateral effects.

70. If Amazon were to enter the market and then choose to compete less strongly against Deliveroo, we would expect Amazon to win fewer customers from Deliveroo than if it competed strongly. Amazon would also be likely to win fewer customers from the other incumbents (unless it could avoid competing strongly against Deliveroo while competing strongly against the other incumbents). Amazon would miss out on 100% of the profits from any customer it failed to win from any of the incumbents by not competing strongly. In contrast, Amazon would gain only 16% of the profits from any of those customers, retained by Deliveroo, who would have switched to Amazon if Amazon had competed strongly for them. It is possible that these customers would be more profitable overall if retained by Deliveroo than if acquired by Amazon, e.g. if Deliveroo has lower marginal costs or if the cost to Amazon of acquiring customers is high. However, we have no evidence to suggest this would be the case and on balance we would expect Amazon to have a strong

preference for acquiring a customer (and receiving 100% of the profits from that customer) over allowing Deliveroo to retain that customer (with Amazon receiving 16% of profits), especially if by competing less strongly Amazon would also forego winning customers from the other incumbents in which it does not have an interest.

71. Even if Amazon was a close competitor to Deliveroo, evidence shows that Deliveroo, Uber Eats and Just Eat are becoming more similar, both in terms of the business models (with all three platforms offering marketplace and logistics-enabled platforms) and the restaurants they target. Therefore, even if competition was particularly strong between Amazon and Deliveroo, there would still likely be material diversion to the other players as a result of Amazon worsening its offer.

72. We are provisionally of the view that it is unlikely the 16% investment in Deliveroo would cause Amazon to compete materially less aggressively if it did re-enter. We note that this assessment could be different should Amazon acquire a materially larger shareholding in Deliveroo.

Amazon discouraging Deliveroo from competing against Amazon in online restaurant platforms

73. Finally, we considered whether Amazon could use its material influence to worsen Deliveroo's offer and lessen competition in this way. Under this scenario, Amazon would recoup 100% of any profit that arises from sales that are diverted from Deliveroo to Amazon as a result of this strategy. This means Amazon may have a greater incentive to engage in this behaviour as opposed to worsening its own offering (where it would only recoup 16% of any extra profit).

74. While we believe the Transaction will confer on Amazon the ability to exert material influence over Deliveroo, this influence is less than would arise in an acquisition of a controlling interest. This could make it harder for Amazon to drive Deliveroo to worsen or reduce its offering if Deliveroo saw this as commercially damaging or preventing it from engaging in strong growth opportunities.

75. In addition, we saw consistent evidence of strong competition between Deliveroo and Uber Eats and Just Eat, which would limit the scope for Deliveroo to worsen its offer to accommodate Amazon.

76. Having considered the level of Amazon's influence and the incentives of Deliveroo's management and shareholders (aside from Amazon), as well as the specific market conditions, and taking these factors in the round, we

provisionally are not satisfied that the Transaction would lead to an SLC as a result of Deliveroo competing less strongly against Amazon in the supply of online restaurant platforms in the UK

Provisional conclusion on supply of online restaurant platforms in the UK

77. We provisionally conclude that in the counterfactual Amazon is likely to re-enter the supply of online restaurant platforms in the UK. We do not, however, currently find it sufficiently likely that the Transaction will have such a material impact on Amazon's incentives to re-enter, or its approach following re-entry, to result in a substantial reduction in potential competition on the balance of probabilities. Therefore, we have provisionally concluded that the Transaction may not be expected to result in an SLC in the market for the supply of online restaurant platforms in the UK.

Supply of OCG in the UK

78. We have considered whether the Transaction will lead to horizontal unilateral effects in the supply of OCG in the UK. Unilateral effects can arise in a horizontal merger where one firm merges with a direct competitor that provides and/or is expected to provide a competitive constraint. Unilateral effects are more likely where the merger eliminates a significant competitive force or where customers have little choice of alternative suppliers.[14]

79. We have assessed whether the Transaction would result in an SLC in the supply of OCG services due to one or more of the following:

    (a) Amazon using its influence over Deliveroo to discourage Deliveroo from competing against Amazon in OCG;

    (b) Amazon avoiding competing directly against Deliveroo in OCG, to protect the value of its investment in Deliveroo; and/or

    (c) Amazon relying on Deliveroo to give Amazon a presence in OCG, rather than developing its own service to compete effectively in OCG.

80. Amazon's and Deliveroo's current OCG offerings are differentiated. Amazon offers a wider selection of products than Deliveroo, supports larger basket sizes, has prices comparable to those offered in-store by supermarkets, and offers relatively slower delivery times. Deliveroo provides delivery of OCG within 30-minutes, but offers a smaller range of products, smaller basket

[14] MAGs, paragraph 5.4.12.

sizes, and typically has prices that are higher than those offered in-store by supermarkets.

81. Both Amazon and Deliveroo have incentives to improve their OCG offers as the market evolves. Amazon has consistently differentiated itself on speed of delivery. [✂]. Amazon [✂]. In addition, Amazon is rolling out [✂], in the US. Deliveroo has set out ambitious plans for OCG delivery.

82. Competitors in OCG include online restaurant delivery providers such as Just Eat and Uber Eats, traditional grocers and convenience stores such as Waitrose, Sainsbury's and Co-op (which has an OCG offering separate from its partnership with Deliveroo), and grocery delivery specialists such as Ocado. Almost all larger players in the categories of online delivered groceries, online restaurant delivery, convenience stores and traditional groceries are currently active in trialling or offering OCG services with on-demand delivery of between 30-minutes and two-hours. Most market participants share an intention to expand their existing offers and address their specific limitations. In addition, some services already offer a relatively large range, fast delivery and prices which are competitive with in-store offers. While the future development of the market remains uncertain, we consider that on the basis of current evidence other market participants may be well-placed to compete in OCG provision.

83. The Coronavirus (COVID-19) pandemic has had a profound effect on grocery delivery in the UK, as well as on the grocery sector generally and the wider economy. Most OCG providers, including Deliveroo, have expanded their grocery offers in recent months. It remains to be seen how Coronavirus (COVID-19) will affect the OCG market in the medium- or longer-term. Although Deliveroo has expanded its OCG services during the pandemic, these changes have not brought it into substantially closer competition with Amazon: Deliveroo continues to deliver smaller baskets with a smaller average order value.

Amazon discouraging Deliveroo from competing against Amazon in OCG

84. Turning to our first theory of harm, if Amazon decided to expand its presence in OCG (including on-demand delivery), or if it was concerned about Deliveroo's expansion, it could potentially seek to use its material influence over Deliveroo to discourage Deliveroo from also expanding its own OCG offer (which would otherwise be in competition with Amazon).

85. While our view is that the Transaction would provide Amazon with the ability to exercise material influence over the commercial policy of Deliveroo, this is not the same as an ability to control that policy. In particular, it does not

amount to an ability to drive policy in a direction that other shareholders, management or the board object to.

86. As such, we cannot assume that Amazon will be able to drive policy in a direction that would lead to an SLC if that would lead to Deliveroo foregoing a compelling commercial opportunity. This could make it more difficult for Amazon to prevent Deliveroo from expanding its OCG business, especially if Deliveroo saw a strong growth opportunity for OCG.

87. To the extent that Amazon may be able to influence aspects of Deliveroo's strategy in ways that would reduce competitive pressure on Amazon, we would also need to assess whether this would result in an SLC.

88. While Deliveroo is likely to expand its OCG offering, it is not clear whether this expansion will bring it into closer competition with Amazon. As noted above, Deliveroo has recently expanded its services during the Coronavirus (COVID-19) pandemic, launching partnerships with a number of additional grocery providers, although we understand these to be similar in nature to its existing grocery partnerships, ie with a limited range of items.

89. Further, as noted in paragraph 82 we consider that on the basis of current evidence other market participants appear well-placed to compete in OCG provision.

90. Considering these issues in the round, our provisional view is that the Transaction is unlikely to lead to an SLC through Amazon discouraging Deliveroo from competing in online convenience grocery services.

Amazon competing less aggressively in OCG services

91. We have considered whether Amazon may compete less aggressively against Deliveroo in the supply of OCG services because of its minority (16%) shareholding in Deliveroo. Following the Transaction, if Amazon increased its prices and some customers responded by switching to Deliveroo, Amazon would have a 16% share of any increase in Deliveroo's profits from these customers. As a result, Amazon may have an incentive to set higher prices following the Transaction than in the counterfactual. Conversely, if Deliveroo faced aggressive competition from Amazon this could reduce its profitability, which would in turn reduce the profitability of Amazon's 16% shareholding in Deliveroo. This possibility could lead Amazon to avoid competing directly against Deliveroo.

92. The question for us is whether a 16% shareholding reduces Amazon's incentive sufficiently that it would prevent Amazon from making investments it otherwise would have made to improve its OCG offering.

93. The magnitude of these effects depends on the future closeness of competition between the two Parties (in the counterfactual), their respective profit margins, and competition from other OCG providers (ie the effect would be weaker if most customers who switched from Amazon switched to other providers rather than Deliveroo).

94. As explained above with respect to online restaurant platforms, in broad terms we would expect the 16% holding arising from the Transaction to produce a weaker price effect on OCG services than might be expected from a full acquisition.

95. Furthermore, while the future development of the market remains uncertain, we consider that on the basis of current evidence other market participants appear well-placed to compete in OCG provision. We consider that this will further weaken any price effect arising from the Transaction because (a) if Amazon increase its prices, customers may switch to providers other than Deliveroo, and (b) even if Amazon were to compete less aggressively against Deliveroo, Deliveroo would still face competition from these other providers.

96. Considering these issues in the round, our provisional view is that the Transaction it is unlikely to lead to an SLC arising from Amazon avoiding direct competition against Deliveroo in the provision of OCG.

Amazon relying on Deliveroo for its presence in OCG

97. Finally, we consider whether the Transaction would harm competition by reducing the incentive for Amazon to invest in competing more effectively as an OCG provider, because the proposed acquisition either secures Amazon an option to acquire Deliveroo or is a first step towards a full acquisition.

98. If the market evolved towards faster delivery and Amazon did not have a widely available one-hour or two-hour service, Amazon could miss out on a significant opportunity for growth and profits (including flywheel benefits). Absent the proposed Transaction, Amazon may therefore have a strong incentive to invest in developing point-to-point logistics capabilities or by otherwise improving the delivery speeds it can offer or other aspects of its service to ensure that it can remain competitive if faster delivery increases in importance.

99. Internal documents from Amazon and other Deliveroo shareholders indicate that they see the Transaction as a potential first step toward a full acquisition of Deliveroo, rather than a purely financial investment. If Amazon sees the Transaction as giving it a plan or a way to achieve a stronger presence in

OCG provision (ie doing so via Deliveroo), it may be less likely to have an incentive to improve its own OCG service.

100. In considering whether the Transaction may reduce Amazon's incentives to improve its own OCG services, we note that:

(a) In our provisional assessment, the counterfactual is Amazon's likely re-entry into the online restaurants platform market in future (and the Transaction would not significantly affect its incentives to do so). Amazon's likely re-entry into this market would provide a potential route for Amazon to improve its OCG services, namely by using the same logistics network for its online restaurant delivery service and for some or all of its OCG services. We note that both logistics-enabled online restaurants platforms (Deliveroo and Uber Eats) offer OCG services.

(b) Amazon may in any case prefer to develop its own OCG service given that in doing so it could potentially build on its experience in developing such a service in the US, and [✂].

(c) While the Transaction potentially gives Amazon a route to acquire Deliveroo, Amazon would face a significant cost in making such an acquisition – particularly if Deliveroo's OCG business increases in value. It would also face risks eg of being outbid by another buyer.

101. This issue needs to be assessed in the context of wider competition in the OCG services market, and while the future development of the market remains uncertain, we consider that, on the basis of current evidence, other market participants appear well-placed to compete in OCG provision.

102. In this context, if the Transaction were to reduce Amazon's incentives to improve its own OCG services, improvements by its competitors of their OCG services could nevertheless lead to effective competition. In addition, we note that if the market grows substantially this makes it more likely that it will be seen as a compelling commercial opportunity, both by Amazon and its competitors.

103. Considering these issues in the round, our provisional view is that the Transaction is not likely to lead to an SLC by removing the strategic benefit to Amazon of developing its own OCG service.

Additional theories of harm

104. In response to the April Provisional Findings, third parties raised two additional concerns with respect to the Transaction:[15]

(a) First, that post-Transaction Amazon would have an incentive to promote its own groceries business using the combination of Deliveroo's existing and established network, and its Amazon Prime customer base. It was suggested that Amazon could offer its Prime customers cheap or free delivery, or preferential delivery timings on Deliveroo, to drive additional traffic to Amazon and/or Deliveroo and foreclose competitors.

(b) Second, that post-Transaction Amazon could prevent rival grocery suppliers from accessing Deliveroo's logistics network at competitive prices.

105. In its Phase 1 Decision, the CMA considered whether the Parties could bundle Amazon Prime and Deliveroo Plus (Deliveroo's subscription service, which offers customers free delivery) by offering Prime members a discount on, or free access to, Deliveroo's services.[16] The CMA found, on a realistic prospect basis, that the Parties would have the ability to bundle Deliveroo Plus and Amazon Prime, and could use this strategy to foreclose Deliveroo's competitors. The CMA also found, however, that any incentive to engage in a foreclosure strategy arising from the Transaction would be insufficient to result in a realistic prospect of an SLC. We have not seen any additional evidence on this point in the course of our Phase 2 investigation that would change this conclusion and, therefore, have not re-opened this issue.

106. The concern that Amazon could limit the access of other grocery suppliers to Deliveroo's platform is in some respects related to our horizontal unilateral effects theory of harm with respect to OCG. As set out with respect to the OCG theory of harm, while we consider that the Transaction is more likely than not to provide Amazon with the ability to exercise material influence over the policy of Deliveroo, this is not the same as an ability to control that policy. In particular, it does not amount to an ability to drive policy in a specific direction against the objections of other shareholders, management or the board. Furthermore, any attempt by Amazon to restrict third party access to Deliveroo's network would likely be to the advantage of Uber Eats and Just Eat, and as such, if Deliveroo were to engage in such a strategy, it would risk strengthening its two key competitors in its core market of online restaurant platforms (as well as other last-mile delivery providers). We consider that this

[15] See Amazon/Deliveroo merger inquiry webpage.
[16] See Phase 1 Decision, 27 December 2019.

effect could weaken Deliveroo’s incentives to engage in foreclosure. In addition, and as previously noted, while the future development of the market remains uncertain, we consider that on the basis of current evidence, other market participants appear well-placed to compete in OCG provision.

Revised provisional findings

1. The reference

1.1 On 27 December 2019, the Competition and Markets Authority (CMA), in exercise of its duty under section 33(1) of the Enterprise Act 2002 (the Act), referred the anticipated acquisition by Amazon.com NV Investment Holdings LLC, a wholly-owned subsidiary of Amazon.com, Inc. (Amazon) of certain rights and a 16% minority shareholding in Roofoods Ltd (Deliveroo) (the Transaction) for further investigation and report by a group of independent panel members (the Inquiry Group).[17]

1.2 In exercise of its duty under section 36(1) of the Act, the Inquiry Group must decide:

(a) whether arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation; and

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

1.3 During our review of the Transaction, cases of Coronavirus (COVID-19) began to appear in the UK and across the world. The situation was declared a pandemic by the World Health Organisation on 11 March 2020.[18]

1.4 On 23 March 2020, the UK government introduced measures requiring people to remain at home, other than for certain limited reasons, and requested that retail stores selling non-essential goods close for a period of three weeks.[19] Following the introduction of these measures, large numbers of restaurants, including national chains, took the decision to close during this period. These measures, as well as the wider economic shock resulting from Coronavirus (COVID-19), had a substantial impact on the activities of Deliveroo and the markets in which it operated, both in the UK and abroad.

1.5 We received submissions from Deliveroo on the specific and immediate impact of Coronavirus (COVID-19) on its business and the relevance of this

[17] Under Schedule 4 to the Enterprise and Regulatory Reform Act 2013.
[18] See World Health Organisation, 11 March 2020, *Virtual press conference on COVID-19*.
[19] See the GOV.UK website, 23 March 2020, *PM address to the nation on coronavirus*.

impact to the CMA's consideration of the statutory questions set out in section 36(1) of the Act.

1.6 In April 2020, we published provisional findings (the April Provisional Findings) in which we provisionally concluded that the Transaction would not be expected to result in an SLC on the basis that Deliveroo was likely to exit the market unless it received the additional funding available through the Transaction.[20] We understood that the situation was urgent and, therefore, sought to publish its provisional findings as quickly as possible. Given the conclusion at that time, it was not necessary to set out a full analysis of the effect of the Transaction on competition in the supply of goods and services in the UK.

1.7 Since April 2020, market conditions and Deliveroo's financial situation have changed materially. In light of this, we have revised our provisional findings and are now of the view that Deliveroo is no longer likely to exit the market as a result of the Coronavirus (COVID-19) pandemic. In light of this finding, we are now setting out our provisional findings based on a full analysis of the effects of the Transaction on competition against a counterfactual where Deliveroo remains in the market. This document, together with its appendices, constitutes the Inquiry Group's revised provisional findings.

1.8 Our provisional findings with respect to the question of whether arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation[21] are included in the April Provisional Findings.[22] As our provisional findings on those points have not changed materially, we have not repeated those findings in this report. Similarly, our provisional findings on the Parties[23] and the Transaction included in the April Provisional Findings have not changed materially and are not repeated in this report.

1.9 We note that certain responses to the April Provisional Findings presented concerns about the possibility that the Transaction would remove Deliveroo as a competitor. The Transaction involves an acquisition by Amazon of a 16% minority shareholding in Deliveroo. We are provisionally of the view that this shareholding, and associated rights, will give Amazon material influence over Deliveroo. We are assessing only the effect of that acquisition. If Amazon were to acquire a greater level of control over Deliveroo, either *de facto*

[20] See April Provisional Findings, 16 April 2020.
[21] The Act, section 36(1).
[22] See April Provisional Findings, 16 April 2020.
[23] Throughout this document we refer to Amazon and Deliveroo collectively as 'the Parties'.

control or full control, that would constitute a separate transaction and would itself be subject to possible review by the CMA.

1.10 Finally, we note that a number of responses to the April Provisional Findings encouraged us to impose remedies on the Parties to this Transaction. The CMA only has the power to impose remedies as part of a merger review where it concludes that a transaction will result in an SLC. In the present case, we have provisionally concluded that the Transaction will not result in an SLC in any market in the UK. Absent a change in that conclusion, there is no basis for the CMA to impose remedies on the Parties in the context of this review although, as noted above, the CMA would have the opportunity to review any change which resulted in Amazon acquiring de facto or full control of Deliveroo.

1.11 Having decided to extend the statutory timetable by eight weeks, the Inquiry Group is required to publish its final report by 6 August 2020.[24] Information on the conduct of the inquiry, along with the terms of reference, are set out in Appendix A. Further information relevant to this inquiry can be found on the CMA's website.[25]

2. Coronavirus (COVID-19) outbreak

2.1 The first cases of Coronavirus (COVID-19) were identified in the UK at the end of January 2020. On 3 March 2020, the UK Government published an action plan for dealing with Coronavirus (COVID-19) covering scenarios ranging from a milder pandemic to a severe prolonged pandemic. The situation was declared a pandemic by the World Health Organisation on 11 March 2020.[26]

2.2 The UK Government issued its first advice on formal distancing on 12 March 2020, introduced social distancing guidelines on 16 March 2020 and announced a formal lockdown on 23 March 2020.[27] Similar lockdowns were imposed in many countries across Europe and around the globe. In March and April 2020, the situation was highly uncertain and changing on a day-to-day basis. This uncertainty made it particularly difficult for businesses, and for the CMA, to forecast how the situation was likely to develop. The UK Government announced the first steps towards easing the lockdown on

[24] See Notice of extension, 10 June 2020.
[25] See Amazon/Deliveroo merger inquiry webpage.
[26] See World Health Organisation, 11 March 2020, *Virtual press conference on COVID-19*.
[27] See the GOV.UK website, 23 March 2020, *PM address to the nation on coronavirus*.

10 May 2020 and has continued to gradually ease restrictions. The approach to exiting lockdown differs across the nations within the UK.

Effect of the Coronavirus (COVID-19) outbreak on the UK economy

2.3 The CMA notified its April Provisional Findings on 16 April 2020.[28] Those provisional findings were based on an assessment of the effect of the Coronavirus (COVID-19) pandemic on Deliveroo, and on the market, in March and early-April 2020.

2.4 In early-March 2020 there were signs of increasing concern about the impact of Coronavirus (COVID-19) on the UK economy. The FTSE 100 fell by 25% in the three months to the end of March 2020; this was the largest quarterly drop in the index since 1987. The Bank of England cut the baseline interest rate from 0.75% to 0.25% on 11 March 2020.[29]

2.5 Coronavirus (COVID-19) and the lockdown have had a significant effect on the UK economy. UK GDP fell by 5.8% in March 2020.[30] Official figures on unemployment for the period following the lockdown are not yet available, however, the UK claimant count[31] level increased by 69.1% in April 2020 from 1.2 million people to almost 2.1 million people.[32] In addition, one report indicates that UK consumer spending fell by 36.5% in April 2020 compared to April 2019, following a 6% drop in March 2020.[33]

Effect of the Coronavirus (COVID-19) outbreak on the restaurant sector

Effect of Coronavirus (COVID-19) in March 2020

2.6 Prior to the shutdown, there was evidence that the Coronavirus (COVID-19) outbreak was leading new restaurants to sign up with online restaurant platforms in an effort to offer delivery during a potential shutdown. There were reports of thousands of new restaurants registering with platforms.

2.7 Although the UK Government announced relaxations to the planning rules prior to the lockdown to allow pubs and restaurants to operate as takeaways

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[28] See April Provisional Findings, 16 April 2020.
[29] Bank of England, 11 March 2020, *Bank of England measures to respond to the economic shock from Covid-19*.
[30] Office of National Statistics, 13 May 2020, *GDP monthly estimate, UK: March 2020*.
[31] A statistic that seeks to measure the number of people claiming benefit principally for the reason of being unemployed.
[32] Office of National Statistics, 19 May 2020, *Employment in the UK: May 2020*.
[33] Barclays, 11 June 2020, *UK Consumer Spending Report (May 2020)*.

during the Coronavirus (COVID-19) outbreak,[34] many pubs and restaurants including many major restaurant chains shut down, at least for a period of time, when the lockdown began. Restaurants that closed all, or almost all, of their outlets included Greggs, KFC, Leon, McDonalds, Nando's and Wagamama.

2.8 In the immediate aftermath of the lockdown, there was a substantial decline in the number of restaurants available to offer online delivery on Deliveroo's platform. In the seven days to 24 March 2020, Deliveroo had [✂]% fewer restaurants available in the UK than during the seven days to 7 March 2020. Deliveroo reported greater declines in restaurant availability in other European countries including France, Italy and Spain. Similarly, Deliveroo's order volumes for the seven days to 24 March 2020 were [✂]% lower than its order volumes for the seven days to 7 March 2020. Deliveroo also reported greater declines in order volumes in other European countries including France, Italy and Spain.

Effect of Coronavirus (COVID-19) from mid-April 2020

2.9 A number of restaurants began to re-open for delivery and/or takeaway in mid-April 2020, including chains such as Burger King, KFC and Pret A Manger.[35] Restaurant re-openings continued through April and May 2020 with many chain restaurants gradually re-opening additional outlets. One report on consumer spending data indicated a year-on-year increase of 24.6% in online 'eating and drinking spending in April 2020'.[36]

2.10 In the first two weeks after the lockdown in the UK, Deliveroo reported a significant decline in order volumes. In the week commencing 23 March 2020, order volumes were [✂]% below the prior year equivalent and [✂]% behind budget. In the week commencing 30 March 2020, orders were [✂]% behind the prior year equivalent and [✂]% behind budget. Since then, in the UK, order volumes have partially recovered to the point where they are still behind budget but ahead of the prior year (in April 2020, Deliveroo's order volumes were [✂]% higher than in April 2019). Profitability per order however has increased [✂]. Deliveroo attributes the former to more people being at home (because of self-isolation) and therefore larger orders from larger party sizes (ie whole households) and the latter to a higher mix of independent restaurants ([✂]) on its platform.

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[34] GOV.UK website, 17 March 20202, *Government to grant permission for pubs and restaurants to operate as takeaways as part of coronavirus response*.
[35] BBC News, 16 April 2020, *Coronavirus: Major UK takeaway chains start to reopen*.
[36] Barclays, 11 June 2020, *UK Consumer Spending Report (May 2020)*.

2.11 Other online restaurant platform suppliers experienced a similar pattern to Deliveroo of an initial decline in orders in March 2020. Just Eat then experienced a recovery in April and May. In May, Uber Eats was still reporting depressed orders but expected a [✂] recovery in June and July:

(a) Just Eat experienced a [✂]% drop in orders in March 2020 as compared to March 2019, followed by a [✂]% rise in orders in April 2020 and a [✂]% rise in orders in May 2020 as compared to the same months in the previous year.

(b) Uber Eats experienced a [✂] decline in orders in March and April 2020 with average weekly orders approximately [✂]% of the volume in the weeks prior to lockdown. Uber Eats forecast that its orders would be [✂] for May 2020, [✂] in June and July 2020.

Effect of the Coronavirus (COVID-19) outbreak on grocery sector

2.12 The Coronavirus (COVID-19) crisis resulted in a significant increase in demand for groceries. Reports suggest that grocery sales, both in-store and online, in the UK increased by over 20% year on year in March 2020.[37] Grocery sales in the UK remained high in subsequent months, increasing by 17.2% year on year in the four weeks to 17 May 2020.[38] The increased demand has been attributed to consumers increasing purchases in anticipation of potential restrictions on their movement or potential shortages, and to consumers preparing more meals at home with the closure of many restaurants, cafes and school or work canteens.

2.13 The increased demand for groceries included increased demand for online groceries. Reports indicate that online grocery spending was 13% higher year on year in the first three weeks of March 2020.[39] Market reports also indicate that the share of grocery sales made online reached 10% in the four weeks to 18 April 2020, an increase from a share of 7.5% at the end of 2019.[40] The share of online grocery sales continued to increase reportedly reaching 11.5% by mid-May 2020.[41] Consumer spending data suggested an increase of

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[37] Kantar, 31 March 2020, *Record grocery sales as shoppers prepare for lockdown*, for UK Grocery Market Share Update, 12 w/e 22 March 2020.
[38] Kantar, 27 May 2020, *Grocery growth accelerates as lockdown eases*, for UK Grocery Market Share Update, 12 w/e 17 May 2020.
[39] Kantar, 31 March 2020, *Record grocery sales as shoppers prepare for lockdown*, for UK Grocery Market Share Update, 12 w/e 22 March 2020.
[40] Retail Times, 28 April 2020, *Online reaches 10% of all UK grocery spend amid COVID-19 lockdown, Nielsen reports*.
[41] Kantar, 27 May 2020, *Grocery growth accelerates as lockdown eases*, for UK Grocery Market Share Update, 12 w/e 17 May 2020.

81.9% in online grocery spending in April 2020.[42] Actual sales likely understate the demand for online groceries during this time period as demand for at least online scheduled delivery was reported to significantly exceed capacity.[43] Between March 2020 and May 2020, many grocery retailers substantially increased their online delivery capacity.

2.14 With the increased demand for online groceries and online convenience groceries (OCG), Deliveroo has entered into additional trial partnerships or extensions of trial partnerships with retailers including BP, Holland & Barrett, M&S, McColls, Morrisons and Paypoint. We have also observed that many of Deliveroo's grocery partners appear to be offering a wider range of products on the platform with a greater focus on categories such as 'fruit & veg', 'fresh meat' and 'tins, jars and packets'.

Longer-term effect of Coronavirus (COVID-19)

2.15 It is not possible to predict with any accuracy what effect the Coronavirus (COVID-19) pandemic will have on the UK economy, or on the online restaurant platform and OCG sectors in the medium to long-term. It is possible that at least some of the recent increases in orders will be sustained as consumers maintain new shopping habits for both food delivery and online grocery shopping adopted during the crisis. On the other hand, it is possible that anticipated restaurant closures and a potential for a longer-term decline in consumer spending due to job losses or increased economic uncertainty could lead to lower order levels in the medium- to longer-term. There is also the possibility that demand in the online restaurant platform and OCG sectors returns to levels that were forecast prior to the Coronavirus (COVID-19) crisis.

2.16 We have considered the impact of the Coronavirus (COVID-19) pandemic on our assessment, as far as possible, to consider whether it affects our conclusions with respect to the Transaction.

3. Market definition

Approach

3.1 Market definition provides a framework for assessing the competitive effects of a merger and involves an element of judgement.[44] The boundaries of the market do not determine the outcome of the analysis of the competitive

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[42] Barclays, 11 June 2020, *UK Consumer Spending Report (May 2020)*.
[43] Metro, 7 April 2020, *Coronavirus UK: What supermarkets have online delivery slots available?*.
[44] Merger Assessment Guidelines (CC2 Revised) (MAGs), paragraphs 5.2.1–5.2.5.

effects of the Merger in any mechanistic way, as it is recognised that there can be constraints on merging parties from outside the relevant market, segmentation within the relevant market, or other ways in which some constraints are more important than others. We take these factors into account in our competitive assessment.[45]

3.2 The relevant product market is identified primarily by considering the degree of demand-side and, to a lesser degree, supply-side substitution. It is usual to define markets using the hypothetical monopolist test. This test delineates a market as a set of substitute products over which a hypothetical monopolist would find it profitable to impose a small but significant non-transitory increase in prices (SSNIP). The geographic market is also defined using the framework of the hypothetical monopolist test.[46]

3.3 The starting point for our assessment of the appropriate market definition is the overlapping products of the Parties, or where non-horizontal effects are relevant, the product(s) of each Party where the non-horizontal relationship occurs.[47] As set out below, we have therefore considered the following areas in turn:

(a) Supply of logistics-enabled restaurant marketplaces in the UK (paragraphs 3.5 to 3.128).

(b) Supply of online convenience groceries (OCG) in the UK (paragraphs 3.129 to 3.235).

3.4 In the following sections we outline our findings and provisional conclusions on market definition.

Online restaurant platforms

Introduction and overview

3.5 The Parties overlapped in the supply of online food delivery platforms until November 2018, when Amazon Restaurants exited the UK. Amazon Restaurants operated as a logistics-enabled marketplace.[48] In July 2018, Deliveroo began to list restaurants with their own delivery couriers on its platform, thus also operating as a logistics-enabled marketplace.

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[45] MAGs, paragraph 5.2.2.
[46] MAGs, paragraphs 5.2.10–5.2.20.
[47] MAGs, paragraph 5.2.11.
[48] See paragraph 3.10(b) for our definition of a logistics-enabled restaurant marketplace.

3.6 In the present case, for our starting point we have taken the narrowest market in which the Parties could overlap if Amazon were to re-enter as a logistics-enabled restaurant marketplace.[49]

3.7 As we explain below, we have provisionally found that the relevant product market is the supply of online restaurant platforms:

(a) this market includes food ordering marketplaces, that do not primarily provide logistics (such as Just Eat);[50]

(b) vertically integrated food chains (VIFCs) who provide their own logistics (such as Domino's, Pizza Hut and Papa Johns) are not in the market, but provide an out of market constraint; and

(c) direct ordering from restaurants other than VIFCs is not in the market, but such restaurants provide a limited out of market constraint.

3.8 Our provisional view is that some aspects suggest a narrower, local geographic market, and some suggest a national market. In this case we have primarily assessed competition on a national basis but have considered local factors as part of our competitive assessment.

3.9 The following analysis is largely based on evidence collected prior to the Coronavirus (COVID-19) crisis. As discussed above, the Coronavirus (COVID-19) crisis has had a substantial impact on the market for the supply of online restaurant platforms (see paragraphs 2.6 to 2.11). Based on our understanding of these recent developments, we do not consider they have changed the nature of demand for, or supply of, online restaurant platforms to an extent that would lead us to adopt a different view of the relevant market.

Restaurant platform models

3.10 Online restaurant food delivery services have developed rapidly in the UK over the past 10 to 15-years. Two models for these services have emerged: (a) the food ordering marketplace model; and (b) the logistics-enabled marketplace model. As explained in the CMA's decision in *Just Eat/Hungryhouse*:

(a) Under the food ordering marketplace model 'takeaway restaurants, contract with the supplier of the platform to join the platform and have their menus made accessible to consumers. The supplier's website and mobile app allow consumers to: search for local takeaway restaurants;

[49] MAGs, paragraph 5.2.3.
[50] See paragraph 3.10(a) for our definition of a food ordering marketplace.

compare menus, prices and reviews; place orders online and pay online or by cash on delivery. The online orders are transmitted to and accepted by takeaway restaurants via proprietary terminals, which send confirmations to consumers, following which the takeaway restaurants prepare and deliver the food'.[51]

(b) The logistics-enabled marketplace model, referred to as 'ordering and logistics specialists' in the *Just Eat/Hungryhouse* decision, also provides access to multiple restaurants and consumers on a single platform but 'in addition, the delivery of the food to consumers is integrated into the platform and riders/couriers are able to identify orders that are ready to be collected in the vicinity. Because they manage the delivery function themselves, the ordering and logistics specialists have greater control over the reliability and speed of food delivery than food ordering marketplaces'.[52]

3.11 The existence of these two models is reflected in the Parties' internal documents. For example, [✂].

3.12 As discussed in paragraphs 3.18 to 3.34 below, we note that the distinction between food ordering marketplaces and logistics-enabled marketplaces is becoming less relevant as competitors move towards hybrid models.

Product market definition

3.13 As set out in the Merger Assessment Guidelines, the relevant product market is a set of products that customers consider to be close substitutes, for example in terms of utility, brand or quality.[53]

3.14 We consider the extent of substitutability between logistics-enabled restaurant marketplaces (our starting point) and the products listed below, in order to assess whether the market definition should be widened to include:

(a) food ordering marketplaces, which do not primarily provide logistics;

(b) direct ordering from branded VIFCs who provide their own logistics, such as Domino's, Pizza Hut and Papa John's;

(c) direct ordering from restaurants (on their own websites or apps, by telephone, or in-person) who provide delivery (either using their own

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[51] *Just Eat/Hungryhouse*, Final Report, 16 November 2017, paragraph 2.17.
[52] *Just Eat/Hungryhouse*, Final Report, 16 November 2017, paragraph 2.21.
[53] MAGs, from paragraph 5.2.5(a).

drivers or though partnering with a third-party last-mile logistics specialist); and

(d) direct ordering from restaurants (on their own websites or apps, by telephone, or in-person) where the customer collects the food from the restaurant.

3.15 To inform our analysis, we have reviewed evidence on the consumer decision-making process. As set out in Appendix B there is some evidence to indicate that consumers typically decide which cuisine they would like to order before deciding from which app/website to order.

3.16 We consider competition for both consumers and restaurants. We note that online restaurant platforms have some properties of two-sided markets[54]. Two-sided platforms intermediate between distinct and unrelated groups of customers. The number of customers in each group affects the profitability of the product, because the value that one group of customers realizes from using the intermediary depends on the volume of customers from the other group ('indirect network effects').[55]

- *The Parties' views*

3.17 The Parties submitted that the CMA's market definition should include (a) food ordering marketplaces, (b) direct ordering from restaurants (with or without logistics) and (c) VIFCs. If not included in the CMA's market definition, Deliveroo submitted that the competitive assessment should give due weight to these 'out of market' constraints on Deliveroo. We consider their views further in the following assessment.

Food ordering marketplaces

3.18 We first considered whether the products and services of food ordering marketplaces, which primarily do not provide logistics (such as Just Eat[56]) should be included in the same product market as logistics-enabled marketplaces (such as Deliveroo and Uber Eats). These models are explained in more detail above.

[54] Or three-sided if you include the market for delivery drivers.
[55] MAGs, paragraph 5.2.20. As explained in the Merger Assessment Guidelines, the implementation of the hypothetical monopolist test may be more complicated when products are two-sided.
[56] Just Eat's logistics capabilities are not very developed and currently [✂].

- *The Parties' views*

3.19 The Parties' submitted that logistics-enabled marketplaces and food ordering marketplaces should be considered part of the same market, and that the distinction between marketplace-only players and ordering and logistics specialists has fallen away in recent years. Deliveroo submitted that:

(a) It faces equally intense competition from food ordering marketplaces as it does from other logistics-enabled competitors. They offer very similar food delivery services to restaurants/retailers and consumers and have broadly similar functionalities.

(b) Just Eat is no longer a pure marketplace and has developed a (strong) hybrid offering in the UK.

(c) Competition for restaurants has grown more intense in recent years due to the product offerings of the three largest services (Deliveroo, Just Eat and Uber Eats) converging.

3.20 Deliveroo also submitted that Just Eat's recent acquisition of the (market-leading) Canadian food ordering and logistics platform, Skip the Dishes, is expected to allow Just Eat to leverage the technology and knowhow of this business to develop further its own delivery offering.

- *Evidence from the Parties' internal documents*

3.21 The Parties' internal documents also indicate that Just Eat (primarily a marketplace) imposes a competitive constraint on Deliveroo and Uber Eats (primarily logistics-enabled marketplaces). For example:

(a) An internal Deliveroo presentation on '[✂]' (from December 2019) includes a section on '[✂]'. This focuses on Uber Eats and Just Eat as Deliveroo's key competitors.

(b) In 2019, Deliveroo commissioned price sensitivity research [✂].[57] This indicated that [✂].

3.22 We also observed evidence provided by Deliveroo that consumers and restaurants multi-home between the two types of marketplace:

[57] Deliveroo commissioned this research with a view to understanding price sensitivity across the market as a whole. [✂].

(a) Deliveroo submitted that in December 2019, the proportion of Deliveroo App users who also used the Just Eat app was 37%.[58]

(b) Deliveroo submitted the following table (Table 3.1), based on its internal analysis, indicating that [✂]% of Deliveroo's restaurant partners in the UK also work with Just Eat.

Table 3.1: Deliveroo internal analysis on restaurant multi-homing

		(%)
	UK	*Global*
Only work with Deliveroo	[✂]	[✂]
Also self-deliver	[✂]	[✂]
Also work with Just Eat	[✂]	[✂]
Also work with Uber Eats	[✂]	[✂]

Source: Deliveroo.
Note: [✂].

- *Evidence from third parties*

3.23 Evidence from Just Eat and Uber Eats shows that they see themselves as primarily competing against Deliveroo and one another. Just Eat told us that it also sees the telephone (ie direct ordering with restaurants) as a main competitor.

3.24 Just Eat submitted that:

(a) it faces competition from a wide range of players, including direct ordering from local restaurants, VIFCs and 'logistics enabled platforms' such as Deliveroo and Uber Eats; and

(b) businesses such as Uber Eats and Deliveroo are Just Eat's main competitors for delivery service orders in the UK, based on their scale and coverage.

3.25 Uber Eats submitted that:

(a) its main competitors are Deliveroo and Just Eat; and

(b) there has been a gradual convergence between the business models of Just Eat, Deliveroo and Uber Eats – with all three offering a food ordering service with and without access to a delivery network.

[58] App Annie data showing in a given month the % of phone users opening the Deliveroo app and the Just Eat or Uber Eats app.

3.26 Internal documents from Just Eat and Uber Eats show that these firms monitor their performance against, and have ambitions to win market share from, Deliveroo and each other. For example:

(a) Just Eat's '[✂]', produced for a board meeting with senior management in [✂] 2018, provides evidence that Just Eat views Uber Eats and Deliveroo as competitors [✂].[✂].

(b) Uber Eats' '[✂]' describes Deliveroo and Just Eat as its 'top competitors'. It provides an overview of Uber Eats' view of the competition, focusing on Deliveroo and Just Eat.

3.27 The following slide from a Just Eat internal document on 'the future of food delivery' also supports the views put forward by the Parties [✂] (see Figure 3.1).

Figure 3.1: [✂]

[✂]

Source: Just Eat.

- *Evidence from restaurants*

3.28 Restaurants responding to our customer questionnaire told us that they use food ordering platforms because of their delivery capabilities, which are strong due to their scale and investments in dispatching technology.'[59] Several restaurants highlighted the importance of Deliveroo's logistics services and told us that they have not seen Just Eat as suitable for them because it does not provide, or has not previously provided, its own drivers.

3.29 Branded restaurant chains responding to our customer questionnaire[60] told us that using online restaurant platforms that provide logistics can have drawbacks including a lack of control over the quality of the product delivered. For example, one restaurant chain told us that, where they have no control over the last mile of the delivery process, consumers get a product that is noticeably worse than that available in the restaurant.

[59] We note that customer questionnaires were sent to former or potential customers of one or both of Deliveroo or Amazon, both of which offer or previously offered a logistics enabled service. This is unlikely to be representative of all restaurants, such as those who have a strong preference for self-delivery.
[60] Customer questionnaires were sent to former or potential restaurant customers of one or both of Deliveroo or Amazon.

- *Our assessment*

3.30 Our provisional conclusion is that food ordering marketplaces and logistics-enabled marketplaces are sufficiently close substitutes to be considered part of the same product market.

3.31 The distinction between food ordering marketplaces and logistics-enabled marketplaces is becoming less relevant as competitors move towards hybrid models, with Just Eat (which previously operated a marketplace-only model) now offering logistics, and Deliveroo and Uber Eats (which previously only listed restaurants for which they also made deliveries) now listing restaurants on their marketplaces which make their own deliveries:

(a) In 2018, Deliveroo introduced its ‘Marketplace+’ offer, which allows restaurants who make their own deliveries to use Deliveroo.[61]

(b) Just Eat has significantly expanded its delivery capabilities, now offering delivery in over [✂]% of the addressable UK population, and has purchased the Canadian player Skip the Dishes, which will allow its technology to be used to further improve Just Eat’s delivery capabilities.[62] Just Eat has also been able to work with third party providers to supplement its delivery capabilities where needed.

(c) On 31 January 2020, Just Eat was acquired by Takeaway.com which has logistics expertise in other countries.[63] We note that this could help accelerate Just Eat’s development of logistics in UK.

(d) In 2019, Uber Eats has also introduced a marketplace which allows restaurants to make their own deliveries.[64]

(e) All three platforms offer additional ‘value add’ services such as, for example, assistance with third party providers and other business-to-business tools.

3.32 We note that there is still a degree of differentiation between the services of platforms that are primarily food ordering marketplaces (Just Eat) and those that are primarily logistics-enabled (Deliveroo and Uber Eats). For example:

(a) Just Eat’s logistics capabilities are not very developed and currently [✂]. Uber Eats’ marketplace offerings represent [✂]. Deliveroo’s marketplace

[61] Deliveroo Newsroom, 12 June 2018, *Deliveroo to add thousands of restaurants to platform*.
[62] Just Eat, 15 December 2016, *Acquisition of SkipTheDishes*.
[63] Takeaway.com N.V./Just Eat plc, 23 April 2020, *CMA clearance decision*.
[64] FT.com, 20 February 2019, *Uber Eats to cut fees in battle with Deliveroo and Just Eat*.

offerings (ie where restaurants deliver food themselves) represent a [✂] limited proportion of its business.

(b) Food ordering marketplaces that do not offer logistics provide a somewhat different offer from a restaurant perspective and so may not be considered as being close substitutes for all restaurants, in particular those that do not wish to fulfil their own deliveries. Conversely, logistics-enabled marketplaces give restaurants less control over the quality of product delivered and customer service.

(c) Uber Eats told us that, from a consumer perspective, logistics-enabled marketplaces offer typically shorter delivery times because of the efficiencies that they are able to create.

3.33 We note that, as submitted by the Parties, the distinction between food ordering marketplaces and logistics-enabled marketplaces is becoming less relevant as competitors move towards hybrid models.

3.34 In *Just Eat/Hungryhouse*, the CMA concluded that the relevant product market included food ordering marketplaces (Just Eat and Hungryhouse) and the services of ordering and logistics specialists (principally Deliveroo, Uber Eats and Amazon Restaurants), together referred to as 'online food platforms'.[65] In the present case we refer to these as 'online restaurant platforms' to avoid confusion with the market for the supply of OCG (discussed in the second half of this chapter).

Vertically integrated food chains

3.35 We also considered whether the relevant product market should be expanded to include direct ordering from vertically integrated food chains (VIFCs) who offer their own delivery, such as Domino's, Papa John's and Pizza Hut.

3.36 In *Just Eat/Hungryhouse*, the CMA found that branded food chains who offer their own delivery, such as Domino's, Papa John's and Pizza Hut, should not be included in the same market, in part because the narrow range of food types available means that they would be considered close substitutes by consumers only in relation to a subset of consumer orders.[66]

3.37 In *Just Eat/Hungryhouse*, the CMA noted that 'these chains' services differ fundamentally from the services that food ordering marketplaces offer, in that they do not provide consumers a choice of either restaurants or cuisines'.

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[65] *Just Eat/Hungryhouse*, Final Report, 16 November 2017, paragraph 4.28.
[66] *Just Eat/Hungryhouse*, Final Report, 16 November 2017, paragraph 4.27.

While VIFC chains accounted for ‘a significant share of takeaway restaurant revenue, evidence indicate[d] that consumers [we]re unlikely to view these as sufficiently close substitutes to the restaurants and services offered by [food] ordering marketplaces and logistics specialists for them to be included in the same market’. In particular:[67]

(a) The results of the CMA’s econometric analysis for *Just Eat/Hungryhouse* did not find evidence that Domino’s (the largest of these chains by revenue and number of branches) exerted a discernible competitive constraint on Just Eat or Hungryhouse.

(b) The responses to the CMA’s consumer survey for *Just Eat/Hungryhouse* did not point towards these chains being close substitutes.

3.38 We note, however, that the evidence from *Just Eat/Hungryhouse* referred to here and elsewhere in this paper is from 2017, and that suppliers of online restaurant food platforms have evolved significantly since then. There may also have been some evolution in consumer demand in this fast-moving market (for example, as businesses develop new ways of engaging with consumers, or consumers change their cuisine preferences). We have therefore placed limited weight on this evidence. We consider these findings in the round alongside other evidence collected as part of this investigation.

- *The Parties’ views*

3.39 The Parties submitted that Deliveroo principally competes in the restaurant ordering and delivery space against Uber Eats and Just Eat, although it also faces significant competition from vertically integrated pizza chains.

3.40 The Parties submitted that VIFCs that provide their own logistics, such as Domino’s, Papa John’s and Pizza Hut, impose a constraint on both the customer and restaurant side of the service. The Parties told us that ‘[✂]’.

3.41 The Parties submitted that VIFCs provide a strong competitive constraint [✂]. They supported this with evidence from [✂].

3.42 Deliveroo submitted that, for customers wishing to order a pizza, there is very strong demand-side substitution between its offering and the offerings of Domino’s, Papa John’s and Pizza Hut. Deliveroo submitted that these players’ offerings are comparable in terms of price, service and quality.

[67] Just Eat/Hungryhouse, Final Report (November 2017), paragraph 4.27.

3.43 Deliveroo submitted that a significant proportion of their customers wish to order pizza:

(a) [✂]

(b) [✂]

3.44 The Parties submitted that market intelligence reports and articles suggest that there may be increasing competition between VIFCs and online restaurant platforms.[68]

3.45 The Parties submitted that there is a trend of large chains moving towards vertical integration, citing '*The Sift Report 2020*'.[69] In particular, the Parties reference a quote from the CEO of Keatz (a European 'cloud kitchen') saying that 'a lot of big chains are trying to become independent – deliver themselves or work with [a logistics firm like] Stuart, […] [t]here's an entire industry developed around this use case; it's quite a big threat to Deliveroo and Uber Eats'. The Parties also referenced text in the report stating that '[r]estaurants of all sizes are choosing to go it (almost) alone. With greater control of their own orders, brands save on commission fees, build loyalty with customers, and release. And there's a startup (or several) to help them with that'.

3.46 The Parties submitted that if several large chains were to vertically integrate in the future, in aggregate, Deliveroo would be competing with them for more than just the subset of consumers who want to order pizza.

- *Evidence from the Parties' internal documents*

3.47 As submitted by the Parties, a number of Deliveroo internal documents [✂]. However, the in the round our view is that Deliveroo's internal documents have a clear focus on Uber Eats and Just Eat as its key competitors.

- *Evidence from third parties*

  - *Just Eat*

3.48 Just Eat submitted that it competes closely with VIFC and explained this is because of the brand strength of these chains. Just Eat submitted 'they have the strength of brand that competes against us'.

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[68] Bloomberg, 15 March 2017, *Domino's, Atoned For its crimes against Pizza and built a $9 billion empire*; Diginomica, 1 October 2018, *Why Domino's Pizza keeps on top of what the competition is up to in digital*.
[69] The Sifted Intelligence Unit (backed by the Financial Times and sponsored by Uber Eats), January 2020, *The Sift Report 2020: future of on-demand food delivery*.

3.49 A number of Just Eat internal documents [✂]. However, the Just Eat internal documents that we have reviewed show a clear focus on Uber Eats and Deliveroo.

- *Uber Eats*

3.50 Uber Eats told us that it sees itself as facing a competitive constraint from VIFCs, as it is responding to the same consumer need.

3.51 It told us that it ranks its competitors in food delivery as [✂] first, then [✂], then 'other existing players' (including [✂]).[70]

3.52 It told us that it thinks some consumers will consider going to an aggregator and then make a choice [about which restaurant to order from] from there, whereas others will consider directly going to some of the brands that they can go directly to, such as Domino's or Pizza Hut Delivery.

3.53 Uber Eats' '[✂]' slide deck presents the findings from its brand tracker survey of food delivery users. It includes the following slide, [✂] (see Figure 3.2).

Figure 3.2: [✂]

[✂]

Source: Uber Eats.

- *Domino's Pizza*

3.54 Domino's Pizza is not partnered with any online restaurant platforms in the UK.

3.55 Domino's submitted that [✂].

3.56 It submitted that it views Just Eat, Deliveroo, Pizza Hut, Papa John's, Uber Eats, McDonald's, KFC and Burger King as its key UK competitors, or potential competitors, [✂].

3.57 It submitted the following slide as part of its explanation [✂] (see Figure 3.3). We note that this shows [✂].

[70] Uber Eats also listed, after 'other existing players', 'other potential players' currently focused on on-demand groceries (including Amazon Prime Now etc).

Figure 3.3: [✂]

[✂]

Source: Domino's.

3.58 Domino's told us that it chooses to operate its own order and delivery channel rather than use online restaurant platforms for a number of reasons. These include: [✂].

3.59 However, it also submitted that there are a number of disadvantages to operating its own order channel. For example, [✂].

3.60 It submitted that it expects [✂].

- *Papa John's*

3.61 Papa John's is partnered with Just Eat, Deliveroo and Uber Eats. It submitted that it lists on these platforms to access a wider customer base, and it expects the proportion of its customers using aggregators to go up in the next 24-months.

3.62 It submitted that it had built its brand using its own platform but uses online restaurant food platforms to increase brand accessibility. It submitted that the benefit of using its own delivery fleet is that it has control over customer orders from beginning to end. However, there are increasing labour costs associated with operating its own delivery channel.

3.63 It submitted that it ranks Domino's and Pizza Hut as its top two key competitors, or potential competitors, followed by Deliveroo and Uber Eats.

3.64 Papa John's submitted that '3 or 4 years ago you could only order pizza, Chinese or Indian for home delivery. Now customers can choose whatever food type they want and this would be delivered. This creates challenge for pizza industry as there is more choice for customers'.

- *Pizza Hut*

3.65 Pizza Hut partners, in the UK, with Just Eat, Deliveroo and Uber Eats. It submitted that the benefit of using aggregators is that they have large media budgets to attract customer attention and create new customer awareness for the brand. However, there are disadvantages – there is also little flexibility in online platform design to promote own brand personality. Sharing and use of customer data also remains a significant challenge for aggregators and brands to solve for fairly.

3.66 Pizza Hut told us that it ranks Domino's followed by Papa John's as its key competitors or potential competitors.

- *Our assessment*

3.67 Online restaurant platforms are a relatively new service. Deliveroo, Just Eat and Uber Eats have been investing heavily in rapid growth. Internal documents show they see themselves as being in a race to achieve market leadership as the market matures. We consider that this dynamic is central to the business models of the platforms and, because of this, the primary competitive constraint they face is from one another.

3.68 In contrast, VIFC firms are well-established. While the platforms may win some business from VIFCs, they are focused on expanding the market beyond this, for example through expanding to more independent restaurants and other QSR (quick service restaurants) that do not usually operate their own delivery channel.

3.69 Besides competing for customers, the online restaurant platforms also compete against one another to attract restaurants to their apps, and for couriers. However, VIFCs do not compete against the platforms for restaurants. While VIFCs may to some extent compete against platforms to attract couriers, we have focused on consumers, and the extent to which VIFCs are a competitive constraint on online restaurant platforms in winning delivery orders. We note that:

(a) All of the VIFCs identified as competitors by the Parties are predominantly pizza delivery companies.

(b) Whether VIFCs compete against online restaurant platforms depends on whether consumers consider VIFCs as a possible alternative, at the point when they are ordering from an online restaurant platform:

(i) Consumers[71] may compare food delivery options across a range of factors, including cuisine type as well as menu prices, speed/reliability of delivery, delivery charge etc. In this case, VIFC options could be considered as an alternative to all the cuisine options available from Deliveroo.

[71] In practice the consumer choice may be made by a household rather than an individuals, and the way the choice is made may differ from one purchasing occasion to another.

(ii) Alternatively, consumers may choose the cuisine first and then consider provider/delivery options within this cuisine type. Evidence indicates that this is the typical approach.[72] If the consumer's cuisine choice is pizza, they will be able to compare VIFC options against only a relatively small subset of options available from Deliveroo. [✂]. However, our own analysis of Deliveroo's data on gross merchandising value for its 'key account restaurant customers' indicates [✂]. For example, [✂].

(c) In other words, there may be limited scope for an online restaurant platform to "win" a customer who has already decided to order pizza. Hence the competitive interaction between online restaurant platforms and VIFCs may be relatively limited. Likewise, consumers who do not want to order pizza are unlikely to view VIFCs, such as Domino's, as a substitute to online restaurant platforms.

3.70 We have considered a number of points raised by the Parties in support of their view that online restaurant chains face competition from VIFCs.

(a) Deliveroo provided some evidence from internal documents indicating that it sees VIFCs as a competitive constraint [✂]. However, [✂], in the round our view is that Deliveroo has a clear focus on Uber Eats and Just Eat as its key competitors, and [✂].

(b) The Parties cited press articles[73] which refer to increasing competitive pressure on VIFCs from online restaurant platforms. We note that while VIFCs may see the rapid growth of online restaurant platforms as a threat to their established businesses, it does not follow that the online restaurant platforms face an effective competitive constraint from VIFCs.

(c) The Parties cited a report[74] which comments that 'restaurants of all sizes are choosing to go it (almost) alone' (ie to move away from using online restaurant platforms) in order to save on commission fees and have greater control over their orders. However, we note that the report also discusses the benefits that Deliveroo and Uber Eats can offer restaurants, such as increased order volumes, data insights, and allowing restaurants to focus on their food and in store dinners. We recognise that the constraint on online restaurant platforms from VIFCs could potentially

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[72] While decision-making processes can vary, there is some evidence to indicate that consumers typically decide which cuisine they would like to order before deciding on which app/website to order from (see Appendix B).
[73] Bloomberg, 15 March 2017, *Domino's, Atoned For its crimes against Pizza and built a $9 billion empire*; Diginomica, 1 October 2018, *Why Domino's Pizza keeps on top of what the competition is up to in digital*.
[74] The Sifted Intelligence Unit (backed by the Financial Times and sponsored by Uber Eats), January 2020, *The Sift Report 2020: future of on-demand food delivery*.

increase in the future if more large branded chains were to move towards vertical integration.

3.71 In conclusion, our provisional view is that VIFCs are not an effective competitive constraint on online restaurant platforms. While the platforms may win some business from VIFCs, they are focused on expanding the market in competition with one another.

Other direct ordering from restaurants other than VIFCs (on their own websites or apps, by telephone, or in-person) who provide their own logistics

3.72 We also considered whether the relevant product market should be expanded to include direct ordering from restaurants (on their own websites or apps, by telephone, or in-person) who provide their own logistics (using their own delivery fleet or via a white-label third-party logistics specialist).

3.73 In *Just Eat/Hungryhouse*, *the CMA* found that the constraint from direct ordering was limited, despite the fact that most of the restaurants using Just Eat and Hungryhouse had their own delivery capabilities.[75] The CMA excluded direct ordering from the market, while taking it into account as part of the competitive assessment.[76]

- *The Parties' views*

3.74 The Parties submitted that direct ordering from restaurants (on their own websites or apps, by telephone, or in-person), who provide their own logistics, imposes a constraint on both the customer and restaurant side of the service:

> '[✂]'.

3.75 The Parties submitted that [✂] shows that [✂]% of Deliveroo's restaurant partners also self-deliver.

- *Evidence from the Parties' internal documents*

3.76 As outlined in more detail in the previous sections, Deliveroo's internal documents focus on Just Eat, Uber Eats, and sometimes VIFCs as its main 'competitor set'. They do not refer to direct ordering from restaurants as a key source of competition.

3.77 [✂]

[75] *Just Eat/Hungryhouse*, Final Report, 16 November 2017, paragraph 6.143.
[76] *Just Eat/Hungryhouse*, Final Report, 16 November 2017.

Figure 3.4: [✂]

[✂]

Source: Deliveroo.

- *Evidence from third parties*

  - *Just Eat*

3.78 Just Eat submitted that 'direct ordering (eg over the phone) from local restaurants and large chains is, and will continue to be, an important competitive constraint for Just Eat, as virtually all of Just Eat's independent restaurants operated in the takeaway market before they joined any platform'. It submitted that '[r]estaurants have a personal relationship with their customers and this relationship is maintained through direct ordering and restaurants own delivery service – this can be via walk-in, phone ordering, or the restaurant building their own website/app for online ordering'.

3.79 It told us that direct ordering is still a huge part of the market, and that white-label apps are making it easier for restaurants to create their own websites and apps. Restaurants want to retain control, so they set up their own websites and apps to try and go direct.

3.80 Just Eat told us that it thinks that as a customer you want one app with hundreds of restaurants, rather than hundreds of apps for hundreds of restaurants.

3.81 [✂]

  - *Uber Eats*

3.82 An Uber Eats '[✂]' document indicates that direct ordering from restaurants is still the most common food delivery service in London, and that Uber Eats aims to [✂].

3.83 An Uber Eats '[✂]' document also describes direct order only users and online restaurant platform users as [✂].

- *Restaurants*

3.84 Branded restaurant chains[77] told us that they used online restaurant platforms for a number of reasons, including their delivery capabilities and access to customers they would not otherwise be able to reach. They also submitted that using online restaurant platforms can have drawbacks, including high commission rates, a lack of control over the quality of the delivered product and a lack of access to consumer data.

3.85 We asked branded restaurant chains whether they would consider creating their own ordering channel. 18 of the 28 restaurant chains that responded to our phase 2 questionnaire submitted that they had considered or were trialling their own ordering channel. However, all of these restaurant chains highlighted the difficulties in doing so. We note that if more restaurants vertically integrated there may be potential for a future increase in competitive constraint, but we note the evidence of current difficulties in vertically integrating.

3.86 A number of Deliveroo's restaurant customers told us that offering delivery would be very difficult without the scale that online restaurant platforms have.

- *Our assessment*

3.87 Our provisional conclusion is that direct ordering from restaurants which provide their own logistics is not in the market, but that such restaurants are an out of market constraint. This is consistent with *Just Eat/Hungryhouse*, in which the CMA excluded direct ordering from the market, while considering its strength as part of the competitive assessment.[78]

3.88 Overall, direct ordering is likely to be a less significant constraint in this case compared with *Just Eat/Hungryhouse* because the majority of Deliveroo's restaurants in the UK are not available for direct ordering. Deliveroo, an ordering and logistics specialist, provides the delivery capability to a large proportion of its restaurant customers. For example, Deliveroo submitted that an estimated [✂]% of its restaurant partners were also available for direct ordering in 2019. In comparison, [✂]% of Just Eat's orders were fulfilled by restaurants' own couriers in 2019.

[77] Customer questionnaires were sent to former or potential restaurant customers of one or both of Deliveroo or Amazon.
[78] *Just Eat/Hungryhouse*, Final Report, 16 November 2017.

White label last-mile logistics specialists

3.89 Restaurants are able to utilise third parties to develop both their ecommerce capabilities and their delivery and logistics under their own branding.

3.90 For restaurants without their own logistics, using a white label solution may be an alternative option to using a logistically enabled marketplace. We have therefore considered whether this should be included in the same product market.

- *The Parties' views*

3.91 The Parties submitted that Deliveroo faces significant competition from large chain restaurants adopting a white-label approach to ordering/delivery.

3.92 The Parties submitted that:

> 'From a restaurant perspective, it is increasingly easy for branded chains to vertically integrate. Very recent sector intelligence reports [The Sift Report 2020] suggest that restaurants are increasingly able to "go it alone" (using white label food ordering services such as Flipdish to accept orders and, for logistics, either fulfilling deliveries themselves or working with a delivery partner such as Stuart). Nando's, for example, in partnership with a third-party logistics provider, has recently started offering its own food delivery in certain areas of the UK. KFC, [✂], is also trialling its own delivery services'.

3.93 The Parties submitted that:

> '[✂]'.

3.94 The Parties also submitted that Slerp, a UK based white-label platform, has recently partnered with a number of restaurants and pubs across London. The Parties submitted that 'platforms like Slerp are making it even easier for branded chains in the UK to develop their own on-demand delivery offerings, and this can only be expected to increase in the future'.

- *Evidence from the Parties' internal documents*

3.95 As outlined in more detail in the previous sections, Deliveroo's internal documents focus on Just Eat, Uber Eats, and sometimes VIFCs as its main 'competitor set'. They do not refer to direct ordering from restaurants as a key source of competitive constraint.

- *Evidence from third parties*

3.96 Uber Eats submitted that it 'does not compete for consumers solely with online restaurant platforms. Indeed, Uber Eats considers that it competes with a large number of players including restaurants ([✄]), on-demand grocery providers ([✄]) and companies with parcel delivery and logistics capabilities ([✄])'.

3.97 One restaurant chain told us that it used to outsource its logistics to a white-label logistics provider (Stuart). However, they could not handle the demand at peak periods as the logistics provider's capacity was not sufficient. This caused reputational damage due to late or undelivered orders as it was under its own brand white-label delivery. It told us that it is unlikely it would use a third-party logistics company in the future, due to the lack of scalability it previously experienced. However, it noted that, if a new operator came along that allowed it to deliver food at a much more competitive price than it currently pays its online platform, this could still be an option.

- *Our assessment*

3.98 Our provisional conclusion is that direct ordering from restaurants using a white-label logistics specialist is not in the market, but that such services are an out of market constraint.

3.99 Orders fulfilled using white-label logistics specialists are not in themselves a distinct product from the view of consumers. From a consumer perspective, this is the same as restaurants that provide their own logistics.

3.100 White-label providers of logistics services are likely to be a substitute for online restaurant platforms for some restaurants. We note that there are cases in which business may be diverted away from online restaurant platforms by restaurant platforms using white-label logistics specialists. However, using these services will not give them access to the benefits they get from partnering with an online restaurant platform, such as access to consumers ordering through online restaurant platforms and a reduced risk of reputational harm from late orders.

Direct ordering where the restaurant does not provide logistics

3.101 We have also considered whether the relevant product market should be expanded to include direct ordering from restaurants (on their own websites or apps, by telephone, or in-person) who do not provide logistics (ie where the customer collects the food from the restaurant).

- *The Parties' views*

3.102 The Parties submitted that direct ordering where the restaurant does not provide logistics is a competitive constraint:

> '[✂]'.

- *Our assessment*

3.103 It is our provisional view that direct ordering from restaurants that do not provide logistics is not in the market, but such restaurants will provide a limited out of market constraint.

3.104 Consumers' willingness to pay for food delivery will be affected by their ability and/or willingness to collect their orders from the restaurant. However, ordering restaurant food for delivery is attractive to customers who place a premium on getting their food delivered, and are therefore willing to pay a delivery fee and service charge. A very high proportion of Deliveroo, Uber Eats and Just Eat customers order food for delivery.[79] For this reason, direct ordering from restaurants that do not have their own logistics is likely to impose a weaker competitive constraint on online restaurant platforms than those that do.

Provisional conclusion on product market

3.105 Our provisional view is therefore that the relevant product market in which to assess the effect of the transaction is the market for the supply of online restaurant platforms. This includes logistics-enabled marketplaces (such as Deliveroo and Uber Eats) and food ordering marketplaces, that do not primarily provide logistics (such as Just Eat). VIFCs who provide their own logistics (such as Domino's, Papa Johns and Pizza Hut) are not in the market but provide an out of market constraint. Direct ordering from restaurants is not in the market, but such restaurants provide a limited out of market constraint.

Geographic market definition

3.106 The geographic market is also typically defined using the framework of the hypothetical monopolist test.[80] In the following section, we have explored whether evidence indicates the market for online restaurant platforms is local or national in scope.

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[79] We note that Deliveroo and Just Eat do now offer a click and collect service.
[80] MAGs, paragraph 5.2.21.

- *The Parties' views*

3.107 The Parties noted the CMA's finding in *Just Eat/Hungryhouse* that the relevant market for the supply of online food platforms was national in scope, with important local elements needing to be taken into account in the competitive assessment.[81]

3.108 The Parties submitted that Deliveroo's business is most developed in London ([✂]). However, Deliveroo has [✂].

(a) The Parties submitted that [✂]. The Parties also submitted that Just Eat has recently partnered with Greggs, a large (and popular) nationwide chain.

(b) The Parties also submitted that Uber Eats' geographic profile is similar to Deliveroo's: [✂].

3.109 The Parties submitted that Deliveroo 'uses a number of metrics to assess the strength of competitors by geography, including [✂]'.

- *Evidence from the Parties' internal documents*

3.110 Overall, Deliveroo's internal documents indicate that it thinks about its position in the market and competition at both a UK and a local level.

3.111 Internal documents indicate that Deliveroo has ambitions to expand nationwide. For example:

(a) A slide that was produced for [✂].

(b) The following slide (see Figure 3.5) that was produced for [✂]. The Parties submitted that, to the extent to which its internal documents state that its ambition is to '[✂]', this was an [✂]. The Parties submitted that this proposition relied on [✂].

Figure 3.5: [✂]

[✂]

Source: Deliveroo.

3.112 Deliveroo's internal documents show that [✂]. For example, Deliveroo with Saturday Night Takeaway and the England Football Team, Uber Eats with Love Island UK, Just Eat with The X Factor.

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[81] *Just Eat/Hungryhouse*, Final Report, 16 November 2017, paragraph 4.33.

3.113 Deliveroo submitted that it 'uses a number of metrics to assess the strength of competitors by geography, including [✄]'. This is supported by its internal documents which indicate that Deliveroo considers competition on a local as well as national level. Generally, [✄].

3.114 Deliveroo's internal documents indicate that [✄]. This indicates that Deliveroo considers how to compete effectively on the local as well as national level.

- *Evidence from third parties*

  - *Just Eat*

3.115 Just Eat submitted that, with their core logistics models, both Deliveroo and Uber Eats have typically focussed on cities and larger towns as they have expanded, which provide a denser urban customer population and a large accessible supply of drivers to scale their models quickly. Thus, Just Eat's competition with them has typically focussed on those areas.

3.116 However, Just Eat also submitted that it has witnessed both competitors rapidly expanding their geographical spread into smaller areas. Just Eat told us that, in June 2018, both Deliveroo and Uber Eats were present in approximately 200 towns/cities. Since then they have more than doubled their UK footprint, now both present in approximately 450 towns/cities. [✄].

3.117 Just Eat told us it predicts that the geographical expansion of its rivals will continue to grow, [✄]. Just Eat submitted that, in addition, Uber Eats and Deliveroo's investment in national advertising campaigns (eg Deliveroo on Saturday Night Takeaway and the England Football Team and Uber Eats with Love Island) only drive maximum returns if they have or are aiming for national geographic coverage.

3.118 Similar to Deliveroo, Just Eat's [✄].

3.119 Just Eat also makes some strategic decisions at a national level. For example, internal documents provide details of national mass media TV (eg X Factor, Ant & Dec's Saturday Night Takeaway) and radio (eg Magic FM) advertising campaigns that Just Eat have conducted.

- *Uber Eats*

3.120 Uber Eats submitted that the competitive landscape for online restaurant platforms in the UK varies on a geographic basis. Uber Eats submitted that is because:

(a) not all online restaurant platforms operate in all areas; and

(b) where Uber Eats operates, the presence and strengths of its main competitors varies on a geographic basis.

3.121 Uber Eats submitted that this regional variation is due to the nature of Delivered Prepared Food businesses, which are shaped by local factors such as volume and quality of merchants on the platform, number of customers and number of couriers. Uber Eats submitted that these are, in turn, shaped by factors such as time of entry to the market, marketing available delivery methods, ability to recruit and retain talented employees (eg restaurant sales teams) and quality of operations. It submitted that these factors mean that an online restaurant platform's offering varies in different parts of the UK.

3.122 Uber Eats also submitted that it understands that Just Eat's logistics network and delivery capabilities are currently limited to a few geographical areas in the UK. Uber Eats therefore believes [✂].

3.123 However, Uber Eats told us that, given Just Eat recently announced partnerships with Greggs and McDonald's, [✂].

3.124 In its internal competitive analysis documents, Uber Eats [✂]. Uber Eats notes that it has continued [✂].

- *Our assessment*

3.125 A number of factors point towards a national market in this case. In particular, we note that:

(a) [✂] online restaurant platforms which are active in the UK have ambitions to expand their geographic coverage nationwide.

(b) Deliveroo, Uber Eats and Just Eat all make some strategic decisions at a national level, which will influence their effectiveness as a competitor across multiple or all local areas. For example, they have invested in national mass media advertising campaigns (eg Deliveroo on Saturday Night Takeaway and the England Football Team; Uber Eats with Love Island; and Just Eat with X Factor). Other aspects such as improvements to logistic algorithms and app functionality, as well as terms of membership to subscription services are determined centrally.

(c) Online restaurant platforms are competing for and signing up to exclusive partnerships with nationwide restaurant chains such as McDonalds and Greggs.

3.126 Nevertheless, there is evidence indicating that local variations in competitive conditions also play a role, on both the supply and the demand sides:

(a) [✄]

(b) Demand is inherently local, with consumers ordering from restaurants that deliver to their address and restaurants listing on the Parties' platforms in order to tap into local consumer demand.

(c) [✄]

(d) There are many geographical areas in which only one platform operates (this is generally Just Eat, see Appendix C for geographical coverage maps of market participants). However, as noted above, the internal documents of [✄] indicate that they are looking to expand their services nationwide.

(e) Geographical coverage maps (see Appendix C) of market participants (as well as the submissions and evidence presented) highlight that the intensity and closeness of current competition between suppliers of online restaurant platforms is greatest in London and in a few other large cities.

Provisional conclusion on geographic market definition

3.127 As set out above, we find that competition between the three online restaurant platforms that are active in the UK has significant national aspects: [✄] have ambitious plans to expand into additional UK locations. In addition, aspects of their services which are determined centrally will influence their effectiveness as a competitor across multiple or all local areas (eg advertising strategy, improvements to logistic algorithms and app functionality, agreements with large restaurant chains, terms of membership to subscription services). As such, in this case we have primarily assessed competition on a national basis.

3.128 However, we have also considered local factors as part of our competitive assessment, reflecting the fact that the demand for online restaurant platforms' services is local and that there are certain local variations in competitive conditions.

Online convenience groceries

Introduction and overview

3.129 The starting point for our assessment of market definition is the overlapping products of the Parties.[82] We have therefore considered the supply of online

[82] MAGs, paragraph 5.2.11.

convenience groceries (OCG) in the UK to be our focal product, that is, groceries ordered online for delivery within a few hours.

3.130 This focal product includes Amazon Prime Now (for which the average delivery time is [✂]-hours) and Deliveroo (for which delivery is typically within half an hour of ordering).

3.131 We have used the broad focal product of OCG to explore the broader constraints that companies operating in this space may face, and to set out where the market may be wider than this.

3.132 As set out in our competitive assessment, it appears that, on balance, while the current offers of Amazon and Deliveroo are differentiated in range, price and speed (reflecting their different business models) there may be some overlap in the shopping missions which they serve. If so, there could be an increasing competitive constraint between the two offers as Deliveroo's offer becomes more widely established. We also consider whether the Parties' OCG offers may become more similar as the market evolves.

3.133 The supply of OCG is a nascent market and suppliers are continuing to experiment to determine the right way of addressing customers' preferences for greater convenience. As discussed in more detail in our competitive assessment, it remains to be seen how the Coronavirus (COVID-19) pandemic will affect the nascent OCG market in the medium- or longer-term. As such, a static market definition has been given limited weight in this case, as current substitution and product characteristics may not be reflected in the future evolution of the market. The more important questions for this case are how the market is likely to evolve, and the extent to which the Parties are likely to constrain each other now and in the future. These questions are the focus of our competitive assessment.

3.134 We evaluate the appropriate market definition by considering the extent to which consumers and grocery suppliers can substitute between the Parties' grocery offers and other grocery offers.

3.135 As explained below, we provisionally find that the relevant product market is OCG services (ie groceries ordered online for delivery within a few hours). In particular:

(a) There is a distinction between online delivered groceries and OCG. Slower online delivered grocery services are not a close substitute to consumers for OCG and are, therefore, outside the market. However, they are an out of market constraint.

(b) Bricks-and-mortar convenience stores do not compete closely with OCG delivery, but they are an out of market constraint.

(c) Personal shoppers are in the market, but their activities in the UK are extremely small.

(d) Grocery retailers supplying their own delivery are in the market at the retail level. However, we note that grocery retailers have indicated that it would be challenging for them to successfully develop their own cost-effective OCG offer.

(e) Last-mile logistics specialists are in the market. A number of grocery retailers are currently offering OCG services in partnership with a last-mile logistics specialist.

(f) Traditional delivery providers (such as Royal Mail, Hermes and DPD) are not well placed to offer ultrafast delivery on behalf of grocery retailers and so are outside the market.

3.136 Our provisional view on the relevant geographic market definition is that competition in this market has important local factors (such as availability and potentially pricing). However, several important parameters of competition are set nationally. Given the nascent state of the market, we consider that it is not appropriate to carry out a detailed assessment of local markets. We have considered local factors in our competitive assessment.

3.137 The following analysis is largely based on evidence collected prior to the Coronavirus (COVID-19) crisis. The Coronavirus (COVID-19) crisis has had a substantial impact on the market for the supply of OCG, as discussed in further detail in our competitive assessment. Based on our understanding of these recent developments, we do not consider they have changed the nature of demand for, or supply of, OCG to an extent that would require us to adopt a different view of the relevant market.

Product market definition

3.138 We have considered the supply of OCG in the UK to be our focal point.

3.139 OCG services include:

(a) traditional and online grocery retailers who are either self-supplying last-mile delivery (Amazon Prime Now) or outsourcing delivery to a last-mile logistics specialist (eg Ocado Zoom, Sainsbury Chop Chop, Co-Op, Morrisons); and

(b) partnerships between restaurant delivery platform operators and grocery retailers, with the former providing app presence and/or delivery (eg Deliveroo with Co-op, Uber Eats with Costcutter, Just Eat with Asda).

3.140 As set out in more detail in our competitive assessment, all of these market participants are in the early stages of developing their OCG offer. Deliveroo is in the early stages of developing its groceries business and supplies a limited range of products to customers for delivery within half an hour. Amazon supplies a wider range of groceries through Prime Now, available for delivery within a few hours.[83]

3.141 We have considered whether OCG providers face a competitive constraint from the following:

(a) Online delivered groceries;[84]

(b) Bricks-and-mortar convenience stores and/or personal shoppers as possible substitutes for supply for consumers; and

(c) Self-supply (like Amazon's OCG business), last-mile logistics specialists and/or traditional delivery providers as possible substitutes for grocery retailers for grocery delivery.

3.142 Given the developing nature of this market, current competitive conditions provide less of a guide to assessing the extent of future competitive constraints. In this context, for the purposes of assessing future competitive dynamics, we have considered carefully the Parties' views, the evidence contained in the Parties' internal documents, as well as evidence from third parties.

The Parties' views

3.143 The Parties submitted that the segmentation of OCG as 'groceries ordered online for delivery within a few hours', as something distinct from 'online delivered groceries' is 'an entirely artificial construct'. The Parties submitted that this segmentation places Deliveroo and Prime Now in the same market by construction, 'without evidence of current or future substitutability', and that this omits each of the Parties' actual substitutes.

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[83] We note that prior to 16 Match 2020, Amazon Prime Now also offered 'click to deliver' (CTD) and one-hour scheduled delivery window options, but Amazon told us that this offer has now been withdrawn.
[84] ie groceries delivered in more than a few hours from ordering. This includes later same-day and next day orders.

3.144 As discussed in more detail in our competitive assessment, the Parties submitted that their propositions are fundamentally different and are not substitutes for either consumers or grocery retailers. They are also based on entirely different operating models.[85]

(a) The Parties submitted that there is currently no interaction between the Parties, and each has a distinct set of competitors (eg Just Eat and Uber Eats for Deliveroo, and supermarkets for Amazon).

(b) The Parties submitted that Amazon and Deliveroo operate fundamentally different services and do not compete for consumers, with Deliveroo's offer serving more urgent impulse purchases and Amazon's offer being closer to a weekly 'big basket' shop.

(c) The Parties submitted that they are based on entirely different operating models and their different logistics networks prevent them from competing.[86] Deliveroo's point-to-point network achieves delivery speeds of less than 30-minutes. It is limited (compared to Amazon) in the basket sizes and product ranges it can offer. Amazon's point-to-multipoint network [✂].

(d) The Parties submitted that there is no competition for the supply of logistics services between the Parties. Deliveroo supplies services to a small network of convenience stores and petrol stations in connection with a limited selection of convenience groceries, whereas Amazon provides core shop grocery delivery services for Morrisons.

3.145 The Parties submitted that the offerings of online grocery retailers like Ocado Zoom, Sainsbury's Chop Chop, Shop Coop, Waitrose Rapid Delivery are also differentiated from Amazon Prime Now and Deliveroo's services. They do not offer delivery within 20 to 30-minutes, as Deliveroo does, and they are also differentiated from Amazon, targeting smaller baskets and one-hour delivery.

Our assessment

3.146 As outlined above we have considered the supply of OCG in the UK to be our focal point.

3.147 We have considered the closeness of competition between the Parties in our competitive assessment. Our provisional view is that:

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[85] Parties' Initial Submission, 24 December 2019.
[86] Parties' Initial Submission, 24 December 2019.

(a) Amazon and Deliveroo tend to be used for different shopping missions, but there is some overlap in the shopping missions which they serve.

(b) There is scope for the Parties' offers to evolve and become more similar as the market develops as a result of (a) Amazon investing in faster delivery and (b) Deliveroo expanding and improving its OCG offer.

(c) We note that Amazon and Deliveroo's OCG offers are based on different logistics networks (point-to-multi-point vs point-to-point). Each type of network would present different challenges if the Parties wished to expand their offers. However, as detailed in our competitive assessment, we note that a range of other OCG providers are seeking ways to address similar challenges in order to achieve delivery speeds of two-hours, one-hour or faster.

(d) Deliveroo and Uber Eats developed their point-to-point networks for online restaurant delivery, and at present their grocery offers over these networks appear largely to cater for impulse shopping missions. However, several grocery suppliers are using a point-to-point network for delivery within one-hour,[87] but are not limited to impulse purchases (eg they offer a relatively wide range, large baskets, and prices which are competitive with in-store prices). We therefore disagree that there is a clear separation between delivery via a point-to-point network and serving shopping missions beyond impulse purchases.

Potential consumer-facing substitutes for OCG

Online delivered groceries

3.148 We have considered whether it is appropriate to consider OCG as a segment that is distinct from the larger segment for online delivered groceries. For this, we have explored whether consumers see later same-day or next day grocery delivery services, as a substitute for groceries delivered within a few hours of ordering. We have also considered whether grocery retailers and market commentators see online convenience grocery offers as distinct from traditional online grocery delivery services.

3.149 The CMA considered online grocery delivery in its April 2019 decision in *Sainsbury's/Asda*.[88] In *Sainsbury's/Asda*, the CMA defined a product market

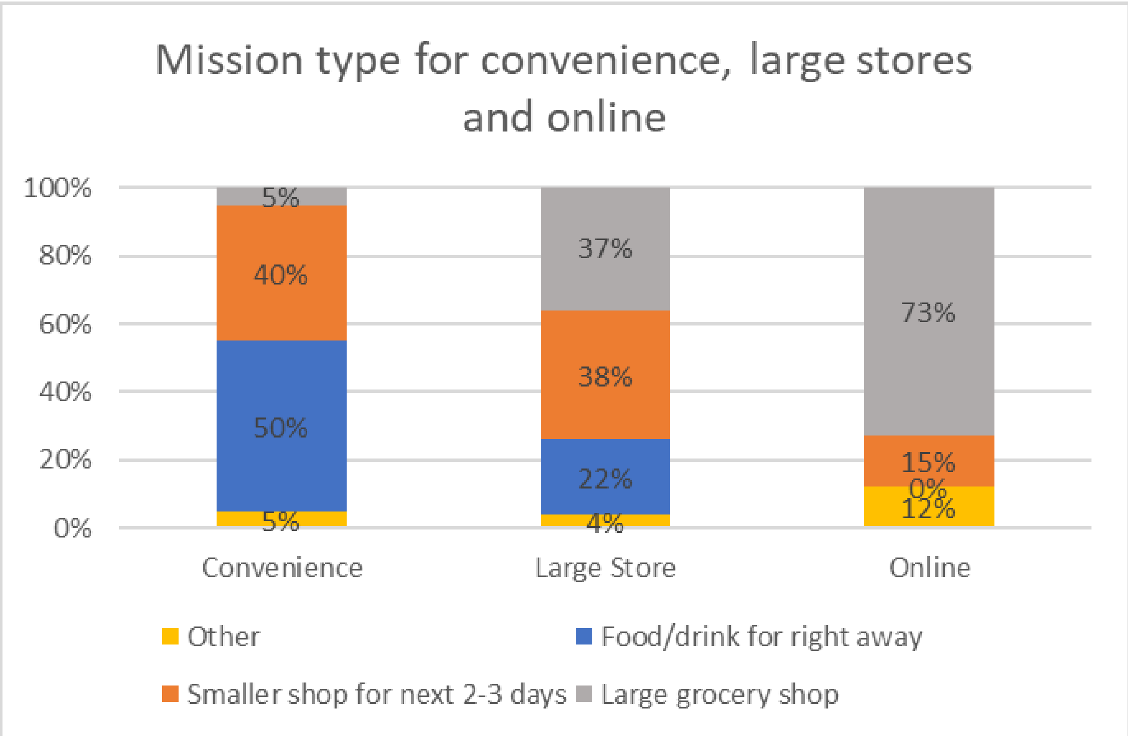
[87] Using a last-mile logistics specialist, [✂].
[88] Final Report, anticipated merger between J Sainsbury Plc and Asda Group Ltd, 25 April 2019.

for 'online delivered groceries'.[89] The CMA excluded services such as Prime Now and the Co-op's trial service, reflecting their more limited range and different shopping missions, relative to the online groceries targeting big basket shops.[90]

3.150 In the past, grocery providers have developed online groceries delivery operations in the UK which offer consumers the opportunity to complete a big basket shopping mission, but which are not attractive for small basket or urgent grocery missions. This is illustrated below in Figure 3.6, which was first presented by the CMA in *Sainsbury's/Asda*.[91]

3.151 As Figure 3.6 shows, the category 'food/drink for right away' has historically accounted for almost no online shopping missions, and 'smaller shop for next 2–3 days' has historically accounted for relatively few online shopping missions.

Figure 3.6: Online shopping missions



Source: CMA based on Tesco internal document.

[89] *Sainsbury's/Asda*, Final Report, 25 April 2019, paragraph 10.41.
[90] *Sainsbury's/Asda*, Final Report, 25 April 2019, footnote 518.
[91] *Sainsbury's/Asda*, Final Report, 25 April 2019, Figure 10.1.

- *The Parties' views*

3.152 The Parties submitted that Amazon Prime Now (but not Deliveroo) competes with the scheduled delivery offerings of supermarkets, and that:

(a) Items sold by Amazon Prime Now are priced [✄].

(b) Amazon faces a wide spectrum of competitors for core grocery shops. These competitors include all of the main supermarkets, including Asda, Iceland, Morrisons, Sainsbury's, Tesco and Waitrose and (in the near future) M&S (via Ocado), as well as Ocado.

(c) [✄]. UK supermarkets are willing to work with Deliveroo, as well with Just Eat and Uber Eats to service shopping missions which they do not otherwise service.[92]

3.153 The Parties submitted that Deliveroo does not compete with the scheduled delivery offerings of supermarkets. Instead, retailers use Deliveroo in conjunction with (and as a complement to) their other delivery models, including their 'big basket' weekly shop delivery services and fast delivery services including Amazon.

3.154 The Parties submitted that grocery retailers have well-developed point-to-multipoint models and that, whilst they may face challenges in developing quicker propositions, this appears to be a matter of investment which would be made if there was enough demand for quicker services.

3.155 The Parties submitted that the difficulties that grocery retailers have indicated they would face in successfully developing their own cost-effective quick delivery services (such as those offered by Ocado Zoom, Waitrose Rapid or Sainsbury's Chop Chop) are no different to those Amazon would face.

- *Evidence from the Parties internal documents*

3.156 Amazon's groceries plans distinguish [✄] 'ultrafast competitors', (as opposed to 'Next/Same Day Schedule Delivery') [✄]. Amazon's internal documents [✄].

3.157 As discussed in our competitive assessment, Amazon's groceries plans indicate that its Ultrafast Groceries service will supply [✄] products in the UK. They show that it intends to compete [✄] (ie the supply of OCG, that is groceries ordered for delivery within a few hours).

[92] Parties' Initial Submission, 24 December 2019, paragraphs 5.21 and 5.22.

3.158 Amazon's groceries plan from December 2019 indicates that while, in principle, some grocery retailers' existing non-convenience groceries delivery services offer some degree of same-day delivery, [✄].[93]

- *Evidence from third parties*

3.159 Market commentators have identified a gap between changing consumer behaviour (increasingly shopping 'little and often') and online grocery deliveries designed to serve the traditional big basket shop.[94]

3.160 In its March 2019 'Online Grocery Retailing UK' report, Mintel discuss same-day delivery services as a distinct group of propositions. It notes that '[t]he potential benefit for the wider [online grocery retailing] market of this shift to same-day is that it allows online grocery services to not just capture planned big-basket supermarket-style shops, but also the more frequent smaller basket shops that have become prevalent in grocery shopping behaviour across the past decade'.[95]

3.161 Grocery retailers have developed OCG offerings that are distinct from their traditional online delivered grocery offerings (such as Ocado Zoom, Waitrose Rapid, Sainsbury's Chop Chop). Deliveries and logistics from these OCG offerings are managed separately to their traditional online delivered grocery orders (eg using a last-mile logistics specialist such as Stuart). However, we note that this is not the case for Amazon Prime Now which offers both same day and future slots under the same offerings and manages its delivery windows together.

3.162 Ocado's internal strategy documents discuss Ocado Zoom as being distinct from its traditional online groceries offer. Ocado Zoom is described as [✄]. [✄]:

Figure 3.7: [✄]

[✄]

Source: Ocado.

3.163 Tesco told us that instant delivery is currently a different shopping mission to next-day delivery. However, in the long-term, as the instant delivery market grows and becomes the norm for customers, shopping missions are likely to

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93 Amazon's December 2019 grocery plan describes these as '[✄]'.
94 See, for example *Online Grocery Retailing UK 2019 Mintel report*, pages 20-21. The CMA identified a trend toward shopping 'little and often' in its decision in *Sainsbury's/Asda* noting that main-shop missions at supermarkets declined from 49% to 42% between 2010 and 2018, and top-up and convenience store shopping had increased (*Sainsbury's/Asda*, Final Report, 25 April 2019, paragraphs 4.11–4.14).
95 *Online Grocery Retailing UK 2019 Mintel report*.

converge, and customers are likely to shop for small and big baskets alike through either instant or next day delivery. This is likely to be driven by the proposition's retailers' offer in the market.

3.164 Uber Eats told us it currently offers an effective solution (as shown by the demand response to its offer) for a somewhat urgent, last-minute, complementary groceries shopping mission, [✂].

3.165 An Uber Eats internal document indicates that it views [✂] as competitors for its online convenience grocery offer. A 'convenience store strategy' presentation refers to a range of competitors including [✂].

3.166 Grocery retailers have also indicated that there is little scope for supply-side substitution between the supply of online large basket groceries and the supply of OCG (see paragraphs 3.203 to 3.207).

- *Evidence from consumers*

3.167 As discussed in more detail in our competitive assessment (paragraph 6.91), we note that a majority of Amazon and Deliveroo customers responding to our survey reported that they would not purchase groceries via an alternative OCG provider if, hypothetically, their provider stopped offering the service.[96] 18% of Amazon Prime Now customers reported that they would have ordered groceries for next day or later from Amazon Prime Now. 18% of Amazon Prime Now customers and 13% of Deliveroo customers reported that they would have ordered groceries for next day or later from another supplier.[97]

- *Our assessment*

3.168 We provisionally consider that it is appropriate to consider OCG services as being in a distinct market from other online grocery delivery:

(a) There is little evidence of demand-side substitutability between the traditional supply of online groceries and the supply of OCG. OCG services (that deliver groceries within a few hours) are typically fulfilling a different consumer need to online delivered grocery services for delivery further in the future.

(b) Amazon's Ultrafast Groceries service will supply a wide range of products in the UK. We accept that traditional grocery delivery is likely to be a substitute for part of Amazon's grocery delivery offer, but do not view this

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[96] Accent and PJM Economics (April 2020), Final Report.
[97] Accent and PJM Economics (April 2020), Final Report.

to be the case for its OCG offer (ie groceries delivered within a few hours of ordering).

(c) There is also limited scope for supply-side substitution between the supply of slower delivery of online large basket groceries and the supply of OCG. Grocery retailers (with the exception of Amazon) have developed OCG offerings that are distinct from their traditional online delivered grocery offerings (such as Ocado Zoom, Waitrose Rapid, Sainsbury's Chop Chop). As outlined in more detail in paragraphs 3.203 to 3.207, grocery retailers have told us that their existing delivery operations are not suited to fulfilling OCG orders. Grocery retailers have told us that there would be significant challenges associated with developing their own OCG logistics and delivery capability.

(d) We note that OCG services have grown substantially both before and following the Coronavirus (COVID-19) crisis, indicating that consumers are willing to pay a premium (in the form of higher prices and/or delivery charges) for these services. Clearly, the option of later online delivery will place a limit on what consumers are willing to pay for OCG services. However, in our view, competition between OCG services, rather than with online delivery more generally, is likely to be the main driver of pricing, speed and innovation as the market develops. This is supported by internal documents which show OCG providers to be predominantly focused on competition from other OCG offers.

3.169 Our provisional conclusion is, therefore, that we consider traditional online delivery grocery services to be out of the market. However, they are an out of market constraint, which we consider, to the extent relevant, within our competitive assessment.

Bricks-and-mortar convenience stores

3.170 We have considered whether offline sales of convenience groceries should be included in the same product market definition.

3.171 The CMA considered online grocery delivery in its April 2019 decision in *Sainsbury's/Asda*.[98] The CMA defined a product market for 'online delivered groceries'.[99] The CMA distinguished between the convenience of in-store and online groceries, noting that in-store provided 'the ability to purchase

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[98] *Sainsbury's/Asda*, Final Report, 25 April 2019.
[99] *Sainsbury's/Asda*, Final Report, 25 April 2019, paragraph 10.41.

groceries immediately' while online avoided 'the need to make a specific trip to a store'.[100]

- *The Parties' views*

3.172 The Parties submitted that shopping in bricks-and-mortar stores is still the choice of the majority of consumers shopping for consumer products, including groceries.

3.173 The Parties submitted that Amazon considers its competitors to be bricks-and-mortar supermarkets (including their delivery capabilities) rather than on-demand impulse/immediate delivery options such as Deliveroo's offering. Items sold by Amazon Prime Now are priced [✂], and Amazon's internal documents [✂].

3.174 The Parties submitted that, in contrast, prices for products delivered using Deliveroo's service are typically at a very significant premium over supermarket prices:

> '[✂]'.

3.175 The Parties submitted (prior to the Coronavirus (COVID-19) pandemic[101]) that [✂].

- *Evidence from third parties*

3.176 A Co-op 'Food Transformation' steering group paper from 2019, which presented results from a trial between Co-op and Deliveroo, stated that '[✂]'.

3.177 Just Eat submitted that '[✂]'.

- *Evidence from consumers*

3.178 As discussed in more detail in our competitive assessment (see paragraph 6.91), we note that a majority of Amazon and Deliveroo customers responding to our consumer survey reported that they would not purchase groceries using an alternative OCG provider if, hypothetically, their provider stopped offering the service, with the most common response being that they

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[100] *Sainsbury's/Asda*, Final Report, 25 April 2019, paragraph 10.24.
[101] The impact of the Coronavirus (COVID-19) pandemic on the market for OCGs is discussed in more detail in our competitive assessment.

would purchase in-store (31% of Amazon customers and 37% of Deliveroo customers).[102]

- *Our assessment*

3.179 Our provisional conclusion is that bricks-and-mortar convenience stores are an out of market constraint. Our basis for this position is set out below.

3.180 From a demand-side perspective, bricks-and-mortar stores, including convenience stores, are currently the primary way consumers purchase convenience groceries.

3.181 Consumers' willingness to pay for delivery of groceries will be limited by their willingness to switch to local convenience stores.[103] However, the supply of OCG is attractive to customers who place a premium on convenience and are therefore willing to pay for their groceries to be delivered to them within a short time period.

3.182 In this context, we note that there is a price difference between OCG and groceries available in bricks-and-mortar stores: in some cases, the products themselves are more expensive, and customers pay a delivery fee (either for the specific delivery or as part of a subscription fee for the delivery service). In others, for example with Amazon Prime, the product prices are comparable to those of supermarkets, but consumers are usually required to pay a delivery fee if their order value is below a certain threshold.[104] Amazon Prime Now customers are also required to be Amazon Prime members (which costs £79 per year or £7.99 per month).[105] The fees charged by different suppliers for their OCG offers are detailed in our competitive assessment.

3.183 We note that in-store prices are a comparison point for what suppliers can charge for OCG, but OCG has grown while charging a premium on in-store, in the form of delivery charges or higher unit prices. The scale of this premium likely to be driven by competition between OCG providers rather than in-store prices.

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[102] Accent and PJM Economics (April 2020), Final Report.
[103] ie the more willing/able you are to go to the shops instead, the less you will be willing to pay to have items delivered.
[104] Amazon told us that it has temporarily removed Prime Now's Free Shipping Threshold (FST) of £40 and started delivering all Prime Now orders above the minimum order value of £15 with no delivery fee. Amazon told us that it made this change [✂].
[105] [✂].

Personal shoppers

3.184 We have also considered whether personal shoppers should be included in the market.

3.185 Personal shoppers (for example, Homerun) are services which operate a delivery network through which customers can access groceries (and other goods) at ultrafast speeds, without agreeing to a partnership with grocery retailers. Their couriers purchase goods on behalf of the end-consumer by walking into a store and picking the relevant products themselves, like any other shopper.

- *The Parties' views*

3.186 The Parties submitted that service providers like Home Run and Task Rabbit to compete with Prime Now in the UK. These entities allow customers to request a personal shopper to select products in a store, including but not exclusively groceries, and deliver their orders to them, as well as run other errands.

3.187 The Parties submitted that they face competition from a range of personal shoppers and other start-ups such as Homerun (a personal shopper), Beelivery and Grocemania in the supply of online convenience groceries.

- *Evidence from the Parties' internal documents*

3.188 Deliveroo's internal documents briefly refer to personal shoppers, commenting that they are '[✂]' and/or '[✂]', having raised relatively little capital.

- *Evidence from third parties*

3.189 Questionnaire responses from personal shoppers such as Grocemania and Beelivery indicate that they view themselves as being active in the market for on-demand convenience groceries.

3.190 The activities of such companies in the UK are currently small. One of the largest of these companies, Homerun, generated revenue of under £1 million in 2018.[106] Another of these companies ([✂]) had expected total revenue in 2019 of [✂]. [✂] had total revenue in 2019 of £[✂] million, with [✂]% of this delivered through a logistic partner's delivery network.

[106] See: Seedrs Limited website.

3.191 Co-op, who has a partnership with Deliveroo amongst others, told us that it has launched a partnership with personal shopper service Buymie and [✂], offering same day and on demand propositions. These platforms match users with a local personal shopper who will pick and purchase from Co-op stores and then deliver shopping within a short window of time to users.

- *Our assessment*

3.192 Our provisional view is that personal shoppers are in the relevant product market. In principle, personal shoppers have the potential to offer a wide range of selection from multiple grocery retailers and compete in the supply of OCG. Grocery retailers are trialling their services for online convenience grocery delivery.

3.193 However, the evidence we have indicates that the activities of such companies in the UK are currently extremely small.

3.194 We also note that this type of business is likely to be at a cost disadvantage to providers such as Deliveroo as they do not typically receive a commission from grocery retailers for providing this service, which could inhibit their ability to expand and provide a competitive offering to the Parties. However, we note that Co-op told us that it was exploring offering [✂].

Potential substitutes for grocery delivery

3.195 We have defined the retail market to include all OCG offers, including those where the grocery provider operates its own delivery service, provides the offer in partnership with an online restaurant delivery platform, or contracts with a third-party delivery provider. In the following, we consider the delivery and consumer interface (eg app or website) alternatives available to grocery providers.

3.196 As set out in our competitive assessment, to reach consumers with an OCG offering, grocery retailers need (i) fulfilment centres, (ii) an ecommerce website or app, and (iii) a delivery network capable of picking and delivering groceries at ultrafast speeds (ie for delivery within a few hours).

3.197 Grocery retailers' existing stores can act as fulfilment centres, with existing staff picking goods. However, grocery retailers also need the logistics for rapid delivery, which in the case of Morrisons is provided by Amazon.

Evidence from third parties

3.198 Grocery retailers told us that they can produce an ecommerce website themselves, or they can partner with a supplier which already operates an ecommerce website or app.[107] Several grocery retailers told us that they preferred to use their own ecommerce website, as this gave them greater control over the customer relationship,[108] although some grocery retailers noted that customer acquisition costs for propositions on their own websites could be more expensive than customer acquisition through online food platforms, and that using an alternative platform may give them access to customers they would not otherwise reach.[109]

3.199 Grocery retailers told us that a key challenge to offering OCG is arranging delivery.[110] For example, one retailer told us that '[f]inding a solution to the cost of providing an ultrafast delivery service is the biggest economical challenge in the online delivery space. The largest costs come from the fixed costs such as getting vans on the road or employing people to sit and wait for orders to be placed'.

3.200 We have therefore considered whether each of the below methods of arranging groceries delivery should be included in the supply of OCG.

Self-supply

3.201 As set out in more detail in our competitive assessment, a number of traditional and online grocery retailers are offering an OCG service through outsourcing delivery to a last-mile logistics specialist, or to a restaurant delivery provider (eg Co-Op with Deliveroo, Costcutter with Uber Eats, Asda with Just Eat).

3.202 We first considered whether these and other traditional and online grocery retailers could use their existing delivery operations to fulfil online convenience grocery orders.

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[107] For example, Co-op told us that it partnered with [✂] to provide the Co-op with an on-demand grocery delivery platform so that the Co-op could fulfil its own e-commerce orders and deliveries.
[108] [✂] notes that a key advantage to self-supply would be greater ownership of the customer relationship from point of sale to fulfilment.
[109] [✂] notes that the key advantage to using a food delivery marketplace would be access to a large customer base who are already engaged with on-demand services and an existing on-demand delivery network.
[110] For example, [✂] and [✂] (which said it 'considers that the big challenge for all players is the logistics of on-demand grocery delivery').

- *Evidence from third parties*

3.203 Third parties have indicated that there is little scope for supply-side substitution between the supply of online large basket groceries for delivery later same-day or further in the future and the supply of OCG:

(a) The majority of grocery retailers responding to our third-party questionnaire told us that they have considered fulfilling the delivery and logistics for their online convenience grocery service internally, but there are challenges associated with developing their own on-demand logistics network.

(b) Grocery retailers have told us that their existing delivery operations are not suited to fulfilling urgent grocery orders. They told us that to offer this they would need significant upfront capital expenditure, to expand resources and operational and technological capabilities, and risk potential store disruption.[111] Instead, grocery retailers have trialled alternative models of groceries delivery using third-party delivery couriers. Examples include Tesco Now, Sainsbury's Chop Chop, Waitrose Rapid and Ocado Zoom (orders are mainly fulfilled by Stuart).

(c) One grocery retailer submitted that it had considered fulfilling the delivery logistics for its OCG service internally. However, following analysis, found that it was not economically viable to maintain an in-house fleet at the requisite scale, and that having dedicated bikes or vans for on-demand delivery was too expensive. It will continue to consider whether there is any economic value in integrating stand-alone on-demand delivery services into its main website and using its existing fleet to render these delivery services, but its current viewpoint was that this presents several significant challenges from both a technical and operational perspective.

(d) Another grocery retailer submitted that it had not considered fulfilling the delivery logistics for its OCG service internally due to the amount of resource required to create the logistics chain.

(e) Another grocery retailer submitted that fulfilling the delivery logistics for its OCG service internally is not its preferred route due to the cost and complexity associated with creating and maintaining its own fleet of vehicles and drivers.

[111] [✂] told us they need partners for the technology and couriers, therefore their existing operations are not suited to fulfil urgent grocery orders. In grocery retailers' responses to the phase 1 questionnaires, there were a lot of references to the 'cost and complexity' of trying to self-supply.

(f) One grocery retailer told us that [✄].

(g) Grocery retailers told us that a key challenge in offering OCG is achieving sufficient scale to justify the costs of a courier delivery operation. For example, one of these grocery retailers told us that the costs and resource of 'maintaining a fleet that is able to support an on-demand proposition make this model operationally complex and expensive'.

3.204 One last-mile logistics specialist also told us about the importance of achieving sufficient scale and scope to make the economics work. It told us that '[✄]'.

3.205 A number of grocery retailers did however tell us that they see self-supply as their best potential route to market for on-demand groceries. Grocery retailers highlighted a number of benefits of self-supply, including that this would allow them to retain control of the customer relationship and supply chain, and enable them to avoid paying commission fees.

3.206 One grocery retailer also submitted that it has considered fulfilling the delivery logistics for its OCG service internally, potentially using its existing fleet. It submitted that it has an existing framework in place due to its existing (offline) home delivery business, which delivers groceries the same day for customers that have physically shopped in some of its stores.

- *Our assessment*

3.207 As discussed, we have included all OCG services at a retail level. The ability of grocers to provide an OCG service depends on their ability to create or access an on-demand delivery network (and consumer interface). Creating such a service is challenging, but some grocers are doing this. The main third-party alternatives for grocers to work with to offer an OCG service are contracting with Stuart, or partnering with Deliveroo, Uber Eats, or Just Eat.

Last-mile logistics specialists

3.208 We have also considered whether grocery retailers could use last-mile logistics specialists to fulfil online convenience grocery orders.

- *The Parties' views*

3.209 The Parties submitted that last-mile logistics specialists provide grocers with a range of credible providers, including Stuart and City Sprint.

3.210 The Parties submitted that 'Stuart (used by Sainsbury's Chop Chop and Ocado Zoom), CitySprint (used by Waitrose Rapid[112]), and eCargo bikes (used by Co-op "Quick Shop") already provide logistics to grocers as part of their experimental offerings for smaller baskets delivered more quickly, and others could'.

3.211 The Parties also submitted that the fact that some last-mile logistics specialists do not offer a sales channel is unlikely to be a significant issue. The supermarkets have powerful brands and can easily develop, or outsource the development of, a dedicated app. This also avoids their products being listed alongside competitors' products and allows them to retain control of the customer relationship. Moreover, this has been the approach for all of the experimental offerings between grocery retailers and last-mile logistics specialists to date.

- *Evidence from third parties*

3.212 Third parties told us that one last-mile logistics specialist, Stuart, has demonstrated strong ultrafast delivery capabilities, while also mentioning that other last-mile logistics specialists were less capable of delivering chilled or hot food on-demand. Third parties also told us that some last-mile delivery companies that entered the UK (such as Quiqup and Jinn) were not successful and as such were not options.[113]

3.213 Stuart submitted that 'it does not view [✄]. It considers that it only competes to a limited extent with [✄].

3.214 Stuart provides OCG delivery services to Co-op, Sainsbury's and Ocado. [✄]. Stuart submitted that [✄].

- *Our assessment*

3.215 Our provisional conclusion is that last-mile logistics specialists are in the market. A number of grocery retailers are currently offering OCG services in partnership with a last-mile logistics specialist. They are a competitive constraint and should be included in the same product market.

3.216 A limited number of courier services specialise in last-mile delivery to customers, at ultrafast speeds. Several grocery retailers continue to trial

[112] We note that Waitrose Rapid now use Stuart (as of 5 June 2020).
[113] For example, [✄] told us that it used On the Dot but were not happy with it and thought Stuart was probably better, and everyone else who are already using Stuart ([✄]) said they thought it was their best available provider.

ultrafast delivery with these last-mile logistics providers. More detail on these trails is provided in our competitive assessment.

Traditional delivery providers

3.217 We also considered whether grocery retailers could use traditional delivery providers (such as Royal Mail, UPS and DPD) to fulfil online convenience grocery orders.

- *The Parties' views*

3.218 The Parties submitted that grocery retailers have several delivery options, including established logistics companies such as FedEx and Hermes.

3.219 The Parties submitted that 'these providers are well placed [as possible substitutes of supply for grocery retailers]. DPD owns Stuart, who the CMA considers are in the OCG frame of reference. In addition, they have a deep understanding of logistics, huge customer bases, strong brands and point-to-multipoint capabilities'.

3.220 The Parties submitted that 'Amazon faces the same challenges that would be faced by traditional delivery providers to developing cost-effective ultrafast delivery services'.

- *Evidence from third parties*

3.221 Traditional couriers told us that their existing delivery operations are not well placed to offer ultrafast delivery.

3.222 Grocery retailers confirmed that they considered using traditional delivery providers for convenience groceries, however they also told the CMA that they considered traditional couriers inappropriate for offering same day or shorter delivery of food. For example, one grocery retailer told us that traditional couriers such as DPD are not set-up for same-day delivery and the costs are prohibitive.

- *Our assessment*

3.223 Our provisional view is that traditional delivery providers (such as Royal Mail, Hermes, UPS and DPD) are not a substitute of supply for grocery retailers and are, therefore, outside the relevant product market.

- *Provisional conclusion on product market*

3.224 Our provisional view is therefore that the relevant product market in which to assess the effect of the Proposed Merger is the market for the supply of OCG, that is groceries ordered online for delivery within a few hours. This includes personal shoppers as possible substitutes for supply for consumers; and last-mile logistics specialists as possible substitutes of supply for grocery retailers. Self-supply by grocery retailers supplying their own delivery is also in the market at the retail level. However, we note that some grocery retailers have indicated that it would be challenging for them to develop their own cost-effective OCG offer.

Geographic market definition

3.225 In the following section we have explored whether evidence indicates the market for OCG is local or national in scope.

- *The Parties' views*

3.226 The Parties submitted that the CMA assessed the geographic scope of online delivered groceries in *Sainsbury's/Asda*[114] and found this to be narrower than UK-wide from both the demand and supply side. The Parties submitted that from the consumer perspective, the geographic market is local in character while from the supplier perspective the geographic market is the delivery area served by each supply point (eg normal stores with store-pickers or dedicated online delivery stores).

3.227 The Parties submitted that [✂].

3.228 The Parties submitted that where Deliveroo is already active with its restaurants it may be able to carry some bolt-on 'grocery' items.

- *Evidence from the Parties' internal documents*

3.229 The Parties' internal documents indicate that they are planning or considering expanding their geographic reach. For example:

(a) [✂]

[114] *Sainsbury's/Asda*, Final Report, 25 April 2019.

(b) Deliveroo's internal documents also indicate that it has ambitions to expand its [✂]. We note this would give them an opportunity to offer wider delivery of OCG services.

(c) [✂]:

'[✂]'.

- *Evidence from third parties*

3.230 Details of third parties' entry and expansion plans are presented in our competitive assessment. In summary, we find that most current and potential market participants have expressed an interest or intention to enter or expand their presence in the OCG market, and interest in growing in the market was shared across different types of market participant – online grocery, online restaurant marketplace, convenience stores and traditional grocers.

3.231 As discussed in our competitive assessment, a number of providers have advanced their current and planned OCG services in response to the Coronavirus (COVID-19) crisis. However, it remains to be seen how it will affect the nascent OCG market in the medium- or longer-term.

- *Our assessment*

3.232 Competition in this market has an important local element. In particular, we note that:

(a) The Parties compete locally to supply OCG to consumers. They also leverage their existing local grocery supply chain and delivery capabilities to provide ultrafast delivery capabilities to grocery retailers.

(b) For a market participant to compete effectively in OCG they need to have a grocery supply chain (ie delivery of groceries to a chain of stores and/or fulfilment centres). There will be a limited delivery range around those stores and/or fulfilment centres.

(c) Last-mile delivery is something that needs to be achieved and made to be economically viable in each location where OCG services are offered. Maintaining a last-mile delivery network is expensive and relies on achieving a sufficient scale of orders at a local level to justify the costs. Achieving the required scale will be easier in more densely populated areas.

3.233 However, a number of factors point towards a national market in this case. In particular, we note that:

(a) Several important parameters of competition are set nationally, for example, [✂].

(b) Improvements to an online restaurant platform's core business (eg more users and traffic on its app, improved logistics algorithms) will tend to make it a more effective competitor in OCG services, so to the extent that online restaurant platform competition is national, this will also be true of OCG services.

(c) As discussed in our competitive assessment, we expect that traditional grocery retailers will increasingly compete in OCG provision. These traditional grocery retailers have a national presence.

(d) Partnerships between online restaurants platforms and grocery retailers to provide OCG services typically cover multiple local areas.

3.234 Furthermore, the supply of OCG is a nascent market, in which providers are still trialling and experimenting with their offering or are only beginning to roll-out their services more broadly. The Parties themselves are embarking on programmes to expand their geographic reach.

- *Provisional conclusion on geographic market definition*

3.235 In conclusion, our provisional view is that competition in this market has important local aspects (such as availability and potentially pricing). However, several important parameters of competition are predominantly set nationally. Given the predominance of national competition, and the nascent state of the market, we find that it is not appropriate to carry out a detailed assessment of local markets. We have considered local factors where relevant in our competitive assessment.

4. Counterfactual

Legal framework

4.1 The counterfactual is an analytical tool used to help answer the question of whether a merger has or may be expected to result in an SLC. It does this by providing the basis for a comparison of the competitive situation on the market with the merger against the most likely future competitive situation on the market absent the merger.[115] The latter is the counterfactual.[116]

[115] MAGs, paragraphs 4.3.1 and 4.3.6.
[116] MAGs, paragraph 4.3.1.

4.2 We may examine several possible scenarios to determine the appropriate counterfactual, one of which may be the continuation of the pre-merger situation (ie the prevailing conditions of competition). An example of a situation where the CMA may select a counterfactual different from the prevailing conditions of competition is where the target is likely to exit the market absent the transaction under review. Another scenario in which the CMA may consider an alternative counterfactual to the prevailing conditions of competition is where one of the merging parties would have entered or materially expanded its presence in a market absent the transaction.

4.3 We seek to avoid importing into the assessment of the appropriate counterfactual any spurious claims to accurate prediction or foresight. Given that the counterfactual incorporates only those elements of scenarios that are foreseeable, it will not in general be necessary to make finely balanced judgements about what is and what is not included in the counterfactual.[117] In reaching a view on the appropriate counterfactual, we must determine what future developments we foresee arising absent the merger based on the evidence available to us.

4.4 Events which occur during the CMA's review of a transaction, but which are not a result of the merger, can be incorporated into the counterfactual.[118] Where future events or circumstances are not certain or foreseeable enough to include in the counterfactual, the analysis of such events can take place in the assessment of competitive effects.[119]

4.5 Where there is more than one possible alternative scenario, the CMA will select the counterfactual it considers would be the most likely scenario to have arisen absent the merger.[120]

4.6 Against this framework and in light of the Parties' submissions and the evidence we observed, we considered the likely future situations of both Amazon and Deliveroo in the absence of the Transaction. Our focus was on two key questions: (a) whether Deliveroo would exit the market in the absence of the Transaction; and (b) whether Amazon would re-enter the market for online restaurant platforms.

[117] MAGs, paragraphs 4.3.2 and 4.3.6.
[118] See, in this regard, *British Sky Broadcasting Group plc v Competition Commission (CC)* (Cases 1095/4/8/08 and 1096/4/8/08) [2008] CAT 25, paragraph 138.
[119] MAGs, paragraph 4.3.2.
[120] MAGs, paragraph 4.3.6.

Counterfactual for online convenience groceries

4.7 Insofar as the market for online convenience groceries (OCG) is concerned, we considered the developments and expansion plans of the Parties and whether it was appropriate to incorporate elements of these plans into an alternative counterfactual. During its phase 1 investigation, the CMA assessed possible changes in the market, including the expansion plans of the Parties and their competitors, in its competitive assessment rather than as part of the counterfactual.

4.8 For our phase 2 investigation we have adopted a similar approach to assessing future competition in OCG. The Parties have not expressed concerns with this approach or made submissions on what they consider the appropriate counterfactual to be. We have sought to conduct a forward-looking assessment concentrating not only on what the Parties and their competitors currently offer but on what developments are planned or expected in the future and the implications for competition. The online convenience grocery market is nascent and many market participants are at an early stage of trialling their offerings, or gradually rolling them out across geographical areas. Views vary considerably as to how the market will develop, both among providers and industry analysts. This uncertainty is further increased by the recent changes brought about by Coronavirus (COVID-19), which has impacted and will continue to impact this market. Because in our view future OCG market developments are not sufficiently foreseeable to include in a counterfactual, we have considered the likely impact of the Transaction based on an in-the-round assessment of how competition may develop in future.

Deliveroo counterfactual

Overview of exiting firm counterfactual

4.9 As noted above, one situation where the CMA may consider a counterfactual that is different from the prevailing conditions of competition (the pre-merger situation) is the ‘exiting firm scenario’. When considering an ‘exiting firm scenario’ the CMA examines whether the firm would have left the market absent the transaction and the impact of allowing the transaction to proceed. The CMA applies a three-limb test when making this assessment, considering:

(a) Whether the firm would have exited (through failure or otherwise) absent the transaction.

(b) Whether there would have been an alternative purchaser for the firm or its assets.

(c) What the impact of exit would be, and how this would compare to the impact of the acquisition.

4.10 In considering whether Deliveroo should be considered to be an exiting firm we have sought to understand the impact of the Coronavirus (COVID-19) crisis on its business by considering its actual financial position. At the same time, we have sought to abstract from all Transaction-specific elements of its actual financial position in order to describe the relevant counterfactual.

Summary of April Provisional Findings analysis

4.11 In the April Provisional Findings,[121] we noted that, as a loss-making business, Deliveroo is currently reliant on external funding in order to continue trading. We found that, at the time the Series G funding round (that included the Amazon funding) was agreed, Deliveroo had alternative potential funding options available to it, and in the absence of the Transaction Deliveroo would have succeeded in raising some alternative funds. We also found that this amount would not be likely to exceed the $[✂] million received to date from the Series G funding round.

4.12 Our view at that time was that, in the counterfactual, Deliveroo would likely be close to a position before the start of the Coronavirus (COVID-19) crisis where it would need to raise additional funding and that it was likely that an additional fundraising round would be required at some point in 2020. However, our view was that absent the Coronavirus (COVID-19) crisis it is likely that it would both have sufficient time to do so and that such funding would be available. This is consistent with the Parties' submission in the Merger Notice that, absent the Transaction, Deliveroo 'would have continued to compete as it currently does, including by seeking suitable investment to drive its expansion and innovation'. On this basis, Deliveroo would not have been considered a failing firm.

Initial impact of Coronavirus (COVID-19) on Deliveroo

4.13 At the time of the April Provisional Findings, the CMA found that the Coronavirus (COVID-19) crisis had had a severe impact on Deliveroo's business.

4.14 Deliveroo told us it had seen a significant decline in orders, with orders in the last three weeks of March 2020 down [✂]% in the UK and [✂]% in its [✂] (France). This impact, Deliveroo stated, was due to a combination of

[121] April Provisional Findings, 16 April 2020.

restaurant closures, perceptions of the safety of takeaway food and the economic impact of the crisis on disposable incomes.

4.15 This, in turn, had a significant impact on Deliveroo's profitability and cash position. Based on its then current predictions of the ongoing impact of the Coronavirus (COVID-19) crisis, Deliveroo forecast that it would only have £[✄] in cash by the end of June 2020, despite the impact of significant cost savings and including £[✄] in deferred tax and creditor liabilities (that it would have to repay in the short-term). As a result of Deliveroo's deteriorating cash position, Deliveroo's directors were advised by [✄] and their legal advisers [✄] that if they did not have a reasonable expectation of receiving additional funds before Deliveroo ran out of cash in early Q3 then they would be required to declare Deliveroo insolvent [✄] as a result of its cash flow problems.

4.16 Whilst Deliveroo was able to defer some taxes it told us that it was not eligible for any of the corporate government support schemes available at the time of the April Provisional Findings. It also told us that the furlough scheme would only have a limited impact as [✄].

4.17 Deliveroo made several submissions in relation to how this position should be taken into account within the CMA's investigation:

(a) On 20 March 2020, Deliveroo submitted a letter from its board of directors explaining that, as a result of the Coronavirus (COVID-19) crisis they were likely to need to start insolvency proceedings [✄]. Deliveroo's letter stated that it was 'critical' for Deliveroo that the CMA delivered its Provisional Findings as soon as possible, and that it indicated in those findings it was minded to clear the Transaction.

(b) On 26 March 2020, Deliveroo submitted that the impact of the crisis meant that the relevant counterfactual was one in which Deliveroo would exit the market. This was supported by various trading and financial updates, including professional advice from third-party legal, financial and insolvency advisers.

(c) Deliveroo provided updates from Deliveroo and its advisors and responses to queries on these submissions. Shortly before publication of our April Provisional Findings, we also received updated information from Deliveroo and confirmation that at that date there had been no material recovery in the business.

Impact of Coronavirus (COVID-19) on the April Provisional Findings counterfactual

4.18 We considered Deliveroo's evidence in the context of the relevant counterfactual (ie the situation that would have existed absent the Transaction). In particular, in order to exclude the possibility that the Transaction itself could be a contributing factor to Deliveroo's exit, we considered what alternative funding was available to Deliveroo at the time it agreed the Transaction and what position it would likely be in now had it accepted that alternative funding. We determined that, absent the Transaction, Deliveroo would have successfully raised some alternative funding at the time it agreed the Series G round and, whilst the total amount was uncertain, that this would not exceed the $[✂] million it has received to date from the Series G round. We therefore provisionally concluded that this alternative funding would have resulted in Deliveroo needing to raise additional funding in early 2020. We also provisionally concluded that the impact of Coronavirus (COVID-19) we had observed on orders, restaurant availability and, in turn, cash flow, would have been similar in the counterfactual. Accordingly, we took the view that Deliveroo's financial position at the time of the April Provisional Findings and, in particular, its urgent need to raise funds could not be attributed to its decision to accept investment from Amazon rather than from an alternative investor that might have been less likely to raise competition concerns.

4.19 In respect of the 'Limb 1' analysis (whether the firm would exit in the absence of the transaction), our provisional view was therefore that Deliveroo would have been likely to exit the market as a result of the Coronavirus (COVID-19) crisis without additional funds.

4.20 We then considered 'Limb 2' of the exiting firm scenario (whether there would be an alternative purchaser for the business or assets (or in this case an alternative investor in Deliveroo)). We considered the evidence that Deliveroo had provided of the efforts it had made to secure urgent alternative investment but, as for Limb 1, sought to abstract from any Transaction-specific issues Deliveroo might have encountered in order to determine what the position would have been in the counterfactual.

4.21 We found that as a result of the sudden and severe deterioration in Deliveroo's finances, it would need to obtain investment both in an extremely short time frame and at a time when funding markets were severely impacted by the Coronavirus (COVID-19) crisis. Our view was that a combination of these factors meant that Deliveroo would be unlikely to be able to raise the funding required within this timeframe. This was supported by submissions, and responses to statutory information requests, from Deliveroo's financial advisors [✂].

4.22 We did not consider that the issues outlined above would differ materially if, in the counterfactual, Deliveroo had pursued one of the alternative funding options available in 2019 and therefore provisionally concluded that the most likely counterfactual for Deliveroo absent the Transaction would have been its exit from the market.

4.23 This provisional conclusion was driven primarily by the following combination of exceptional factors:

(a) the particular structure of Deliveroo's business and its need for regular external funding to continue to grow its business and compete;

(b) the effects of the Coronavirus (COVID-19) crisis on both Deliveroo's financial performance and its ability to raise additional funds; and

(c) the particular point in Deliveroo's funding cycle that Coronavirus (COVID-19) occurred when, regardless of the transaction pursued in May 2019, it would have had limited remaining funds available.

4.24 For the purpose of assessing 'Limb 3' of the exiting firm scenario (the impact of Deliveroo's exit on competition), we assumed that Amazon would have re-entered the market absent the Transaction and considered whether this would offset the loss of competition that would result from Deliveroo's exit. We noted that the exit of Deliveroo 'would result in significantly weaker competition over an extended period of time, and this would be the case even if Amazon ultimately re-entered the market successfully'.[122] In respect of the online convenience grocery market, we noted that 'the loss of Deliveroo from the market […] would likely reduce competition in the market immediately and would reduce pressure on all suppliers to introduce or enhance point-to-point delivery networks in future'.[123] Our provisional view was therefore that 'Limb 3' of the exiting firm scenario would also be satisfied.

Developments since the April Provisional Findings

4.25 Since the April Provisional Findings, the situation has continued to evolve and there have been a number of key developments including:

(a) There has been a partial recovery in order volumes in the online restaurant platforms market, with orders for independent restaurants,

[122] April Provisional Findings, 16 April 2020, paragraph 4.80.
[123] April Provisional Findings, 16 April 2020, paragraph 4.88.

many of which have recently been added to these platforms, replacing some of those for the chain restaurants that closed at the beginning of the crisis (as noted below, these chain restaurants have also recently started to re-open as lockdown rules have eased). In addition, demand for takeaway food has continued to increase as customers switched to dining in (from dining out).

(b) The mix of restaurants on these platforms has become [✂], as [✂] independent restaurants have replaced [✂] quick service restaurant chains.[124] This impact may be temporary as quick service restaurant chains re-open as set in out in bullet point *(d)* below.

(c) There has been sustained demand for online grocery delivery services, with online restaurant delivery platforms expanding their operations in this area.[125]

(d) In the UK, lockdown measures have gradually eased with the UK government announcing an initial easing of measures on 13 May 2020[126] with devolved administrations announcing easing of restrictions in the following weeks. This has led to the recent re-opening of some restaurants, including larger chains such as McDonalds[127] and Pret A Manger.[128]

4.26 The CMA has also received some evidence that funding markets (which were severely impacted by the crisis) have started to recover. For example, third parties highlighted to the CMA that online restaurant platforms such as Just Eat Takeaway.com and Wolt Group, (a Finnish restaurant delivery platform) have announced significant external equity and debt funding (on 23 April 2020 and 15 May 2020)[129] since the announcement of the provisional findings on 17 April. Doordash also recently announced (on 18 June 2020) significant external equity funding.[130] A recovery in the share prices of most listed online delivery platforms in the period from the middle of March 2020 to the middle of June 2020 in excess of the performance of the relevant market averages.

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[124] Just Eat Takeaway.com response to the April Provisional Findings, 11 May 2020.
[125] Just Eat Takeaway.com response to the April Provisional Findings, 11 May 2020 paragraph 28.
[126] See BBC, 13 May 2020, *Coronavirus: Some return to work as lockdown eases slightly in England*.
[127] See McDonalds Newsroom, 12 May 2020, *Reopening update for McDonald's UK & Ireland*.
[128] See Independent, 28 May 2020, *Pret a Manger is reopening more than 200 sites across the UK from 1 June*.
[129] Just Eat announced it had raised €700 million worth of equity (€400 million) and convertible bonds (€300 million) on 23 April 2020. See Takeaway.com Press releases, *Just Eat Takeaway.com successfully raises EUR 700 million through an accelerated bookbuild offering of new shares and convertible bonds* and Bloomberg, 15 May 2020, *Wolt Draws Goldman Investment in $108 Million Funding Round*.
[130] Doordash announced it had raised $400 million in equity on 18 June 2020. See Doordash.com blog *'Investing in the future of local commerce. Doordash raises Additional Capital from New Investors'*.

further supports the position that the businesses in this sector are now in a stronger position to secure additional funding where necessary.

Figure 4.1: Movement in share prices of listed online delivery platforms in the period from the middle of March 2020 to the middle of June 2020

Source: CMA analysis.
Notes: Red line indicates the WHO's announcement of Coronavirus (COVID-19) as Global Pandemic on 11 March 2020.

Impact of developments on Deliveroo

4.27 Since the publication of the April Provisional Findings, we requested, and have been provided with updated financial information from Deliveroo. This shows that Deliveroo's actual performance in April 2020 was significantly better than had been forecast. In addition, Deliveroo is now forecasting significantly improved performance in May and June 2020. This is driven by both a continued recovery in orders[131] (order volumes for April to June 2020, while still below Deliveroo's initial budget, are substantially higher than had been forecast in March, with April's actual order volumes [✂]% higher and May and June order volumes now forecast to be [✂]% and [✂]% higher

[131] Orders increased by 3.1 million in April actuals vs previous forecast at the start of the crisis. May and June orders forecast to by 5.5 million and 4.5 million respectively.

respectively) and a [✂].[132] Deliveroo has told us that the [✂] is due to a shift in mix of orders to [✂] and an increase in average order size due to more families and whole households ordering. Online convenience grocery deliveries have also increased significantly but remain a relatively small part of Deliveroo's business overall.

4.28 This has significantly shifted the position from the prior forecast, resulting in Deliveroo's forecast losses now being £[✂] less, for the three months from April 2020 to June 2020, than in its forecast at the time of the April Provisional Findings. This in turn, combined with a £[✂] improvement in working capital, means that Deliveroo is now forecasting it will have £[✂] of cash in June 2020 (excluding deferred liabilities), as opposed to the £[✂] it had previously forecast (excluding deferred liabilities). Including deferred liabilities, Deliveroo now forecasts it will have £[✂] of cash in June 2020, as opposed to the £[✂] it had previously forecast (with an increase of £[✂] in deferred liabilities recognised in the forecast).

4.29 Deliveroo's revised forecast for the year to 31 December 2020 now shows an EBITDA-capex[133] [✂] compared to a EBITDA-capex [✂] in the budget targets prepared in December 2019 and an EBITDA-capex [✂] predicted in the updated budget prepared in February 2020. This has been achieved due to a combination of improved performance since the end of March 2020, which accelerated through April, and cost savings compared to both budgets. Deliveroo's current cashflow forecasts show it now has a [✂] prior to the Coronavirus (COVID-19) crisis, albeit that, as Deliveroo has noted, the current crisis also results in a higher degree of uncertainty compared to pre-Coronavirus (COVID-19) forecasts.

4.30 We note that, given this longer cash runway, restructuring options that were previously not feasible to Deliveroo, as they would be cash negative in the short-term, such as rationalisation of its international operations, may now be possible and could extend this runway further.

4.31 In summary, consistent with the submissions received by the CMA from third parties, Deliveroo experienced a material detrimental financial impact at the start of the Coronavirus (COVID-19) crisis, with a significant decline in orders. The outlook for online restaurant platform orders was very uncertain at that

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[132] Net revenue per order increased by £[✂] per order in April actuals vs previous forecast at the start of the crisis. May and June net revenue per order forecast to be £[✂] and £[✂] higher than forecast. This is part driven by an increase in Average Net Order values of £[✂] in April 2020 with an increase of £[✂] and £[✂] in June 2020. Improvement in average commission rates also drive this in April and May 2020 with commission rates up [✂]% from [✂]% to [✂]% in April 2020 compared to the forecast at the start of the crisis. May 2020 forecast commission is up [✂]% and June 2020 [✂]% with Deliveroo attributing this re-alignment of commissions with the earlier forecast to the re-opening of lower commission quick service restaurant chains.
[133] EBITDA: Earnings before interest, taxes, depreciation and amortization. Capex: capital expenditure.

time, and Deliveroo had (on the basis of the information that was then available to it) forecast a prolonged period of lower revenue generation. Since then, it has experienced a partial recovery in orders and a significant increase in profit per order in April 2020 from its forecast at the start of the Coronavirus (COVID-19) crisis. This in turn has led it to forecast a continued significant decrease in the loss expected driven by a continuation of these trends, in May and June 2020. This forecast reduction in losses in turn leads to a reduced forecast cash burn in this period and contributes to significant increase in the cash balance forecast at the end of June 2020.

4.32 Deliveroo has stated that it does not expect this increase in profitability to be sustained in the second half of the year. It expects the [✂]. It also states that the situation remains highly uncertain and that its financial position could be negatively impacted by further lockdowns.

4.33 We note, however, that the expected net impact of these changes has already been taken into account within Deliveroo's own forecasts, which ultimately set out:

(a) A considerable improvement in Deliveroo's cash position (ie a forecast increase in its cash position, excluding deferred liabilities, in June 2020 from £[✂] to £[✂]).

(b) A substantial reduction in forecast losses (ie with forecast losses for April, May and June 2020 now being £[✂] less than previously forecasted).

(c) A full year EBITDA-capex [✂] – which is better than the £[✂] forecast in its original December 2019 budget target and only slightly behind the February 2020 forecast [✂].

(d) A positive forecast cash balance of £[✂] in December 2020, excluding [✂],[134] exceeding both the December 2019 and February 2020 budget forecasts.

Parties' submissions

4.34 Deliveroo did not respond to the April Provisional Findings.[135]

4.35 On 11 May 2020, in order to assess whether there had been a change in circumstances since the April Provisional Findings, the CMA sent a (request for information (RFI) to Deliveroo. The CMA then sent further RFI's to

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[134] In assessing the counterfactual, the starting point is the situation pre-merger. Any transaction specific elements such as [✂] must be removed from this analysis.

[135] [✂].

Deliveroo on 13 May 2020, and 26 May 2020. The CMA also had a call with Deliveroo to discuss its financial position on 18 May 2020 following which Deliveroo sent further information to the CMA on 22 May 2020. The CMA also sent a request under section 109 of the Act for information to Deliveroo's advisors on the 14 May 2020.

4.36 Through these exchanges Deliveroo provided us with updated submissions on its current financial position, as well as its actual and forecast trading performance based on its updated experience of the pandemic. It has also provided us with a reconciliation to previous forecasts and an explanation of the key drivers behind the variances. This has been accompanied by updated advice from Deliveroo's external legal, financial and insolvency advisers. These are examined in more detail below. In addition, Deliveroo has provided us with an updated submission outlining its position in relation to the counterfactual.

4.37 Deliveroo has submitted that any recovery in its financial performance is irrelevant to the CMA's assessment of the relevant counterfactual in this case. This is because, in Deliveroo's submission, absent the Transaction, its funding need would have arisen prior to the time that the recovery began, but after the adverse impact on investor sentiment that occurred as a result of Coronavirus (COVID-19).

4.38 In Deliveroo's view, absent the Transaction:

(a) Deliveroo would have obtained cash funding of $[✄]–$[✄] million (as opposed to $[✄] million under the Series G round);

(b) Deliveroo would have needed to raise additional funds in Q1 2020 when the effects of Coronavirus (COVID-19) first appeared (and after the adverse shift in investor sentiment);

(c) Deliveroo would have likely exited the market without additional funding; and

(d) there would have been no likely sources of additional funding.

Third party submissions

4.39 We also received a number of submissions from third parties in response to the April Provisional Findings and gathered further evidence on the market. In particular:

(a) Whilst the initial impact of the Coronavirus (COVID-19) pandemic on online restaurant platforms, particularly in the last two weeks of

March 2020, was severe, some third parties submitted there had subsequently been a [✂] recovery.[136] This was due in part to an increase in the number of independent restaurants on these platforms, which offset the impact of the closure of many chain restaurants. In support of this position, one third party provided evidence showing a recovery in its order volumes after a [✂] decline during the last two weeks of March 2020.

(b) Another third party submitted (on 18 May 2020) that, whilst it was still experiencing relatively depressed order volumes, [✂] May 2020, [✂] June and July 2020.

(c) One third party submitted that other countries that had eased lockdown measures before the UK had observed an improvement in online restaurant delivery platform orders as restaurants re-opened.[137]

(d) Third parties submitted that demand for takeaway delivery food has increased due to the Coronavirus (COVID-19) crisis as consumers moved from dining out to dining at home.[138] Third parties also identified increased demand for online grocery deliveries.[139]

(e) Third parties also noted that listed companies operating in the takeaway delivery sector had outperformed the market since March 2020,[140] and that demand for online restaurant platform apps had increased significantly.[141]

4.40 In addition, third parties provided evidence of an improvement in the funding markets available to companies such as Deliveroo and that there was a wider range of investors available.[142] They referred, in particular, to successful fund-raising rounds announced following the April Provisional Findings by Just Eat Takeaway.com and Wolt Group.[143]

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[136] Just Eat Takeaway.com response to the April Provisional Findings, 11 May 2020, paragraph 21.
[137] Just Eat Takeaway.com response to the April Provisional Findings, 11 May 2020, paragraph 20.
[138] Just Eat Takeaway.com response to the April Provisional Findings, 11 May 2020, paragraph 17; Company D response to April Provisional Findings, 11 May 2020, paragraph 10.
[139] Just Eat Takeaway.com response to the April Provisional Findings, 11 May 2020, paragraph 28.
[140] Company D response to April Provisional Findings, 11 May 2020, paragraph 8.
[141] Just Eat Takeaway.com response to the April Provisional Findings, 11 May 2020, paragraphs 24–25 and graphs.
[142] Company D response to April Provisional Findings, 11 May 2020, paragraph 16.
[143] Just Eat announced it had raised €700 million worth of equity (€400 million) and convertible bonds (€300 million) on 23 April 2020. See Takeaway.com Press releases, *Just Eat Takeaway.com successfully raises EUR 700 million through an accelerated bookbuild offering of new shares and convertible bonds* and Bloomberg, 15 May 2020, *Wolt Draws Goldman Investment in $108 Million Funding Round*.

CMA assessment of the Deliveroo counterfactual

4.41 In the April Provisional Findings we assessed whether Deliveroo should be considered to be an exiting firm based on the evidence available at that time of the impact of the Coronavirus (COVID-19) pandemic. In keeping with our duty to assess any additional evidence that comes to light during the course of our investigation, and the evolving impact of the pandemic on Deliveroo's business, we now reconsider this assessment in light of the updated evidence we have received since then.

Limb 1: Would Deliveroo have exited absent the Transaction?

4.42 Our assessment follows the same structure set out in the April Provisional Findings: [144]

(a) Our assessment of whether Deliveroo would have exited absent the Transaction.

(b) Whether the effect of Coronavirus (COVID-19) means that Deliveroo is now likely to exit (excluding the merger-specific effects of the Transaction).

(c) Whether Deliveroo would still have exited if one of the other available sources of funding had proceeded.

Would Deliveroo have exited absent the Transaction?

4.43 In the April Provisional Findings, we concluded that Deliveroo would not have been an exiting firm absent the Coronavirus (COVID-19) crisis because alternative funding would have been available at the time the Transaction was agreed and Deliveroo would have expected to continue to be able to raise subsequent funding.

4.44 This remains our provisional conclusion.

Effect of Coronavirus (COVID-19)

4.45 We now consider whether the impact of Coronavirus (COVID-19) has changed the position in the April Provisional Findings in which, on the basis of the evidence available to us at that time, we provisionally concluded that, whilst the situation was inherently uncertain, it was clear that the Coronavirus

[144] April Provisional Findings, 16 April 2020.

(COVID-19) crisis was having a significant negative impact on Deliveroo's business and cashflows, which was forecast to continue.

4.46 In light of the cashflow forecasts and financial information provided by Deliveroo at that time, and the advice received by its directors, we considered that, without an assurance that it would receive additional funds in the immediate future, Deliveroo's directors would have been obliged to declare it insolvent (and that Deliveroo would have exited the market). This reflected forecasts of a significant decline in Deliveroo's financial position compared to its original budget, such that it would have run out of cash in [✂].

4.47 At the time of the April Provisional Findings, the Coronavirus (COVID-19) crisis was rapidly developing and the ongoing impact of the pandemic on the online restaurant delivery platform market was uncertain. Third parties have confirmed to the CMA that like Deliveroo they also experienced a negative impact on their business in the UK at the start of the crisis. One third party submitted it experienced a [✂] decline in the last three weeks of March 2020 followed by a recovery whilst another reported a continued decline through April 2020 [✂]. Since then we have received additional information on the effects of the Coronavirus (COVID-19) crisis and the impact of this crisis has become clearer. Deliveroo has similarly been able to revise its forecasts to reflect the evolving impact of the pandemic.

4.48 We note, in particular, that Deliveroo's updated forecasts indicate that it now expects to have improved cashflows and profitability through 2020 and a positive cash balance until at least [✂] (when it expects to have £[✂] remaining cash[145] according to the latest forecast). It would therefore now need to raise additional funding in [✂] at the latest assuming it takes no further cost reduction measures (for example by restructuring its operations), which could extend this further.

4.49 We note the advice that Deliveroo has received from its insolvency advisers on 21 May 2020 regarding the need to declare insolvency if it does not have a reasonable expectation of receiving funds to ensure it minimises the loss to creditors. However, in light of the updated forecasts we now have available, we consider that Deliveroo appears to have sufficient cash to be able to meet the demands of its creditors until [✂] (excluding the [✂]). This is a similar position to the one it predicted prior to the Coronavirus (COVID-19) crisis. As such, it appears that the specific impact of this crisis on Deliveroo's liquidity

[145] This excludes the requirement to [✂].

has been significantly less severe than was forecasted at the time of the April Provisional Findings. This is due to combination of factors.

(a) Part of the cash increase is driven by a partial recovery in orders and increase in commission per order which were not anticipated (and, given the uncertainty, could not, in our view, reasonably have been predicted) at the time of the April Provisional Findings.

(b) In addition to the significant cost savings undertaken by Deliveroo at the time of the April Provisional Findings, the longer cash runway now available has allowed it to implement further cost savings such as redundancies that would not previously have been feasible.

(c) Furthermore, Deliveroo has been able to defer further payments to creditors and tax authorities.

4.50 Accordingly, on the basis of the evidence now available, we consider that the Coronavirus (COVID-19) crisis is having a less significant negative impact on Deliveroo's business and cashflows than we concluded was the case at the time of the April Provisional Findings.

Would Deliveroo have exited if one of the other available sources of funding had proceeded?

4.51 In the April Provisional Findings, we concluded that, absent the Transaction, Deliveroo would have received funding in around April 2019 and would be likely to have continued its pre-merger plans. The result would have been that at the start of 2020 when the effects of Coronavirus (COVID-19) first appeared, Deliveroo would already have been close to a position where it would need to raise additional funds, reflecting its early and loss-making stage of development. We also concluded, based on the evidence we had available at the time, that the sudden and severe financial decline forecast by Deliveroo would require it to seek urgent funding and that it would be unlikely to obtain it at the time.

4.52 However, as explained in detail above, the updated financial information we have received from Deliveroo indicates that, although the Coronavirus (COVID-19) crisis had an initial severe impact on Deliveroo, the overall impact has not been as severe as anticipated at the time of the April Provisional Findings (and is now not forecast to be as severe in future). This recovery in Deliveroo's performance, combined with an increase in deferred liabilities and cashflow improvements, has significantly improved Deliveroo's forecast cashflows to June. As set out in detail above, Deliveroo now has an additional £[✄] in cash excluding deferred liabilities and an additional £[✄] when such liabilities are included. This improvement provides it with more time to seek additional funding.[146] Furthermore, this would also allow it more time to rationalise its business operations, potentially extending this cash runway further.

4.53 The Parties put to us that, in the most likely counterfactual, Deliveroo would have succeeded in raising funds of $[✂]–$[✂] million and amended their budget, with reduced spending, resulting in an estimated closing free cash balance of c.£ [✂] at the end of March 2020. They assert that this would mean that they would have had to raise funds in Q1 2020. On this basis, they submitted that any improvement in Deliveroo's performance during the Coronavirus (COVID-19) pandemic would only have occurred after the point at which its insolvency position became critical and therefore that Deliveroo would have likely exited the market (given that the further funding would not have been available at that time).

4.54 We do not agree with Deliveroo's submission that the current forecasts, which indicate that the impact of Coronavirus (COVID-19) on Deliveroo's cash position will be less significant than had been originally forecast at the time of the April Provisional Findings, are irrelevant to our consideration of the counterfactual.

4.55 We note that our provisional view in the April Provisional Findings that Deliveroo was likely to exit the market relied on predictions of the sudden, serious and sustained impact of Coronavirus (COVID-19) on Deliveroo's cash flow, which we found would also have occurred in the counterfactual. In the absence of evidence of such a severe sudden decline to Deliveroo's cashflow in the period from March to June 2020, we have no basis for finding that such a decline in cash would have occurred in the counterfactual.

4.56 The current evidence shows that Deliveroo has been able to manage the specific impact of Coronavirus (COVID-19), through a combination of deferring liabilities, saving costs and improving profitability, in order to leave it in a similar cash position to the one it forecast in its December 2019 and February 2020 budgets. This improved position and longer cash runway means that:

(a) Deliveroo now has a less urgent funding need than it would have based on the forecast position at the time of the April Provisional findings.

[146] We note that based on Deliveroo's current cash forecasts this £[✂] is in excess of the £[✂] cash they currently forecast to run through in the six months from the end of Q1 (end of March) to September and £[✂] less than the £[✂] they forecast to run through in the seven months from Q1 to end of October.

(b) This would also provide it with more scope to restructure its operations in order to increase its cash runway further.

4.57 We have no basis to consider that Deliveroo's ability to manage the impact of Coronavirus (COVID-19) would have been different in the counterfactual.

4.58 Deliveroo's submission in respect of Limb 1 now appears to rest on the submission that its 'ordinary course' funding need would have arisen in March 2020 in the counterfactual (and alternative funding would not have been available). We consider Deliveroo's submissions on the amount of alternative funding it would have raised and the amendments to its budget as a result of this too speculative to form the basis for a conclusion that the most likely counterfactual involves Deliveroo's exit:

(a) Firstly, the evidence does not reveal the precise amount that would have been raised by Deliveroo in the counterfactual, although we consider that the available evidence shows that alternative funding offers were of a broadly similar scale to the $[✂] million Series G funding amount. We therefore consider that there is no reasonable basis to conclude that Deliveroo would have been in a materially worse financial position in the counterfactual than it is currently.

(b) We also cannot speculate on how precisely Deliveroo would have then operated the business following this fundraising.

4.59 Accordingly, we do not have sufficient evidence to conclude that the nature and timing of Deliveroo's funding needs in the counterfactual would mean that the most likely counterfactual involves its exit from the market in the way suggested by the Parties.

Conclusion on the application of 'Limb 1' of the exiting firm analysis

4.60 As described above, our April Provisional Findings in respect of 'Limb 1' of the exiting firm analysis were based on a finding that Deliveroo would have experienced a sudden and severe financial decline as a result of Coronavirus (COVID-19) that would have required it to seek funding urgently and would have meant that it would not have sufficient cash runway to undertake and benefit from restructuring. The evidence that we now have does not support that finding. Although order volumes declined very significantly in March 2020 leading to a sharp deterioration in Deliveroo's financial position, Deliveroo's cash position is significantly improved from that forecast in the documents underpinning the April Provisional Findings as a result of an increase in revenues (which was not foreseen at the time of the April Provisional

Findings) and the creditor deferrals described above. We would expect this more limited impact to be similar in the counterfactual.

4.61 Whilst we acknowledge that, in the counterfactual, Deliveroo would have continued to operate in a way that was reliant on external fundraising, the available evidence does not support Deliveroo's submission that its exit would have been imminent, absent the Transaction, in March 2020.

4.62 In light of the evidence that Coronavirus (COVID-19) has had a more limited impact than expected on Deliveroo's business, our view of the most likely counterfactual is therefore that Deliveroo would not exit the market as a result of the impact of the Coronavirus (COVID-19) crisis and would continue to compete in the market, as it expected prior to the crisis and as described in the Merger Notice.

Limb 2: Is there a substantially less anti-competitive investor or purchaser for Deliveroo's assets?

4.63 As our provisional view is now that Deliveroo would not meet 'Limb 1' of the exiting firm scenario, Deliveroo cannot be considered as an exiting firm for the purposes of the counterfactual and therefore there is no need to consider 'Limb 2' and 'Limb 3' of the applicable test.

4.64 However, for completeness (and in light of the fact that Deliveroo remains reliant on external funding), we also note that regardless of the alternative investment in Deliveroo in the counterfactual, we would expect Deliveroo to have made prudent plans to raise finance in good time (which is consistent with its strategy to date). As noted above, at the time of the April Provisional Findings and on the basis of the evidence we had at that time, we believed that Deliveroo was facing a financial 'cliff-edge' as a result of the significant impact of Coronavirus (COVID-19) with no evidence of an improvement in the near future, which would have required funds to be raised in a very short period of time, during the period that investor sentiment was weakest.

4.65 In light of the evidence we now have, we consider that Deliveroo's cashflow position (in both the factual and the counterfactual) has improved significantly albeit with a short-lived deterioration at the start of the crisis from which it has since recovered. Therefore, there is no basis, on the evidence available to us, to suggest that its funding needs in the counterfactual would have been materially different in nature and urgency from that envisaged prior to the crisis.

4.66 Whilst we have received evidence from Deliveroo's professional advisors that a company in Deliveroo's position would find it 'highly challenging' to raise funding in March 2020 our view is that in the relevant counterfactual Deliveroo would likely have taken action to ensure that it was both more attractive to potential investors and to seek to avoid a 'cliff edge' in which it must secure funding very urgently. Deliveroo could for example have rationalised some of its operations to provide a longer cash runway and reduced its losses making it more attractive to some investors. In addition, it would no longer have had the urgent funding need previously envisaged in the April Provisional findings due to Coronavirus (COVID-19).

4.67 There are also a number of factors that suggest that the funding environment for Deliveroo has improved since the April Provisional Findings, all of which would be equally applicable in the counterfactual. These include:

(a) the recent successful fund raising by Just Eat Takeaway.com,[147] Wolt Group and DoorDash;

(b) the improvement in Deliveroo's cash position compared to that originally forecast at the start of the crisis; and

(c) the improved investor sentiment to this sector, as shown by the recovery in share price of listed companies in this sector.[148]

4.68 On this basis, while we have not been required to consider whether Deliveroo would have been able to raise additional funds specifically to survive the Coronavirus (COVID-19) crisis absent the Transaction, we note that the available evidence indicates that there is now a materially greater likelihood that alternative sources of funding would have been available to Deliveroo. In addition, Deliveroo no longer faces (and would not in the counterfactual have faced) such an urgent deterioration in its cash position as a result of Coronavirus (COVID-19), providing more scope to manage its funding needs through rationalising its operations.

4.69 As such, we consider that the evidence that the impact of Coronavirus (COVID-19) on both Deliveroo and the funding markets has been more muted than expected at the date of the April Provisional Findings means that the most likely counterfactual is that Deliveroo would have continued to compete in the market, and to raise funds to do so, in the same way as it anticipated prior to the crisis.

[147] Just Eat Takeaway.com confirmed this was not contingent on phase 1 clearance.
[148] Listed companies in this sector in the UK and abroad including Grubhub Inc, Delivery Hero SE NPV, Just Eat Takeaway.com N.V and Domino's Pizza Inc. The recovery in Just Eat Takeaway.com N.V's share price occurred prior to the announcement by the CMA of its phase 1 merger clearance and fundraising announcement on the 23 April 2020.

Amazon counterfactual

4.70 As mentioned in paragraph 4.2, the CMA may also look at alternative counterfactuals where one (or both) of the merging parties would have entered or materially expanded its presence in a market absent the transaction.

4.71 During its phase 1 investigation, the CMA assessed the impact of the Transaction against an alternative counterfactual where Amazon re-entered the supply of online restaurant platforms in the UK. In this context,[149] for our phase 2 investigation, we examined whether the most likely scenario, absent the Transaction, is that Amazon would choose to enter the supply of online restaurant platforms in the UK.

4.72 Amazon is a large and complex international business, and we assessed evidence from a variety of parts of its business, including documents prepared by or presented to its senior executive team, the corporate development team, the Amazon Prime and F3 teams ('fresh food fast', which includes Amazon Fresh and Prime Now), which used to also encompass the Amazon Restaurants business. We considered evidence from teams both in the UK and overseas, particularly in the US, where most senior staff are located and where Amazon has the largest and most developed market presence. We observed teams producing global strategy documents for the executive team based in the US, which featured global strategies and aims for Amazon, albeit incorporating some national specificities.

4.73 During our investigation we gained a detailed understanding of Amazon's overall strategy as a business and how it operates in practice. This has provided important context to our assessment.

4.74 First, we learned that Amazon does not, in general, produce large volumes of internal documents to inform its commercial strategy. Amazon told us it encourages the [✄] rather than having '[✄]', and that decisions are often taken in meetings. Although we have observed documents produced for discussion at meetings, Amazon told us that it does not typically make written records that summarise the discussions, or circulate notes describing the decisions and actions arising from these meetings. In some cases, Amazon has told us that it had not retained the documents we requested to inform our assessment, including the emails sent or received by [✄], who led Amazon

[149] The counterfactual used by the CMA may differ between phase 1 and phase 2 investigations because of the different legal standards used. At phase 1, the CMA will assess the merger against the most competitive counterfactual that it considers is realistic. At phase 2, the CMA must assess the merger against the most likely counterfactual. See MAGs, paragraphs 4.3.5 and 4.3.6.

Restaurants and currently leads F3.[150] These factors made it difficult to fully understand Amazon's rationale for its decisions in some instances and the lack of clear, conclusive evidence on certain points has meant we have relied on a range of documents, considered in the round, to inform our view. It has also meant that we have not been able to conclude that a lack of detailed documentary evidence on particular issues (such as Amazon's future strategy and plans with regard to restaurant delivery) means that such issues and related decisions are not being considered by Amazon, and that such issues are not important to it.

4.75 Second, Amazon has told us that it takes a 'test and learn' approach, innovating or expanding its offering regularly.[151] Amazon told us that it [✂]. We noted documents referring to 'two-way door' decisions;[152] that is, the ability to reverse decisions. Of one decision to withdraw a service, Amazon told us '[✂]'. We therefore consider that previous business decisions taken by Amazon should not be considered to irrevocably fix its intended course in a given market. This type of approach by Amazon has informed how we assess the decisions Amazon makes, including the closure of Amazon Restaurants.

4.76 In order to assess the likelihood of Amazon re-entering the supply of online restaurant platforms in the UK, we have assessed Amazon's incentives and intention to re-enter, primarily by examining evidence from Amazon's internal documents. We then assessed Amazon's ability to re-enter, again by examining Amazon's internal documents and looking at evidence from third parties. As noted above, the counterfactual is an analytical tool and we are not required to separately consider, on the balance of probabilities, whether Amazon has each of (i) the intention, (ii) the incentive and (iii) the ability to re-enter. In our assessment, we have considered all of the evidence in the round (including Amazon's commercial strategy, the international nature of its business and the nature of the online restaurant platform market) to determine the most likely counterfactual.

4.77 Most of our evidence gathering was completed prior to the outbreak of Coronavirus (COVID-19) and, in particular, our assessment of Amazon's incentives and intention to enter relies on evidence from internal documents produced prior to Coronavirus (COVID-19). Where possible we have sought to consider what impact Coronavirus (COVID-19) might have had on both the

[150] [✂].
[151] For example, at the main party hearing with Amazon on 31 March 2020 [✂] told us that '[✂]'.
[152] For example, in an Amazon internal email, provided to the CMA on 2 April 2020, [✂] questions whether closing Amazon Restaurants in the US is a 'one-door decision' and considers Amazon would 'probably' be able to re-enter in the future.

overall market for restaurant platforms in the UK, as well as on the likelihood of Amazon's re-entry into this market.

Parties' submissions[153]

4.78 The Parties submitted that Amazon is not a likely re-entrant into online restaurant food delivery in the UK, pointing to its failed entry through Amazon Restaurants (which operated in the UK between 2016-2018) as evidence that, even with Amazon's resources and recognition, it is not easy to execute such a business.

4.79 They submitted that restaurant delivery is not [✀] to Amazon's UK strategy (otherwise it would not have shut down its offering in 2018), that it is not looking to [✀], and it has not [✀]. They submitted that restaurant delivery would be '[✀]' for Amazon and that Amazon's modelling in the context of [✀] showed a [✀] Net Present Value (NPV) to Amazon of building a restaurant delivery platform. They submitted that Amazon does not have a compelling commercial imperative to re-enter restaurant delivery in the UK, as shown by the fact that it decided [✀].

4.80 The Parties submitted that there are material barriers to entering restaurant food delivery in the UK, including significant technological barriers and investment needed in attracting restaurants, couriers and consumers and developing an appropriate logistics model, and that Amazon is 'not particularly well placed' to overcome these.

4.81 Finally, the Parties submitted that a 16% investment in Deliveroo would not materially impact Amazon's incentives on whether (or how) to re-enter restaurant delivery in the UK. For the purpose of assessing what the most likely counterfactual is, we need to consider what we believe the most likely scenario is absent the Transaction, and therefore the fact that the Transaction involves the acquisition of a minority shareholding is not relevant to this assessment. The impact of the Transaction (in particular it being a minority shareholding as opposed to a full merger) on Amazon's incentives to re-enter is assessed and discussed in the competitive assessment, from paragraph 5.1.

CMA Assessment: Amazon's incentives and intention to re-enter

4.82 In order to assess Amazon's incentives and intention to re-enter the supply of restaurant platforms in the UK, we reviewed a number of Amazon's internal

[153] Parties' Initial Submission, 24 December 2019.

documents and emails from various business areas in order to gain as full an understanding as possible of Amazon (as detailed in paragraph 4.73), and its incentives and intentions in this market. We requested detailed explanations of Amazon's decision-making process and the related documents, including details of the timing of discussions and decisions, the key senior staff involved in these discussions and decisions, and other contextual information from Amazon. This built on the evidence gathered and analysis carried out by the CMA during its phase 1 investigation, which included the use of the CMA's formal powers to interview senior Amazon staff. We gathered evidence from numerous third parties including restaurants, competitors and professional analysts.

4.83 In this section, we first discuss evidence relating to Amazon's current strategies for Prime and its food offering within this, then consider evidence relating to its previous attempt at supplying a restaurant platform, Amazon Restaurants, and then finally evidence relating to its interest and subsequent investment in Deliveroo.

Amazon Prime

4.84 Promoting and growing Prime is very important to Amazon, and it has successfully continued to grow Prime membership globally in recent years. Amazon's CEO has described this as follows: 'If you look at Prime Members, they buy more on Amazon than non-Prime members…once they've paid their annual fee, they're looking around to see how can I get more value out of the program? So they look across more categories, they shop more…a lot of their behaviors change…it really is a flywheel'.[154]

4.85 After the US, the UK is Amazon's [✂] largest territory in terms of Prime subscription revenue [✂]) and Prime household penetration ([✂]). The UK has the [✂] largest total number of Prime customers ([✂]).[155] This number has grown rapidly in recent years, from [✂] in 2016 to [✂] in 2018. It is forecast to continue growing and [✂].

4.86 An Amazon operational plan (OP) for Prime states that '[✂]', and that Amazon [✂]. [✂]. Amazon has invested heavily in its Prime proposition in the

[154] Jeff Bezos in a 2016 Recode interview, as quoted on Forbes.com. The term 'flywheel' is used at Amazon to describe something similar to a virtuous cycle, which powers the business. A service such as restaurant delivery could attract more users to Amazon, who then use the other services Amazon offers, such as Amazon Video or the Amazon marketplace. Each benefit is seen as contributing to the flywheel. Amazon also uses this in reference to costs. For example, lower prices lead to more customer visits, more customer visit increases the volume of sales, and that results in more commission-paying third-party sellers to the site. [✂].
[155] Figures in this paragraph are all taken from [✂].

UK, in particular by recently adding Premier League football and other live sports to Prime Video, where it expects to '[✂]' for the UK.

4.87 Amazon's internal documents provide evidence of customer loyalty to Prime. In 2014, Amazon increased the price of UK Prime by [✂]. Associated with this price change was an [✂].[156] [✂]. The fact that Amazon has not increased the price of Prime in the UK in recent years, [✂], indicates that Amazon is not solely focussed on short-run profitability at this stage. The available evidence indicates that growing its Prime membership is the more important objective for Amazon at this time. [✂], indicating this is a particularly important aspect of Amazon's commercial strategy.

4.88 A third party told the CMA that 'Prime is a bundle of unrelated products, combined to protect Amazon's most valuable customers' and that 'focusing on a single specific segment misses how Amazon exercises its market power'. It said that 'Prime … was designed to create a moat around Amazon's best customers. People feel they have committed to Prime, and want to get value out of this – it's a behavioural issue'. Other third-party submissions also commented on the power of Prime for Amazon, expressing concerns about the way Amazon bundles different services into Prime, making it more difficult to compete against.[157]

Offering restaurant delivery as part of Prime

4.89 Amazon told the CMA that it has guidelines to identify and evaluate new Prime benefits. These guidelines state that '[✂]' and that it [✂]. Amazon submitted that any new benefit would need to [✂].

4.90 Food in general would appear to be an area which Amazon sees as high-use and of value to its Prime customers, and capable of generating a large incremental spend from customers – the most recent OP document for Prime in the UK notes '[✂]'.[158]

4.91 Restaurant delivery is seen as a useful benefit for Prime. First, this was shown by Amazon's expectations of Amazon Restaurants. As described in paragraph 4.128, it was seen as a [✂], and was expected to [✂]. The 2019 Amazon Restaurants OP1 document stated that Amazon Restaurants was '[✂]'. [✂].[159]

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[156] The equivalent figure for new customers was [✂].
[157] The CMA considered a conglomerate effects theory of harm during its phase 1 investigation but did not find a realistic prospect of an SLC as a result of the Transaction. This is discussed again in Chapter 7, given it was an area we received a number of submissions on.
[158] [✂].
[159] Amazon's response states '[✂]'.

4.92 Amazon submitted that the fact that these aspirations were not achieved and that Amazon Restaurants was closed by senior leadership shows [✂]. It also submitted that Amazon Restaurants was so [✂] that it risked [✂]. We consider that this factor may explain why Amazon decided to close Amazon Restaurants but the closure does not mean that the expected benefits no longer exist and that Amazon would not want to offer restaurant delivery if it could do so successfully. It follows that a high-quality restaurant delivery service could enhance relationships with Prime customers. In addition, as explained to us by Amazon and commented on by third parties, Amazon regularly tests propositions, learns from these and innovates in this manner. We consider the withdrawal of the service does not mean that the issue is closed and that it would not re-enter in the future.

4.93 Second, the attraction and benefit of restaurant delivery [✂] for discussion with Jeff Bezos and other members of the senior leadership team. This document was used to discuss whether [✂] Deliveroo at a meeting on 12 March 2019, where the decision to [✂] consider investing in Deliveroo was taken. The document makes the following observations:

(a) With respect to the 'flywheel accelerants', the document stated Amazon could expect [✂]. The document noted '[✂] (DSI-CP[160] impact [✂]) [✂]. [✂]'.

(b) Amazon forecast [✂].

(c) In this document, Amazon uses its experience from Amazon Restaurants in the US to infer the [✂].[161,162]

(d) It states that the total downstream impact on contribution profit in the UK from this effect would be £[✂]. In revenue terms, across the same customer base, this works out at £[✂].[163]

4.94 Amazon submitted that it chose not to [✂]. It also submitted that the DSI analysis provides evidence of [✂], not [✂]. Finally it submitted that this analysis was relegated to an appendix [✂], displaying a lack of reliance on the figures. We consider that the analysis [✂] is helpful evidence in understanding how Amazon views the market and how restaurant delivery would fit in its wider business. Second, we note that the document makes no mention of the DSI impact being '[✂] not [✂]' or caveats to this effect. Finally,

[160] Downstream impact on contribution profit.
[161] Using an exchange rate of 0.786130328 for 4 December 2018: https://www.xe.com/currencytables/?from=USD&date=2018-12-04.
[162] This figure comes from Amazon's restaurants experience in the US, where customers '[✂]'.
[163] [✂].

we note that the findings of the DSI analysis are included in the main summary of the document as the second reason for why Amazon [✂]. The detail is included in an appendix, as appears to be the standard format of Amazon internal documents.

4.95 Even following the decision in March 2019 to look to [✂], Amazon considered the idea of [✂], indicating that it sees restaurant delivery as an attractive benefit to its customers. Amazon told the CMA that this was a ‘back of the envelope idea’ and was not reflective of leadership views, and that the sender himself was ‘a little sceptical of value add and likely impact’. But [✂] (VP, Corporate Development) replied that [✂]. In another email referring to promoting Deliveroo Plus to Prime members, [✂] (VP, F3) [✂]. Evidence therefore indicates that these ideas were supported by senior leadership and discussed within the business.

4.96 The Parties submitted that only [✂] placed an order with Amazon Restaurants. Figures provided by Amazon showed that during the time Amazon Restaurants operated in the UK it received orders [✂]. As we explain in more detail later in this chapter (at paragraph 4.136 onwards), our view is that the evidence shows Amazon Restaurants was not well or fully executed in the UK – with Amazon [✂] in the business, and conducting [✂]. In addition, we note that Amazon Restaurants was only available to customers in selected Greater London postcodes, representing only a small proportion of total Prime members. We consider these factors may explain why the take-up of restaurant delivery was low for Prime customers in the past, but that it does not necessarily follow that restaurant delivery is not a benefit that Prime customers would value. This is illustrated by [✂] (which generally highlights the demand from Amazon Prime customers for restaurant delivery) and is consistent with the views of Amazon’s senior management.[164]

4.97 As mentioned in paragraph 4.85, Prime is a very popular subscription product in the UK, with Amazon forecasting that it will have [✂]. In addition to the UK being attractive to Amazon because of the size of Prime, it is also an attractive country for online restaurant platforms. It is one of the largest markets for restaurant delivery in the world and is the largest in Europe. Past trends show UK household expenditure on takeaway food continues to grow, and people are continuing to move to online ordering. Third parties told us that the UK was an attractive market because of its size and frequency of orders, high proportion of urban population and high GDP, and because of existing merchant and courier demand. These factors would increase

[164] A survey in one of Deliveroo’s internal documents show that [✂]% of Deliveroo Plus customers subscribe to Amazon Prime.

Amazon's incentive to operate an online restaurant platform in the UK. One overseas restaurant delivery business told us the UK was an attractive market provided evidence to us showing it had recently considered entering the UK (although had decided against it at the current time).

4.98 On the other hand, overseas competitors told us that it would be hard to enter the UK because of the existing players, and so less attractive. Some overseas operators appear to prefer to focus on emerging markets where they may have a first mover advantage and customer acquisition may be less expensive, for example Glovo has been expanding in Latin America and to countries such as Georgia and Kazakhstan. In this regard, we consider Amazon would have a significant advantage over other operators in the UK as it can benefit from having existing relationships with millions of customers in the UK, including engaged customers through Prime. Amazon would be able to advertise to customers at a lower cost than rivals, particularly in the UK given the popularity of Prime in the UK compared to other countries. We consider this makes the UK more attractive to Amazon as a country to enter restaurant delivery than it is for other overseas operators. On the basis of the evidence available about its broader business strategy (eg its focus on growing Prime as opposed to short-run profitability) and the patience of Amazon as an investor,[165] we also consider that Amazon may have a different time horizon for profitability compared to other potential entrants and the financial resources to support this.

4.99 Coronavirus (COVID-19) has had a large impact on restaurants, causing many to temporarily close or move to providing food for takeaway or delivery only. These shifts, as well as a potential reduction in household expenditure on restaurant food (because of reduced disposable income) could lead to significant permanent changes in the market, including restaurant closures. Deliveroo submitted that it expects up to half of its independent restaurant partners to become insolvent when the government support packages stop, and that independent restaurants will be disproportionately affected compared to chain restaurants. On the other hand, restaurants are beginning to re-open and adjust their business models, with delivery forming a more important part of their business. Food delivery has become increasingly important for consumers. Data from Deliveroo indicate a recovery in order levels during April 2020, with order levels exceeding those during April 2019 (see further discussion in Chapter 2). The long-term impact of Coronavirus (COVID-19) on the restaurant delivery market in the UK is uncertain. It is not clear, based on the evidence available at this time, whether Coronavirus (COVID-19) will make the UK a more or less attractive country in which to operate as an

[165] April Provisional Findings, 16 April 2020, paragraph 2.54(b).

online restaurant platform. As we therefore cannot determine with sufficient certainty, for the purposes of our counterfactual assessment, whether Coronavirus (COVID-19) is likely to have an enduring negative impact on the attractiveness of the UK market, we consider that it is reasonable to rely on the broader body of evidence to date showing the potential attractiveness of the UK market to Amazon (notwithstanding recent market fluctuations).

Amazon's launch of its own restaurant food delivery service: Amazon India

4.100 Amazon told the CMA in August 2019 that it had no internal documents that assessed the possibility of acquiring a restaurant delivery service in the UK, US or elsewhere, [✂]. Amazon did submit that given the broad and global nature of Amazon's business, '[✂]'. In response to further statutory information requests, it later confirmed in February 2020 that it was launching Prime Food India, a restaurant delivery service for Prime members. According to the dates of Amazon India documents later provided to us, Amazon had been considering launching restaurant food delivery in India since [✂].

4.101 India is a rapidly growing country for Amazon in terms of Prime membership, which Amazon forecasts to [✂]. Amazon appears to have invested significantly ($6.5 billion) in expanding in India in recent years.[166]

4.102 With respect to offering restaurant delivery in India, Amazon submitted that there are significant differences between the regulatory and commercial conditions in India compared to the UK and its assessment of industry conditions, competition and business opportunities in India is 'completely different' to that of the UK.

4.103 We acknowledge that there are clear differences between the business environment in the UK and India. We consider, however, that the evidence shows that Amazon has a global strategy (which applies in both the UK and India) around growing and promoting Prime membership with the intention of expanding its position in groceries and in fast delivery across various countries. In addition, we note the factors considered by Amazon in launching a restaurant delivery service in India were similar to those considered by the Amazon Restaurants team in assessing why offering restaurant delivery was beneficial for Amazon in the UK and the US (see discussion from paragraph 4.120). Amazon is using technology previously developed by its Amazon Restaurant offering in the US/UK in its India offering, showing the potential utility of technology and expertise gained in India for its global

[166] Amazon trials online food delivery in India, BBC news article, 21 May 2020.

ambitions in restaurant delivery, including the UK.[167] Therefore, we consider the strategic thinking and approach taken in India is relevant evidence in assessing Amazon's broader global strategy in relation to online restaurant platforms, including in the UK.

4.104 An Amazon India paper discussing the launch of restaurant delivery from November 2018 features notes from a key discussion on the project, including comments from [✂] (SVP, Amazon India), which state that there are three key objectives for launching restaurant delivery: '[✂]'. The document goes on to discuss the way Amazon India should market the offering, including that it should [✂].

4.105 In a subsequent Amazon India paper, dated 31 January 2020, Amazon India discusses [✂]. This document mentions that it '[✂]'. The document also has a section on how it plans to [✂].

4.106 Finally, we note a pattern of restaurant delivery players expanding into offering fast delivery of other products in various markets across the world, not just in India. For example, DoorDash offers fast grocery delivery in the US, and Delivery Hero has publicly stated it intends to challenge Amazon with fast delivery of consumer items such as groceries.[168]

Conclusion on Amazon Prime

4.107 Offering fast delivery of a range of products, including restaurant food, is also seen as a way to enhance the value of Prime, which the evidence shows is important to Amazon's overall global corporate strategy. Amazon has considered restaurant delivery on a global level in the context of its desire to attract and retain the customers of its Prime subscription service and to be known for fast delivery. Amazon has a global strategy, as explained below, of expanding its grocery offering and increasing the speed of delivery. Restaurant delivery through Amazon Restaurants was expected to play an important role in this. This is also supported by the evidence in relation to Amazon India, where restaurant delivery is seen as an important benefit for customers, as well as a way to develop operational capacity in fast delivery and also as a [✂].

[167] Amazon submitted that it was not credible that the Transaction could preclude it from 'experimentation at a global level and even less credible that Amazon would decline to apply learnings and technologies from other countries of operation to the UK'.
[168] *Bloomberg article*, 30 July 2019.

Amazon food strategy

4.108 F3 is an Amazon business area, which used to also include Amazon Restaurants. F3 operates internationally and is focused on developing Amazon's online grocery offering including through the roll-out of its ultra-fast grocery (UFG) plan. This strategy is intended to [✂]. During an interview with the CMA, [✂] (VP, Corporate Development) stated '[✂]'. Food is one of the largest areas of expenditure for UK consumers, and an area in which Amazon has so far not managed to penetrate, despite its wide-ranging activities in the delivery of other items, such as consumer electricals and baby products.[169]

4.109 Amazon submitted that it closed Amazon Restaurants [✂], and pointed to the F3 OP document which details this and was produced a few months after the decision to close Amazon Restaurants was made.

4.110 The F3 strategy documents show a clear focus on grocery delivery, including how Amazon intends to offer wide selection and ultra-fast delivery, stating Amazon will offer '[✂]'. The documents do not generally discuss restaurant delivery. This document does mention that the UK offering is [✂], which in the US includes restaurant delivery. The appendix to this document states '[✂]'. We note that when this document was produced ([✂]), Amazon Restaurants was still operating in the US. Amazon submits it is therefore logical that the US vision would include restaurant delivery but that this only applies to the US. We consider that the inclusion of restaurant delivery in its grocery strategy shows that Amazon continued to see a role and benefit of restaurant delivery in its global food strategy despite having closed Amazon Restaurants in the UK.

4.111 As stated above, Amazon submitted that expanding in online groceries being F3's priority is a reason it would not enter restaurant delivery. We do not believe that developing a restaurant delivery service needs to be the key priority of Amazon to believe that it could re-enter. Given the size and resources available to Amazon, it could easily pursue multiple strategies and projects concurrently, provided it had sufficient incentives to do so.

4.112 As part of its US grocery offering, Amazon has rolled out the use of [✂]. Amazon's ambitions and the developments it plans in grocery delivery would help it to overcome one of the main challenges it faced when operating Amazon Restaurants. Extending this to include restaurant food would be a natural expansion as Amazon would have one of the key building blocks of a successful online restaurant platform. Third parties who offer on-demand

[169] See *Sainsbury's/Asda*, Final Report, 25 April 2019, paragraph 11.38, showing Amazon has a [0-5]% market share in online delivered groceries.

delivery have told us that offering delivery across different categories of product (such as restaurant food and groceries) helps to provide density throughout the day for the courier fleet and improves unit economics.

4.113 Several internal emails from within F3 refer to the importance of offering restaurant delivery as part of Amazon's food strategy, and in particular [✂], including:

(a) An email chain where [✂] (VP F3) disagrees with the decision to close Amazon Restaurants, where she lists the benefits including differentiating Amazon's food offering in terms of speed and breadth and being an important Prime benefit to customers in a growing market.

(b) One email from February 2019 setting out the recommendation of [✂] (VP F3), as well as [✂] (who was General Manager of Amazon Restaurants), who '[✂]'.

(c) Another email from [✂] (VP F3) discussing whether [✂].

4.114 These are supported by emails from the corporate development team that show consideration of wider benefits to Amazon from [✂] Deliveroo, [✂]. One email, written by [✂] (VP Corporate Development) states that '[✂]'.[170] [✂] (Senior Manager, Corporate Development) agreed with [✂] (VP Corporate Development) and [✂] (SVP Business Development) and stated that they '[✂]'.

4.115 Amazon's strategy in India provides evidence of how restaurant delivery fits into Amazon's overall global food strategy. Amazon is currently trialling restaurant delivery in India while investing significantly in expanding its presence. In a press article reporting on the trial, Amazon stated that 'Customers have been telling us for some time that they would like to order prepared meals on Amazon in addition to shopping for other essentials. This is particularly relevant in present times as they stay home safe. We also recognise that local businesses need all the help they can get'.[171]

4.116 Amazon's internal documents show the thinking behind its investment in restaurant delivery in India, mirroring the F3 reasoning, including that restaurant delivery offers differentiation to Amazon's service and will allow Amazon to develop logistical expertise that it can apply in its wider business.

(a) In one email exchange from June 2019, it is noted that Swiggy is [✂].

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[170] DoorDash and Postmates are US restaurant delivery services who also offer fast delivery of groceries.
[171] *Amazon trials online food delivery in India*, BBC news article, 21 May 2020.

(b) A PRFAQ (Press Release and FAQ) document, produced by the Amazon India team and discussed with [✂] (SVP, Amazon India), explains how [✂], and how the development of logistics for this business can be used more widely in Amazon in the future. It states '[✂]'.

4.117 Amazon submitted that the developments in India are completely separate and specific to the environment in India and that [✂]. We consider that whether or not [✂] is only of limited relevance given that all Amazon business units ultimately form part of a single firm under the direction and control of the same senior management . Indeed, [✂], many of the expected benefits and the reasoning for offering restaurant delivery in India, for example [✂], are similar [✂]. This is consistent with the position that these ambitions are globally important goals ([✂]) and that if restaurant food delivery is an important element in achieving these goals in India, there is no reason to think that it would not be so in other geographies.

4.118 As described above, expanding a fast grocery delivery service is a clear area of focus for the F3 team, both internationally and in the UK. We consider this aim is unlikely to be changed following the spread of Coronavirus (COVID-19) and the increased demand and need for grocery delivery. Responding effectively to the impact of the virus on F3 operationally is likely to occupy significant senior executive time and effort. Amazon submitted that as a result of the abrupt increase in demand for its grocery services as a result of Coronavirus (COVID-19) it faced [✂] and was required to make a number of operational and technical changes to maintain its customer experience. This could mean the [✂] for launching new services is less than that prior to Coronavirus (COVID-19). At the same time, the delivery of food, including restaurant meals, has become increasingly important to customers at the moment (as acknowledged by Amazon in the quote in paragraph 4.115, and shown in data on order levels and evidence submitted by third parties) and so the incentive to offer this service may have increased. In addition, Amazon has benefitted financially from Coronavirus (COVID-19), with increased sales and demand [✂]. Its share price has increased and is up 36% year-over-year (as at 11 June 2020), showing a clear expectation that the Coronavirus (COVID-19) pandemic will ultimately advantage Amazon's business.

Conclusion on Amazon food strategy

4.119 Evidence shows the current priority for F3 is to expand Amazon's position in online groceries globally, with a strong focus on [✂], and it is investing heavily in its delivery capabilities in the US and UK. Despite this, interest in restaurant delivery has continued for the past five years, is international, and extends within the F3 team, as well as to senior executives at the highest level within

Amazon, including Jeff Bezos (CEO). The F3 team (as well as Jeff Bezos, CEO) was supportive of Amazon [✂] following the closure of Amazon Restaurants, and saw this as [✂]. There is no evidence to suggest Amazon is no longer interested in restaurant delivery or that it no longer expects it to be an important area providing benefits such as differentiation in its offering, flywheel effects for Prime, and enhanced logistical capabilities. This is further supported by the recent trial by Amazon of entering restaurant delivery in India.

Amazon Restaurants

4.120 This section discusses the launch, operation and closure of Amazon's restaurant delivery business, Amazon Restaurants, which was active in both the UK and the US.

4.121 The Parties submit that Amazon has already tried and failed to operate an online restaurant platform, which it chose to abandon only recently because it realised it was unable to succeed. They submit that the Amazon Restaurants experience was so [✂]. They submit that Amazon Restaurants failed on all three sides of the market: [✂].

4.122 A summary of the performance of Amazon Restaurants and its objectives are set out in its 'Operational Plans' (OPs). Amazon explained that these are generally yearly documents produced by multiple teams within a business area [✂], and the business area will execute based on the OP1 meeting. [✂] very senior executives are invited to OP meetings and discussions, and in some cases are responsible for signing them off.[172] Amazon's Finance team also need to sign off on the figures included in the OP1 documents.

4.123 Amazon submitted that the Amazon Restaurant OP1 documents should be treated with caution as they were produced by a team working hard to build a business they believed in, and that, given the closure of Amazon Restaurants, the team was [✂] the importance of restaurant food delivery services to Amazon. Although we understand the team working on delivering Amazon Restaurants might have been optimistic about performance, we note that OP1 documents must be signed off by senior executives (who typically would not have the same incentive). We have not seen evidence of concerns raised on the achievability of the OP1 documents or evidence indicating senior executives did not share the vision contained in the documents. We therefore consider these documents are a good source of evidence of Amazon's

[172] For example, an Amazon internal email [✂]. Amazon submitted lists of invitees to different types of OP meetings [✂].

interest in and incentives to offer a restaurant platform, notwithstanding Amazon Restaurants' failure to achieve some of its targets prior to closure.

Launch (2015-2016)

4.124 Amazon Restaurants was created as a result of insights from Amazon Local, a service that sourced daily deals for customers from local merchants in various categories, including discounted vouchers for use in restaurants.[173] These insights showed that customers [✂]. Amazon Restaurants was trialled in Seattle, and then launched more widely in 2015, when Amazon started building its own delivery service for restaurants and added Amazon Restaurants to its Prime Now offering. Amazon Restaurants was launched in the UK in 2016.

4.125 The Amazon Local OP1 dated November 2013 proposes an Amazon Local delivery service that would provide delivery of items to customers in sixty-minutes or less starting with restaurant orders but that 'over time we plan to experiment with adding additional selection, [✂]. This document notes the benefits to and from Amazon's wider business of adding this service, stating that '[✂]'.

4.126 Subsequent documents from around launch in 2015 state Amazon saw [✂]. The document states Amazon will focus on [✂], including [✂].

4.127 Amazon submitted that the evidentiary value of these documents was very low because of their age and the fact that the imagined developments never materialised. Although in the context of a dynamic market these documents are old, we consider, in combination with other evidence, that they show that Amazon has a long-standing interest in restaurant delivery and has held an aspiration to include this as a service within the Amazon ecosystem internationally since around 2015.

Operation (2016-2018)

4.128 The Amazon Restaurants OP1 documents for this period provide evidence of Amazon's expectations for its restaurant delivery business and show the online restaurant platform business has strategic value for the wider Amazon business. These include that restaurant delivery will be an important part of a wider food offering for consumers, [✂], and that the technology used for the

[173] During 2014-2015 Amazon launched three new businesses following insight from Amazon Local, which related to restaurants, travel and ticketing. In 2015 Amazon decided to discontinue its daily deals business. It shut down its travel business in October 2015 and its ticketing business in 2018.

fast delivery of restaurant food will benefit the wider Amazon business as it can be rolled out to other areas, [✂].

(a) The Amazon Restaurants OP1 2017 states that one of the five key learnings from its first year of [✂].

(b) The Amazon Restaurants OP1 2018 reiterates the impact of offering restaurant delivery in the US on Prime, [✂].

(c) The appendix to the 2018 OP1 document states that because of shifts in consumer spending towards prepared food and the growth of takeaway and delivery, Amazon believes '[✂]'. The document sets out [✂].

(d) Amazon Restaurants' final OP1 (dated August 2018) discusses how the technology used within Amazon Restaurants ([✂])[174] could be rolled out to other business areas as it '[✂]'. The inclusion of restaurant delivery as part of a wider food offering is further discussed, [✂].

4.129 The Amazon Restaurant OP documents discuss some of the issues it is facing globally with restaurant delivery, which continue from launch through the operation of the UK and US businesses. For example:

(a) The 2017 document lists problems such as [✂].

(b) Evidence from the US OP1 documents shows Amazon Restaurants [✂]. For example, in the 2018 document, it achieved a cost per delivery of $[✂] compared to the OP2 target of $[✂], and $[✂] million of gross revenue, compared to a $[✂] million target.' The document comments that '[✂]'. It mentions '[✂]'.

(c) The 2018 OP1 for the UK business states [✂].

4.130 These documents demonstrate that one of the key issues for Amazon Restaurants, both in the US and UK, was the [✂]. The Parties also submitted that this was a reason for its failure, and that the logistics for restaurant delivery (generally point-to-point delivery with drivers paid per delivery) are very different to that of its other businesses (generally point-to-multipoint with drivers paid per block of time).

4.131 Amazon launched restaurant delivery using its [✂] logistics solution. In the UK [✂].[175] This solution, [✂]. Amazon looked to address this by [✂]. Although this was a significant improvement, it still indicates unsustainable

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174 [✂].

175 Amazon Flex is an Amazon organisation that manages flexible drivers for Amazon, who are offered jobs containing blocks of time between one and six hours.

delivery costs in the UK – one Amazon Restaurants document indicates [✂]. As discussed in paragraph 4.141 below, Amazon was more successful in bringing down delivery costs in the US.

4.132 Amazon submitted that in an attempt to resolve the challenges it was facing (before the decision to shut the Amazon Restaurants UK business was taken), it started '[✂]'. We note that the Amazon Restaurants UK OP1 for 2019 [✂]. Shortly after this document was produced, the UK business was closed.

4.133 Amazon submitted that the Amazon Restaurants OP documents described above are old and that they show expectations for the business that were never met, and so have a low evidentiary value. We disagree with these statements. First, some of these documents are from 2018 and produced less than a year before the contemplation of the Transaction, which we would normally consider (absent specific and evidenced reasons to the contrary) provide useful insight into the strategy and incentives of a company prior to a merger. We further note that many of the positions set out in these documents, in particular in relation to the benefits of offering an online restaurant platform, are consistent with those set out in Amazon's more recent documents (as well as its older documents from the launch of Amazon Restaurants). Second, although Amazon Restaurants did not achieve the success hoped, important aspects of its performance appear to have been positive. For example, the Amazon Restaurants business created technology that Amazon is now using in its wider business (which was originally regarded as one of the important benefits of developing and offering restaurant delivery); the [✂] technology, originally developed for the Amazon Restaurants business, has been [✂]. Third, understanding Amazon's rationale for operating restaurant delivery in the first place, and the weight placed on differentiating Prime Now and providing an important benefit for Prime customers, indicates its incentives for originally entering this market, which may also be relevant to any future entry. We note, in this regard, that many of the factors considered at that time also feature in more recent internal documents relating to Amazon's broader strategy, such as Amazon's entry into restaurant delivery in India.

UK Closure (Late 2018)

4.134 As mentioned in paragraph 4.129, Amazon's internal documents show it experiencing a number of issues with its UK Restaurants business, including that it struggled to [✂]. These factors led the Amazon Restaurants team to recommend closure in the UK in [✂], which was actioned in November 2018. The documents show:

(a) Amazon Restaurants struggled to find the right [✂] and [✂], and only implemented [✂] in the UK in April 2018. One document notes '[✂]'. Even once Amazon implemented [✂], the lowest cost per delivery Amazon Restaurants UK was able to achieve was still £[✂]. By comparison, the Parties submitted that Deliveroo's current cost per delivery is approximately £[✂].

(b) Amazon Restaurants UK used only a [✂], meaning its logistics network was less effective than in the US.

(c) The service was not [✂] or available to non-Prime members (either in the UK or US). Amazon spent [✂] amount on marketing the service in the UK[176] and the documents suggest the product was not [✂]. For example, the 2017 Amazon Restaurants OP1 stated it has '[✂]'.

(d) Amazon Restaurants UK did not expand outside of London and did not grow its restaurant selection in line with Uber Eats, which launched in the UK at a similar time.[177] Know-your-customer (KYC) regulations led to Amazon Restaurants UK [✂]. Amazon's submission states that '[✂]'. The 2018 OP1 document warns of this issue, stating that in order to complete these checks Amazon Restaurants '[✂]'. One restaurant that was part of the Amazon Restaurants platform told us that it had difficulty with both the platform and Amazon's processes.

(e) It failed to compete effectively with [✂] and other competitors in [✂]. [✂], with one Amazon document stating it encountered '[✂]'. Amazon submitted that it did not sign [✂] with any restaurant in the UK, as the business was not sufficiently attractive to restaurants for them to [✂].

4.135 These challenges were reflected in [✂] in an Amazon customer survey, [✂]. [✂], Amazon decided to recommend that the UK business was shut down [✂].

4.136 We consider that the evidence shows that Amazon appears to have made some strategic and operational errors or misjudgements in the way it implemented Amazon Restaurants in the UK and may have underestimated the difficulties in building such a business. Although it took some remedial action and staff working within Amazon Restaurants were confident in improving the business, it was not sufficient to turn the struggling business around to the satisfaction of Amazon's senior executives.

[176] [✂].

[177] Uber Eats told the CMA that Amazon Restaurants launched at a similar time to it with 3X more restaurants available but that Uber Eats accelerated and overtook Amazon Restaurants in terms of selection.

(a) First, we observe that successful entry as a logistics-enabled online restaurant platform appears to require substantial investment and willingness and ability to incur losses in the early years in order to invest in the growth of the business to build density of customers and restaurants.[178] It does not appear [✂]. The absolute level of costs incurred and losses made were [✂]. Amazon Restaurants had cumulative [✂] in the UK from 2016 to 2018 of $[✂] million, with total costs incurred of $[✂] million. As a comparison, Deliveroo incurred total operating losses of £161 million ($220 million)[179] from January 2014 to December 2016, following its foundation in August 2013, and costs of £270 million ($365 million) in 2016 alone.[180] Amazon submitted that the [✂] in the UK do not include [✂] in the US that would have benefited the UK business, such as [✂]. The [✂] by Amazon Restaurants in the US were [✂] than those in the UK[181] but we note that the figures for the total amount [✂] by Amazon Restaurants during operation in the UK and the US are [✂] the amount Deliveroo lost in the EU in one year alone.

(b) Second, Amazon did not [✂] a large customer base. The service was [✂] and available to existing Prime customers in a certain geographic area. Amazon had significantly fewer Prime customers in 2016 ([✂] million) in the UK than it does now, with Prime membership [✂] in the last three years (to [✂] million). Amazon spent [✂] on marketing the service in the UK, which was likely to have been an important factor in why [✂] Prime customers used Amazon Restaurants. A breakdown of Amazon Restaurants' UK costs shows that in the three months of 2016 in which it operated, Amazon Restaurants spent $[✂]k on marketing and business development, [✂] to $[✂]k in 2017 and $[✂]k in 2018. As a comparison, Deliveroo spent £[✂] million on marketing in the UK alone in 2019, [✂]. Amazon Restaurants was also only available to customers in certain London areas.

(c) Third, when asked what Amazon learnt from operating Amazon Restaurants, Amazon told us that [✂].

(d) Fourth, internal documents show evidence of Amazon considering that it did not [✂] in place or [✂] in the Amazon Restaurant business. Amazon Restaurants employed under [✂] staff during its operation in the UK, although the 2019 UK OP1 document shows a fixed headcount of only

[178] As acknowledged by Amazon in an internal email which states restaurant delivery is a [✂].
[179] Using average £/$ exchange rates of 1.6455 (2014), 1.5278 (2015) and 1.3502 (2016).
[180] Roofoods Ltd Annual Accounts Year Ended 31 December 2014, 2015, 2016 (see Companies House).
[181] Amazon Restaurants lost $[✂] million with total costs incurred of $[✂] million.

[✂]. Worldwide, Amazon Restaurants had a total headcount of just over [✂]. This is in comparison to the estimated staff needed under Amazon's [✂][182] it produced when considering whether to [✂], which included a total of [✂] people made up of [✂] engineers, [✂] in marketing, [✂] in account management and [✂] support and tech staff. One Amazon internal email written by [✂] (VP, Corporate Development) states that Amazon Restaurants' offering in 2018 is '[✂]'. A different email written by [✂] (VP Corporate Development) states that he thinks '[✂]', to which [✂], the SVP in charge of Amazon Restaurants, [✂].

4.137 Amazon submitted that the evidence described above supports its submission that it has no compelling incentive to re-enter this segment, as if it did, it would have [✂] and continued to operate in the market. Amazon provided evidence showing it invested [✂] in its US offering, which would indicate it did have an incentive to operate restaurant delivery as a Prime benefit, as part of its overall food strategy, but that it was not [✂]. It was instead focussed on [✂]. We do not consider that Amazon's decision to exit the UK means that it was no longer interested in this market – indeed, just months after the closure of the UK business it began due diligence on potentially acquiring Deliveroo, showing clear interest in the UK restaurant platform market.

4.138 We received some evidence that showed other suppliers active in the sector saw Amazon Restaurants as a learning experience by Amazon and that they would expect it to try again.[183] Amazon was seen as a credible potential entrant notwithstanding its previous departure from the market. Although these views are helpful in our assessment, we note that these parties would have limited insight into Amazon and its strategy and so gave such evidence less weight in our assessment. Their views that Amazon would look to 'test and learn' were however consistent with the approach that [✂].

US Closure (Mid 2019)

4.139 Amazon continued to operate its restaurant delivery business in the US after shutting down the UK business, but submitted that due to [✂], it closed Amazon Restaurants US in June 2019.

4.140 Amazon invested [✂] in its US offering than the UK one, and it was available in 20 US cities. It incurred total costs between 2016-2019 of $[✂] million, with [✂] of $[✂] million. The figures for the total costs incurred by Amazon Restaurants during operation were [✂] the costs incurred by Deliveroo in a

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[182] Although we consider this analysis was simplistic, we consider the staff figures included are helpful for context for considering the staffing figures of Amazon Restaurants.
[183] This includes a Deliveroo internal email where [✂] and [✂].

similar timeframe (see paragraph 4.136(a)), and total [✄] the amount Deliveroo lost in the EU in one year alone (Deliveroo had an operating loss in 2018 of £257 million ($342 million). Amazon's total marketing spend in the US was [✄] that spent by Deliveroo on marketing in the UK in one year alone (in 2019, Deliveroo spent £[✄] million ($79 million).[184]

4.141 The 2019 OP document shows some successes for the US business – it [✄]. A 2019 planning document for Amazon Restaurants expects [✄]. There is no indication in these documents, written during 2018, of plans to wind down or close the US business, or any indication that the closure of the UK business has impacted the US business, despite these documents being reviewed by senior management.

4.142 In late February 2019, [✄] (SVP, Physical Stores and F3, including Amazon Restaurants) states in an email to [✄] (VP Corporate Development) that he has [✄]. A communications plan for the closure of Amazon Restaurants US produced for Amazon senior management in 2019 discusses how, although Amazon Restaurants is to be closed, it is possible that Amazon would re-enter in the future. The document states [✄]. This document also mentions that technology used by Amazon Restaurants will be used elsewhere in Amazon, stating that '[✄]'.

4.143 Both extracts from the communication plan document indicate the potential for Amazon to re-enter this area in the future and to use the knowledge and technology gained from Amazon Restaurants in the future across different countries. Amazon submitted that this document was an internal communication plan intended to '[✄]' and any suggestion of re-entry by Amazon in this document is speculative. We note that Amazon is now using the [✄] developed for Amazon Restaurants in its US grocery business and has started piloting a restaurant delivery service in India following the transfer of the technology, showing that the comments in the document were more than platitudes. This also shows that Amazon plans to continue using and developing aspects of its restaurant delivery business that could in the future be used again.

4.144 Evidence shows the decision to close Amazon Restaurants was not [✄] and the senior staff involved agreed that it did not rule out future entry. An email from 25 March 2019 shows [✄] (VP, F3) stating her [✄].[185] The reasons given are that it is a [✄]. On 27 March 2019, [✄] replies to state he is '[✄]' but that he doesn't see closing the business as a 'one-way door decision' and

[184] Using a 2019 average exchange rate £/$ of 1.2772.
[185] This is an email chain between [✄] (SVP of Physical Stores and F3), [✄] (VP, F3), Jeff Bezos (CEO), [✄] (CEO of Worldwide Consumer) and [✄] (CFO).

believes Amazon could re-enter in the future [✂]. The final decision on closure is left for Jeff Bezos to make, with [✂] (SVP, Physical Stores and F3, including Amazon Restaurants) chasing a response from him on 2 April 2019. Amazon submitted this decision was made during a call attended by these individuals on [✂] 2019, and provided the calendar invite to support this position.

4.145 We consider the date of this call to be relevant, as there appears to be a delay between the point at which a decision on the future of Amazon Restaurants US was requested and the timing of the call when the decision was made. As noted above, that decision was made during a call on [✂] 2019, which took place [✂] after the meeting on [✂] 2019 where Jeff Bezos decided to invest in Deliveroo. Amazon has submitted that the decisions to invest in Deliveroo and to close Amazon Restaurants were taken separately. Given the lack of evidence provided by Amazon on the reason for its decision to close Amazon Restaurants (consistent with Amazon's broader submission, as noted in paragraph 4.73, that it does not [✂]), we note that the only evidence that is available shows the decision to close Amazon's restaurant delivery business was taken [✂] after deciding to invest in Deliveroo, and both decisions were taken by the same person, Jeff Bezos. The CMA has repeatedly provided Amazon with opportunities to clarify the rationale for these decisions, including through multiple requests for information and requesting an appropriate attendee at the main party hearing who could discuss these decisions, but Amazon has declined to do so. Given this position, and the evidence discussed later from paragraph 4.149 around Amazon's decision to invest in Deliveroo,[186] we find it likely that the two decisions were linked. We therefore consider that the decision to close Amazon Restaurants US may have been influenced by Amazon having an alternative route to enter restaurant delivery internationally.

Conclusion on Amazon Restaurants

4.146 Amazon's previously unsuccessful attempt in restaurant delivery does not detract from its continued global interest in food delivery (see paragraph 4.115 onwards) and its incentives to offer such a service, as indicated by Amazon India's entry in this space. These efforts show an intention by Amazon to be present in this space. Amazon's documents emphasise the importance and benefits to Amazon of offering restaurant delivery, including being in a large and growing market, [✂], an additional benefit to power Amazon's 'flywheel', and an area where useful logistical technology can be developed and later expanded to other products [✂]. Amazon did not manage to execute this

[186] In particular an Amazon internal email where Jeff Bezos is reported [✂].

vision in the UK, where it [✂]. It also struggled in the US and did not appear to be willing to [✂].

Amazon's interest in Deliveroo

4.147 Amazon first responded to Deliveroo's bankers indicating its interest in Deliveroo in [✂]. It initially considered [✂], after which it considered making an investment [✂]. It decided to make a minority investment (the Transaction) in [✂] 2019.

4.148 The Parties told the CMA that the decision to close Amazon Restaurants and the decision to invest in Deliveroo were taken separately. Amazon Restaurants closed in the UK in November 2018 (prior to interest in Deliveroo) and in the US in June 2019, with the decision on closure made in [✂] 2019.

4.149 As discussed in paragraph 4.145, the timing of the decisions to close Amazon Restaurants in the US and invest in Deliveroo overlap, and the ultimate decision maker was the same in both cases (Jeff Bezos).[187] There is additional evidence of a connection between the decisions in an Amazon email between the corporate development team in mid-February 2019, in which [✂] (VP, Corporate Development) reports on his catch up with [✂] (SVP, Business Development) and states '[✂]'.

4.150 The interest in Deliveroo appears to be [✂]. For example:

(a) In Jeff Bezos' email to [✂] (VP, Corporate Development) on 16 November 2018, he states that Deliveroo's banker '[✂]'. An email from [✂] (VP, Corporate Development) on 19 November 2018 informs a small group of staff (including [✂]) that corporate development were instructed to look at Deliveroo [✂], and another email thread from the same day from [✂] (VP, Corporate Development) circulated within the corporate development team states that Jeff Bezos '[✂]'.

(b) [✂], an SVP in Amazon, states that he is in agreement with [✂], another SVP, that [✂]. In this thread, [✂] (VP, Corporate Development) expresses [✂].

(c) [✂] (VP, Corporate Development) states that he [✂].

(d) In an internal email discussion between [✂] (VP, Corporate Development) and Jeff Bezos, [✂]suggests Amazon [✂].

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187 [✂].

4.151 Amazon’s rationale [✂].

4.152 Amazon’s briefing regarding [✂] of Deliveroo states ‘… an [✂] of Deliveroo could be interesting for Amazon for the following reasons… [✂]’. Amazon submitted that these are uninformed hypotheses made by [✂], although we note that factors such as flywheel benefits, low cost delivery and it being an attractive and growing market are similar to those considered by the F3 and Amazon India teams who work or worked in restaurant delivery businesses.

Amazon build vs buy analysis

4.153 As part of corporate development’s due diligence on whether to [✂] invest in Deliveroo, Amazon produced a ‘build vs buy’ analysis. This compared the NPV of building an equivalent footprint to Deliveroo’s UK/EU business in [✂] years (by [✂]) to the returns from that business over the same period. This showed that ‘build’ had a [✂] whilst ‘buy’ produced a [✂] (excluding the initial purchase price) for the years [✂]. The text summarising the analysis in the report produced by the corporate development team states:

> ‘[✂]’.

4.154 Amazon submitted that this analysis showed that ‘building a UK online restaurant food delivery service from scratch would be [✂]’ and that ‘Amazon believed that *de novo* entry into the UK and EU online restaurant food delivery would incur a [✂] over [✂]’ and ‘[✂]’.

4.155 It is clear from the wording in the report that this is not an accurate representation of what the analysis showed. The analysis looked at a set time period ([✂]) and so does not include all relevant costs (or benefits) in order to conclude the NPV of re-entry by building a restaurant platform would be ‘[✂]’. Instead, the NPV from building an equivalent to Deliveroo in the UK/EU in [✂] in that period. The differential between these two was then [✂] which is not included in the [✂] year ‘buy’ model. Once an allowance is made for the [✂], the NPV for ‘build’ is substantially higher than the NPV associated with ‘buy’ (with a differential of £[✂]).

4.156 Furthermore, as the assumption of the ‘build’ model is that Amazon would have built an equivalent business to Deliveroo at the end of the [✂] timeframe, it follows the cashflows in both the ‘build’ and the ‘buy’ model after [✂] should be similar. As the buy model’s total NPV is £[✂] (from which the purchase price is derived) £[✂] of its NPV must be realised after [✂] (as the NPV for [✂] was estimated at £[✂]). Assuming a similar amount arises in the ‘build’ model after [✂] would mean it would have a [✂] (of £[✂]).[188] The briefing paper [✂] does not reach an explicit conclusion about the implications of the NPV analysis for the relative attractiveness of ‘build’ versus ‘buy’. However, when analysed and presented on a consistent basis, we consider that the analysis implies that the NPV of the ‘build’ option is materially higher than the NPV for the ‘buy’ option. Further, the analysis does not in our view support Amazon’s position that the NPV of re-entry by building an online restaurant platform would be ‘[✂]’.

4.157 We would finally note that the ‘build’ model is relatively simplistic and the report notes a number of non-financial risks that could impact on the analysis. As such, we do not consider it to have strong evidential value in showing that Amazon has an intention to re-enter the supply of online restaurant platforms in the UK organically.

Amazon’s decision to invest in Deliveroo [✂]

4.158 At a meeting held on 12 March 2019, Amazon decided [✂] pursue a minority investment. Amazon told the CMA it decided [✂] Deliveroo because [✂].[189] Amazon has, however, not been able to provide any documentation of this meeting, or any contemporaneous documents that clearly set out the reasons for Amazon’s [✂] in approach.

4.159 The rationale for the minority investment starts as in paragraph 4.151 above (stating that Amazon needs to offer a [✂]) but then continues instead to state ‘[✂]’. Amazon told the CMA that the rationale text had been drafted [✂], and had been copied into a subsequent email relating to the investment decision, without amendment, and was not relevant to the investment decision. This does not appear to be credible though, as parts of the text had been updated to take account of the change [✂] to invest (as demonstrated by the specific reference to ‘the investment’ and the related rights in the final sentence). Additionally, the document in question was a short email sent to Jeff Bezos (CEO) and Brian Olsavsky (CFO) seeking approval for a significant investment, and may therefore reasonably be assumed to have been carefully drafted and reviewed.

4.160 Amazon submits that the clearest evidence that it would not re-enter restaurant delivery in the UK is its own revealed preference in that it decided

[188] With this allowance, the analysis showed a differential of £1.176 billion between the two models compared to a purchase price of £2 billion (UK/EU Deliveroo) which means that the ‘build’ model is in effect £824 million better from a purely financial perspective than the ‘buy’ model.
[189] We note Amazon’s valuation of Deliveroo forecast a cash burn of approximately $[✂] from 2019 to 2022. If Amazon [✂] Deliveroo, Amazon would have been the sole source of this cash, whether or not Deliveroo is ultimately successful.

[✄]. We consider that by investing significantly in Deliveroo that Amazon has clearly revealed an interest in restaurant delivery in the UK and that it is still interested in participating in this market despite having exited in the past. Amazon told us that it saw the investment as providing ‘a little bit of optionality’ around investing further or acquiring Deliveroo in the future, although stated it [✄], and that any such further investment would be subject to CMA review. In addition, we consider that there were multiple options for Amazon to re-enter the UK (as discussed further from paragraph 4.163) and so acquiring Deliveroo was not the only way it could re-enter.

Conclusion on interest in Deliveroo

4.161 Amazon’s CEO, Jeff Bezos, has shown clear interest in Deliveroo, and evidence shows [✄]. Even though Amazon [✄], evidence indicates that it sees restaurant delivery as ‘strategically aligned’, being a large and growing market and was seen as [✄] while providing flywheel benefits.

Conclusion on Amazon’s incentives and intention

4.162 On the basis of the evidence set out above, we believe that Amazon has a strong and continued interest in online restaurant platforms and an incentive to offer this to Prime customers in order to differentiate its offering, realise flywheel benefits, and develop useful logistical capabilities that would be deployed elsewhere in its business. Evidence shows that the UK is a large and growing market for online restaurant platforms, and the UK is an important and attractive market to Amazon as a result of high levels of Prime membership. Since the closure of Amazon Restaurants, we have observed in Amazon’s internal documents continued global interest in online restaurant food delivery. [✄].

CMA Assessment: Amazon’s ability to re-enter

4.163 As well as considering whether Amazon has the incentive to re-enter the supply of restaurant platforms in the UK, we also need to consider whether it had the ability to do so absent the Transaction, ie it has one or more routes to enter the market.

4.164 There are a number of possible routes that Amazon could take to re-enter the supply of online restaurant platforms. We believe there are three main ones; (i) building its own offering, (ii) acquiring or investing in an existing restaurant platform or adjacent business; and (iii) partnering with an existing restaurant platform or adjacent business. These three routes are discussed below. For the purposes of establishing the counterfactual in this case, consistent with the CMA's established framework for analysis[190] (including as set out at paragraph 4.3 the need to avoid spurious claims to accuracy of prediction or foresight), we need only consider the viability of these options with a view to determining whether the most likely scenario is that Amazon would enter via one or other of these routes. We do not need to specify which route Amazon would take.

4.165 The Parties submitted there are high barriers to entry in the supply of online restaurant platforms in the UK, and that Amazon is not particularly "well-placed" to overcome these. Barriers to entry are discussed in more detail from paragraph 4.192 but mainly consist of: (i) commercial barriers to recruit restaurants, couriers and consumers, and (ii) technological barriers in terms of developing a platform that interfaces with all three sides of the market and that powers a point-to-point delivery service.[191] The Parties submitted the previous failure of Amazon Restaurants shows it does not have the ability to re-enter, and that the barriers to entry are higher than when Amazon previously tried to enter (see discussion of barriers from paragraph 4.192).

Build

4.166 One possible route of entry for Amazon to supply an online restaurant platform in the UK would be to build its own business organically.

4.167 Amazon previously attempted to operate in the UK market with Amazon Restaurants, as discussed in detail above from paragraph 4.120. In particular:

(a) Amazon only incurred total costs of $[✂] million in Amazon Restaurants in the UK over the total time it operated it (plus costs incurred in the US, such as technology development), and the service was not [✂].

(b) Amazon used technology and a logistics [✂], although later did invest in [✂]. Evidence shows [✂].

(c) Its offering received poor customer feedback [✂].

4.168 The evidence indicates a poorly executed attempt by Amazon at offering an online restaurant platform in the UK during 2016-2018, and its overall Amazon Restaurants business is described in one internal email as a '[✂]' and in another as [✂]. Amazon's [✂] to improve its online restaurant delivery business and decision to instead close it down in the US, and the nearly contemporaneous decision to invest nearly $[✂] million in Deliveroo could

[190] MAGs, paragraph 4.3.6. The application of this can be seen in the CMA;s recent investigation into PayPal's acquisition of iZettle, *PayPal/iZettle*, paragraph 7.35.
[191] Parties' Initial Submission, 24 December 2019, paragraphs 4.10–4.14 and Annex 1.

indicate Amazon would prefer to buy rather than build a restaurant delivery offering. This is supported by an Amazon internal email from February 2019 where it is remarked that [✂]. On the other hand, Amazon may have decided that, given the various ways its restaurant proposition was failing to perform and the risk of damaging relationships with Prime customers from offering a poor quality service, that it was easier to withdraw Amazon Restaurants from the market, invest in addressing the shortcomings that had been identified, and to relaunch.

4.169 Having requested evidence on this point, we did not observe any material indicating current plans or discussions in relation to Amazon re-launching Amazon Restaurants in the UK (or US) through building such a business organically. We note that the time between closing Amazon Restaurants in the UK (August 2018) and exploring [✂] Deliveroo ([✂]) is very short.[192] Indeed one email discussing the F3 team's view on [✂] Deliveroo states that '[✂]'.

4.170 As discussed above at paragraph 4.153, we assessed Amazon's 'build vs buy' analysis for the proposed acquisition of Deliveroo and found that although this shows a [✂] cashflow for 'build' for [✂], the paper suggests a [✂] overall NPV of building an online restaurant platform, which is [✂] the NPV of buying Deliveroo once the purchase price is taken into account. The model is high-level and notes non-financial risks associated with building which are not considered further, but we consider the analysis does not support Amazon's submission that 'build' would be unattractive (although nor do we consider it persuasive evidence showing that Amazon would build an online restaurant platform).

4.171 We note that Amazon has decided to build its own online restaurant delivery service in India. The [✂] indicates that Amazon Restaurants allowed Amazon to learn and develop an offering that is useful in operating this type of business in the future, and that aspects of the technology are transferrable between different countries. It appears to have taken Amazon [✂] to launch a trial of its service in India [✂]. Third parties have told us that the technology powering their platform and delivery network is generally transferable between countries and that you do not need country-specific data to launch. Amazon would still need to overcome the other main barrier mentioned, of attracting customers, restaurants and couriers to its offering in the UK, even if [✂], although as discussed in paragraph 4.192 we consider Amazon has a significant advantage at attracting customers as a result of Prime.

192 In addition, as discussed, Amazon decided to invest in Deliveroo [✂].

Conclusion on build

4.172 We have not observed evidence of Amazon assessing how it might build an online restaurant platform in the UK, although we note that it is currently planning to do this in India [✂]. Amazon also told us that if such a service was successful, it is [✂]. We consider this shows Amazon's ability and intention to transfer learning across countries. Given the global nature of the sector, as well as Amazon's international strategy in offering this service as part of Prime, we consider this evidence a relevant factor in our assessment of Amazon's global strategy in online restaurant platforms, including in the UK. Amazon Restaurants in the UK appeared to fail due to [✂], and the difficulty of overcoming the technological barrier of point-to-point logistics. As noted in paragraph 4.153 above, we consider that the 'build vs buy' analysis conducted by Amazon's corporate development team shows a [✂] NPV for 'build' than it does for buying Deliveroo including the purchase price. This analysis is high-level and so we do not consider this evidence persuasive in showing that Amazon would build its own service. We consider, however, that the evidence overall shows that building an online restaurant platform is a plausible option for Amazon in order to enter the UK market.

Acquire or invest

4.173 A second option available to Amazon as a route to entry into the supply of online restaurant platforms in the UK absent its investment in Deliveroo is through acquiring or investing in an alternative business. Amazon has significant financial resources available to it if it were to choose to invest or acquire in this area.

4.174 As discussed above at paragraph 4.150, interest in [✂] Deliveroo came from Jeff Bezos, the CEO and founder of Amazon, and the decision to invest was also made by him. Amazon internal emails from November 2018 suggest an overall continued interest in the restaurant delivery sector [✂], as [✂] comments that '[✂]'. There are other references where it appears Jeff Bezos is particularly interested in [✂].[193]

4.175 The Parties submitted Amazon [✂], and that Amazon [✂], and there is accordingly no evidence of this.[194]

4.176 As we would expect, given Amazon's internal [✂] (as discussed at paragraph 4.73) where it does not produce significant documentation concerning its

[193] For example, an Amazon internal email where the [✂] an article discussing high levels of investment in cloud kitchens [✂].
[194] Parties' Initial Submission, 24 December 2019.

discussion and decisions, most of the evidence we have seen from Amazon relating to potential acquisitions or investments is high-level consideration and initial scoping discussions by Amazon senior executives rather than detailed consideration of the relevant business, and most relates to businesses that operate outside the UK. We note that Amazon does not appear to have [✂] discussing [✂] investment in Deliveroo, rather there was [✂]. We would not therefore expect to find extensive documentation of potential targets of Amazon.

4.177 We observed some evidence of Amazon's interest [✂]. This includes an email where a member of the corporate development team states that '[✂]' and another where a different member of the corporate development team states he believes [✂]. At this stage, we cannot rule out the possibility that these transactions would raise competition concerns and as such we have not considered either of these as potential routes for Amazon's re-entry in the counterfactual, but do consider the documents show a preparedness by Amazon to acquire in order to enter the UK market.

4.178 We observed evidence of Amazon considering how to develop its restaurant delivery business in the US. This includes:

(a) One email between [✂] (CEO) and [✂] (VP, Corporate Development) from November 2018, where the corporate development team suggests: '[✂]' to which Jeff Bezos replies: '[✂]'. Amazon submitted that this email was just comparing other players to Deliveroo as informal benchmarking but we disagree with this interpretation given the email clearly states that these companies are considered in the context of what acquisition targets exist for Amazon.

(b) In one email Amazon asks Deliveroo if Amazon would need to [✂] US in order to compete there, with Deliveroo responding '[✂]'. This and the above email indicate that Jeff Bezos believes Amazon should [✂],[195] and if it did invest [✂].

(c) Other Amazon internal emails show senior executive interest in meeting with [✂] to discuss a Prime Now partnership (discussed at paragraph 4.185). [✂] is active in North America, and recently expanded to [✂].

(d) [✂]

[195] This idea is also supported in other internal documents, such as [✂], where a member of the corporate development team states '[✂]'.

4.179 We also observed evidence of Amazon considering restaurant delivery internationally outside of the UK and US (although none of these were undertaken). This includes:

(a) An email chain from Amazon India in June 2019 shows its interest in [✂]. An Amazon India document from January 2019 states '[✂]', which appears to be why Amazon is unable to invest in these businesses.

(b) Another internal email chain between Amazon India and corporate development from January 2019 discusses a potential investment in [✂].[196]

(c) Detailed consideration of [✂].

(d) Other emails consider investment in businesses active in restaurant delivery or adjacent to this, including [✂].[197] A service such as this could help Amazon offer a restaurant delivery service by solving technological barriers, with Amazon noting '[✂]'.

4.180 When in discussions with Deliveroo, Amazon told Deliveroo, '[✂]'. Amazon submitted that this comment was made in the context of commercial negotiations with the aim of generating commercial leverage and cannot be treated as providing a reliable picture of Amazon's commercial strategy. We consider there were other ways Amazon could have generated leverage, that Amazon would not have said this if it was not credible, and that the wording used clearly indicates both that Amazon considered restaurant delivery important and that it believes it has options on how it could participate in restaurant delivery.

4.181 We consider Amazon acquiring an overseas online restaurant platform would be unlikely to lead to Amazon entering the UK market in the very near term as it would take time to understand and integrate the business. As described above, we believe that the evidence shows Amazon has a clear incentive to offer this service in the UK and that if it looked to enter through acquisition, it would expand that service to the UK in the short to medium-term (ie within the next five years, see discussion of timing at paragraph 4.194).

4.182 It is unclear what impact Coronavirus (COVID-19) might have on Amazon's ability to acquire or invest in a suitable business to facilitate entry into the supply of online restaurant platforms. As stated in paragraph 4.118, the

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[196] [✂].

[197] The focus for any partnership following investment by Amazon in these businesses was in ecommerce, logistics and payments. These companies are considered in Amazon internal email [✂] and Amazon internal email [✂].

pandemic has, and is expected to continue have, a positive impact on Amazon's business. It is also possible that online restaurant platform businesses, many of whom are loss-making, may have increased interest in obtaining investment from a large investor such as Amazon. These factors suggest Coronavirus (COVID-19) may make it less difficult for Amazon to re-enter via an acquisition or investment. Overall, we consider there is insufficient certainty around the impact of Coronavirus (COVID-19) to understand whether this would enhance or delay acquisitions or investments in these businesses.

Partner

4.183 A further option would be for Amazon to re-enter the supply of online restaurant platforms through partnering with a business that either offers this or would enable Amazon to offer this by addressing one or more of the barriers to entry that Amazon faces. One of the key gaps submitted by Amazon is its lack of a point-to-point logistics system. Potential partners to address this could include last-mile delivery specialists, such as logistics companies who operate point-to-point networks, as well as other types of businesses who operate last-mile networks, such as ride-hailing businesses. Uber Eats told us that an advantage it had when establishing was the logistics technology it had developed for its main ride-hailing business and it was able to build its platform from this. Partnering could help speed up the time taken to enter the supply of online restaurant platforms in the UK as the parties could combine resources and expertise, particularly if the partnering business had experience in the market overseas. DoorDash, for example, told us that it aims to enter new markets as quickly as possible, with it generally taking between several months to one year.

4.184 Partnering appears to be an approach that Amazon takes in some business areas. For example, it considered partnering in order to facilitate its entry [✄]. It also partners with grocery providers, for example Morrisons, to provide groceries for its offering, as well as using their stores as fulfilment centres to increase efficiency of delivery. One internal Amazon email we reviewed suggests a partnership with a food delivery business [✄].

4.185 As mentioned above, food delivery company [✄]. Amazon submitted it does not control the opportunities that are presented to it, and it is clear from Amazon internal document [✄] that this has not been taken forward. We observe that there was some interest from senior executives, including [✄] (CEO, Worldwide Consumer) and [✄] (VP, Corporate Development) in meeting with them to see if there was anything to learn, even if this did not lead to further developments.[198] [✄]. We note the timing of this exchange is shortly after the CMA's phase 1 decision on Amazon's investment in Deliveroo, where the CMA explicitly set out the possibility that Amazon could partner with a non-UK player in order to re-enter the supply of online restaurant platforms in the UK and as such we cannot exclude that negotiations could have been affected by CMA proceedings.

Availability of possible partners

4.186 We sought evidence from a wide range of third parties in order to understand their current position and capabilities, future plans to enter the UK, openness to partnerships, and appetite to work with Amazon. This included international restaurant platforms[199] as well as UK-based point-to-point logistics specialists such as Stuart and Gophr.

4.187 We consider that this is not an exhaustive list, and there are likely to be other companies operating globally that could be potential partners or targets for Amazon.[200] Amazon submitted that it gets many unsolicited approaches from companies including those active in restaurant delivery and related markets ([✄]). Given the dynamic nature of food delivery and market growth, it is likely that new businesses will emerge or develop in the near future, despite there being uncertainty around who these might be.

4.188 Evidence shows that, as might be expected, companies are interested in partnering with Amazon. One email from June 2019 mentioned that Amazon might have [✄]. [✄] told us that it would be interested in partnering with Amazon and believes they could have a mutually beneficial relationship where it gains access to Amazon Prime customers and Amazon gains from [✄]. Other third parties we spoke to, including [✄], expressed an interest in partnering with Amazon. Difficulties in obtaining finance during the Coronavirus (COVID-19) might increase interest in partnerships from affected businesses who would benefit from the support Amazon could provide.

Benefits of acquiring, investing or partnering for Amazon's ability to enter

4.189 The Parties submitted that barriers to entry in the UK market have increased since Amazon previously attempted to enter. We tend to agree with this statement, as evidence shows the existing players have developed and

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[198] Amazon's response to [✄] also shows that Jeff Bezos is '[✄]'.
[199] We contacted Takeaway.com (prior to its merger with Just Eat), Glovo, Delivery Hero, DoorDash, Postmates, Grubhub, Grab, Meituan, DiDi, Rappi, Swiggy, Zomato, Bolt, and Wolt.
[200] Third parties have also suggested Rico Logistics and Delivery Mates as point-to-point logistics operators who could potentially power an online restaurant platform in the UK.

expanded their UK propositions in the past few years to improve their service for consumers, restaurants and couriers. For example, [✂]. Another example is the expansion of delivery-only kitchens, which help restaurants deliver to consumers that were previously out of reach.[201]

4.190 The main barriers identified by the Parties were operational and technological barriers in operating a three-sided platform, and commercial barriers in attracting restaurants, couriers and consumers to the platform. We consider that the benefit to Amazon of acquiring, investing in, or partnering with a third party is that this approach would allow it to more easily overcome these barriers to entry in the supply of online restaurant platforms in the UK.

4.191 [✂]. Just Eat acquired Skip the Dishes in December 2016 and told us that it believes this is the most successful acquisition it has made and has enabled [✂]. Just Eat also partners with Stuart for delivery in the UK and told us that [✂]. Just Eat believe it was key for them to be able to offer logistics in order to win McDonalds as a customer.

4.192 As can be seen by the Just Eat example, partnering can allow a business to develop capabilities and improve its offering in restaurant platform offering. Such an arrangement (or acquiring or investing) could help Amazon overcome the barriers to entry in supplying a restaurant platform and fix some of the issues it encountered with Amazon Restaurants. This could include:

(a) ***Improving Amazon's logistics technology used in restaurant delivery***: It is clear that other businesses have the necessary technology to power an online restaurant platform, and they are able to use this to offer delivery in a cost-effective way. For example, [✂] told us that it delivers restaurant food in under 30-minutes and achieves 99% of its SLAs [✂]. A Deliveroo internal email indicates [✂]. An Amazon internal email states '[✂]'. Third parties told us that technology is transferable between business areas and countries. For example, Uber Eats told us that it was able to build its logistics technology on the back of the ride-hailing business of Uber, which was an advantage when starting restaurant delivery. [✂] told us the technology it uses is the same regardless of what it is delivering (be it restaurant food, groceries, or retail goods). Third parties also told us that technology can be deployed across different countries with minor country specific developments This could facilitate a faster entry into the UK online restaurant platform market.

[201] Deliveroo operates delivery-only kitchens (or 'dark kitchens') under the Deliveroo Editions concept.

(b) ***Attracting restaurants to Amazon's platform***: Overseas restaurant platforms may already have relationships with global or international restaurant chains and would be interested in expanding that relationship to include the UK. [✄]. The relationship with McDonalds allowed Uber Eats to build up scale quickly and provide jobs for its couriers. Establishing [✄] restaurant relationships was seen as sufficient by Deliveroo in order to enable Amazon to offer restaurant delivery in the US as '[✄]'. Having [✄] restaurant relationships could quickly allow Amazon to scale its offering, which would attract and retain couriers (or to offer more jobs to its existing fleet of Amazon Flex drivers).

(c) ***Attracting and retaining couriers to Amazon's platform***: As described above, businesses active in restaurant delivery or similar areas are likely to be able to transfer their technology to the UK market, and can be used to attract and compete for couriers through the ability to offer, for example, 'surge pricing' at times of high demand. Uber Eats told us that it benefited from the operational expertise from its ride-hailing business when entering the UK restaurant delivery market.

4.193 An investment or partnership would be unlikely to address the barrier of attracting consumers to Amazon's restaurant platform. However, Amazon has access to over [✄] million Prime subscription customers in the UK, a number which has nearly [✄] compared to when it launched Amazon Restaurants. As a result of having to pay a subscription fee and because of the wide range of benefits available to subscribers (including Amazon Video, Amazon Music and Twitch), these customers are likely to regularly engage with Amazon products. This gives Amazon multiple avenues for engaging with customers and marketing a new service to them and saving significant amounts on marketing and advertising compared to other players. Prime customers would be a unique audience of customers, which [✄] expressed interest in being able to reach. [✄] told us that large restaurant chains want to reach increased volumes of customers [✄]. These customers are unlikely to be affected by the previous failure of Amazon Restaurants given they may not have been a member then, and, even if they were, may not have been aware of it as a result of the [✄] marketing and awareness of the service.[202]

4.194 In terms of considering the timeframe for Amazon's re-entry, we are conscious of the need to avoid spurious claims of accuracy. The CMA's guidance does not specify a timeframe that potential entry must occur in for

[202] In addition to Prime, Amazon's e-commerce marketplace had almost [✄] million unique visitors to the UK store in 2018, with [✄] million of these ordering at least one item in that year.

the purpose of the counterfactual, but that the counterfactual should only include foreseeable developments.[203] Evidence suggests that five years would be a reasonable timeframe to expect entry in this specific case. Some evidence shows entry could be possible within a shorter period of time. First, Amazon was previously able to enter the UK market within one year of trialling its offering in the US.[204] Second, third parties indicated that they were able, or expected to be able (if they decided to do so), to enter the UK market within a timeframe of a couple of years. Third, given Amazon's approach of 'test and learn' (see paragraph 4.75), we might expect Amazon to experiment and launch an offering relatively quickly. This may particularly be the case in a dynamic market that is continuing to evolve, and where barriers to entry are expected to have been increasing (see paragraph 4.190). However, the timing of any entry by Amazon would depend on the route chosen and the international opportunities that arise, and we have not observed clear evidence to support an assertion that entry would occur in the very near term. As such we consider a timeframe of within the next five years to be appropriate.

Conclusion on acquiring, investing and partnering

4.195 There appear to be multiple possible routes for entry for Amazon and there is evidence of interest in alternative providers as targets or partners, which could facilitate Amazon's entry into the UK market in the short to medium-term (ie within five years). There exist a number of potential partners and/or targets, including non-UK restaurant platforms as well as UK-based logistics specialists, that could help Amazon overcome the barriers to entry to supplying a restaurant platform in the UK, including those that hampered its previous attempt in this market. Amazon could use the learning from Amazon Restaurant to ensure it did not make the same strategic mistakes, or could invest in or partner to gain additional expertise in this market.

Conclusion on re-entry by Amazon counterfactual

4.196 On the basis of the evidence set out above, we believe that Amazon has a strong and continued interest in online restaurant platforms and an incentive to offer this to Prime customers in order to differentiate its offering, realise flywheel benefits and develop useful logistical capabilities that would be deployed elsewhere in its business. The UK is an important and attractive market to Amazon as a result of high levels of Prime membership, and evidence shows that the UK is a large and growing market for online

[203] MAGs, paragraphs 4.3.6.
[204] Evidence relating to Amazon's attempt in India also indicates it [✂].

restaurant platforms. It has demonstrated intention to operate in this market with its previous entry, Amazon Restaurants and with the decision to invest in Deliveroo prior to the closure of Amazon Restaurants in the US, which is consistent with Amazon's continued intention to be present in this space. Whilst we have not identified a specific piece of documentary evidence that unequivocally states Amazon's clear intention to re-enter the UK market within a specified timeframe (and we note in that regard Amazon's general approach to documentation of its business strategy), we do not consider this determinative. Indeed, the evidence of incentive and ability, together with the evidence of Amazon's long-standing, global interest in online restaurant food delivery, is sufficient to conclude that the most likely counterfactual is Amazon's re-entry.

4.197 We consider the evidence shows there are multiple possible routes for entry for Amazon absent the Transaction, which include building its own service, or investing in acquiring, or partnering with an existing online restaurant platform or an adjacent business. Although much of the evidence relates to potential target or partner businesses active outside the UK, we consider that the UK is an attractive market for restaurant delivery (as supported by third party evidence) and is an important market for Amazon. Whilst entry into the UK market by Amazon may not occur in the immediate term, particularly because of Coronavirus (COVID-19) and the uncertainties this is currently causing, we consider it likely that, absent the investment in Deliveroo, Amazon would look to re-enter in the short to medium-term (ie within five years).

4.198 We therefore conclude that the most likely counterfactual is one in which Amazon re-enters the supply of online restaurant platforms in the UK.

5. Supply of online restaurants platforms in the UK

5.1 As described in our April Provisional Findings, Deliveroo is active as an online restaurant platform in the UK as well as various other countries, including Australia, France, Italy and Spain.[205] Amazon previously operated an online restaurant platform in the UK and the US but it is not currently active in this market outside of India, where it has recently launched a trial service.[206]

5.2 As discussed in the counterfactual chapter, we consider the most likely counterfactual absent the Transaction is that Amazon would have re-entered the supply of online restaurant platforms in the UK, which would have led to the Parties competing with each other in this market in the future.

[205] April Provisional Findings, 16 April 2020, paragraph 2.16.
[206] BBC News, 21 May 2020, *Amazon trials online food delivery in India*.

5.3 In this section, we consider whether Amazon's investment in Deliveroo could raise competition concerns in the supply of online restaurant platforms in the UK as a result of a loss of potential competition.

5.4 We have assessed whether the Transaction would result in an SLC in the supply of online restaurant platforms in the UK as a result of either:

(a) Amazon using its 16% investment in Deliveroo as its route of entry into the market, as opposed to entering via another route and competing with Deliveroo; and

(b) Amazon still re-entering the market in addition to the Transaction, but the Parties compete less strongly with each other than they would otherwise compete in the counterfactual. This would be through either: (i) Amazon competing less strongly with Deliveroo by worsening its own service; and/or (ii) Amazon influencing Deliveroo to compete less strongly with it by worsening Deliveroo's service.

Framework

5.5 The CMA's Merger Assessment Guidelines provide a framework for the assessment of unilateral effects arising from the loss of potential competition as a result of a merger. The guidance sets out two questions to be addressed when considering actual potential competition:[207]

(a) would the potential entrant be likely to enter in the absence of the merger; and

(b) would such entry lead to greater competition?

5.6 The guidance also states that the CMA will consider whether there are other potential entrants before reaching a conclusion on the SLC test.[208]

5.7 In line with the CMA's guidance on assessing the loss of potential competition, we considered (a) whether Amazon is likely to enter, and (b) would this entry lead to greater competition.

Parties' submissions

5.8 The Parties submitted that Amazon is not a likely re-entrant in the supply of online restaurant platforms in the UK. They submitted [✂]. They submitted

[207] MAGs, paragraph 5.4.15.
[208] MAGs, paragraph 5.4.15.

[✂], and that there are high barriers to entry, which have only increased since Amazon's previous attempt in the market.

5.9 The Parties submitted that a 16% investment[209] in Deliveroo would not materially impact Amazon's incentives on whether (or how) to re-enter restaurant delivery in the UK. Amazon submitted that its current assessment is that [✂] and that, even if this changed, any 'cannibalisation' would be highly unlikely to change any decision to enter (or not). Amazon provided economic modelling which it submitted illustrates that the influence of a 16% investment in Deliveroo on Amazon's decision-making is minimal, and any incentive or price effects are likely to be less than a tenth of those of a full merger.

5.10 The Parties submitted that having a 16% investment in Deliveroo would not cause Amazon to compete materially less aggressively if it did re-enter. This is because the 16% investment would have only a small impact on Amazon's pricing incentives, as only 16% of any diversion to Deliveroo would be internalised by Amazon.

5.11 Finally, the Parties suggested that we need to show it is more likely than not that each of a series of events and steps would need to occur in order for the Transaction to result in an SLC, including that it would have acquired, invested or collaborated with one or more players, that it would enter the UK, that it would be successful, that this strategy is significantly impacted by the investment in Deliveroo, and that no other player would enter. We consider that this does not accurately reflect the applicable legal test, which requires the balance of probabilities test to be applied to the overall question of whether it is more likely than not that the Transaction leads to an SLC (not to each specific event or step of the analysis), and that the evidence discussed should be considered in the round.[210]

Would Amazon re-enter?

5.12 In order to assess whether Amazon would re-enter the supply of online restaurant platforms in the UK, we have considered evidence around its intention, incentives and ability to re-enter. This has been discussed and described in detail as part of our assessment of the appropriate counterfactual for our investigation (see paragraphs 4.82 to 4.198). We provisionally find:

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[209] As noted in paragraph 3.19 of our April Provisional Findings (16 April 2020), the Transaction envisioned Amazon acquiring [✂]% of Deliveroo's issued share capital and voting rights. [✂].

[210] *British Sky Broadcasting Group plc v Competition Commission (CC)* (Cases 1095/4/8/08 and 1096/4/8/08) [2008] CAT 25, paragraph 80.

(a) Amazon has a strong and continued interest in online restaurant platforms and an incentive to offer this to Prime customers in order to differentiate its offering, realise flywheel benefits, and develop useful logistical capabilities that it could deploy elsewhere in its business;

(b) The UK is an important market for Amazon with widespread Prime membership, and is also a large and growing market for online restaurant platforms;

(c) Despite closing Amazon Restaurants, evidence shows interest in investing [✄] in this area (including the potential [✄] of Deliveroo). Moreover, Amazon leadership approved the Transaction [✄] it decided to close Amazon Restaurants US, and it has recently launched a trial restaurant delivery service in India, showing a continued intention to be present in this sector; and

(d) There are multiple routes of entry providing the ability for Amazon to re-enter and overcome the barriers to entry. These routes include building organically, or acquiring, investing, or partnering with an online restaurant platform business, or one that operates in an adjacent market such as in last-mile logistics.

5.13 Based on this, we therefore believe that Amazon is a potential entrant who is likely to enter the supply of online restaurant platforms in the UK in the absence of the Transaction.

5.14 For the purposes of our competitive assessment, we must compare Amazon's re-entry with the situation arising as a result of the Transaction and consider what impact the Transaction has on the potential future competition between Amazon and Deliveroo. This assessment must take into account the fact that the Transaction is the acquisition of a 16% shareholding as opposed to, for example, the acquisition of a greater shareholding, such as one in which the acquirer gains full control over the target.

Theories of harm

5.15 Evidently, if Amazon had acquired 100% of Deliveroo, the acquisition would result in the full alignment of incentives between Amazon and Deliveroo.[211] On this basis, we would not expect there to be any future competition between them – ie we may not expect Amazon still to enter in the event of a

[211] For the avoidance of doubt, acquisition of a smaller stake might also give Amazon the ability to control Deliveroo.

full acquisition of Deliveroo, or if we thought Amazon would still enter, we would expect them not compete with Deliveroo.

5.16 It is possible that a 16% investment could have the same effect as a full acquisition if the shareholding changes Amazon's incentives such that it would no longer enter independently. It is also possible that the investment in Deliveroo (because the 16% would not change Amazon's incentives to enter sufficiently) could lead to a situation where Amazon still were incentivised to enter independently, leading to Amazon having two competing interests in the same market.

5.17 Accordingly, in considering whether Amazon would be likely to enter in the absence of the Transaction, we have considered the impact of the Transaction on both the binary decision of whether to enter (or not) and the nature of entry (if a decision to enter is taken). We consider that there are the two ways in which harm could arise as a result of the Transaction:[212]

(a) unilateral effects in relation to Amazon's decision on entry (meaning that the 16% shareholding is Amazon's route to entering, and therefore it would not enter via another route); and

(b) post-entry unilateral effects, where Amazon still re-enters in addition to the Transaction, but it worsens one of these offers. This would be either: (i) Amazon competing less strongly, to internalise 16% of Deliveroo's profits; and/ or (ii) Amazon influencing Deliveroo to compete less strongly with it.

5.18 We consider that the change in incentives brought about by a 16% investment is a case-by-case assessment based on the facts and circumstances of a given transaction and the markets at issue. The outcome of such an assessment is liable to depend on the nature of the markets in which the parties to the transaction are active (including the constraints present within that market and how the market might develop in future), any additional rights acquired as part of the transaction, as well as the short- and long-term incentives and intentions of the acquiring firm. We have carried out a significant amount of evidence-gathering to inform our assessment in this case. In particular, we have paid close attention to Amazon's internal documents to understand the rationale for the Transaction, as well as its likely longer run expectations and ambitions in the supply of online restaurant platforms in the UK and internationally.

[212] As also identified by the Parties in the CRA's analysis of implications of Amazon's 16% holding in Deliveroo submission.

Impact of the Transaction on whether Amazon would re-enter

5.19 We have first assessed whether the Transaction could result in competition concerns as a result of Amazon using its investment in Deliveroo as its route to entry into the UK market, as opposed to entering by another route. This could lead to a loss of potential competition between Deliveroo and Amazon, where the latter chooses not to enter the market as a result of the Transaction.

Parties' submission

5.20 The Parties submitted that a 16% minority investment would not affect Amazon's incentives to enter. In particular, they submitted:

(a) a 16% investment would have a much smaller effect on Amazon's re-entry incentives than a 'full merger'. In particular, while Amazon's evaluation of any future entry may be affected by the prospect of this impacting its investment in Deliveroo, that effect would be substantially diluted in the context of a 16% investment; and

(b) the effect of a 16% investment is much less likely to stop Amazon from re-entering a market where it has a strong case for entering (as opposed to a market where it only has a marginal business case). This is because a strong entry case would be associated with material profits, such that its 16% investment would be unlikely to change the re-entry decision.

5.21 The Parties submitted that whether or not Amazon would enter is not a binary question, but rather a question of intensity, with no entry at all as just one possible outcome.

5.22 The Parties also submitted that it would be 'illogical to simultaneously contend both that Amazon would be a strong entrant and that the 16% investment would make a difference to its decision to re-enter' ie either Amazon would be a strong entrant because it had a strong incentive to enter, and therefore the 16% shareholding in Deliveroo would have no bearing on this, or it had a weak incentive to enter and therefore the 16% shareholding in Deliveroo would affect this, but Amazon's re-entry would have had little effect on competition.

Our assessment

5.23 We assessed whether the Transaction could lead to an SLC as a result of Amazon choosing not to re-enter the supply of online restaurant platforms in the UK as a result of the Transaction.

5.24 In assessing this, we considered the Parties' submissions regarding the changes in entry incentives in the context of a minority shareholding in comparison with a full merger, including a model the Parties submitted which sought to quantify this. We then assessed whether, if Amazon viewed the Transaction as a strategic investment (ie its initial re-entry strategy), its incentives to enter would change as a result, even in the context of a minority shareholding. As part of this assessment we considered evidence from the Parties' internal documents, views of other shareholders, and Amazon's behaviour in other markets.

The Parties' model of the effects of a 16% investment on the incentives to enter

5.25 As stated above, the Parties submitted that a 16% investment in Deliveroo would have a limited effect on its incentive to re-enter the market. As part of the submission, the Parties shared a theoretical model that they submitted showed that the overall price effect of a 16% investment is less than a tenth of the size of a full merger[213] that reduces the number of players from four to three.

5.26 The model assumed that Just Eat, Deliveroo and Uber Eats were active in all local markets and that Amazon could choose to enter each market, and if it enters, to set its price. The model showed that, across a range of parameterisations,[214] in a market with three incumbent players, the acquisition of a 16% shareholding in a competitor would have a small impact on the equilibrium market price[215] (always below 2%), even if is assumed that a full merger would have a very significant impact on price (ie up to 20%),[216] and that therefore in a market with three players, a fourth competitor would not be deterred from entering because it holds a 16% shareholding in a rival unless the decision to enter was very marginal.[217]

5.27 We agree that the model is helpful in illustrating the mechanisms at work as a result of the Transaction and the difference in incentives resulting from a 16%

213 Full merger is taken to mean Amazon acquiring 100% shareholding/ownership of Deliveroo.

214 Ie a range of choices for the inputs into the model, such as the level of demand, the cost of serving a customer and the cost of entering a particular location.

215 Ie the market price once all firms had reacted to price changes brought about from unilateral effects of the merger.

216 The CMA does not have evidence to suggest a full merger would lead to price rises of this magnitude.

217 As Amazon's shareholding in Deliveroo increases it has two effects on Amazon. Firstly, entry into an area will divert sales from Deliveroo to itself (ie cannibalisation), thus reducing the return it receives from Deliveroo and resulting in Amazon entering fewer areas, and secondly, having entered, the unilateral effects increase (ie lost sales are recaptured by Deliveroo), meaning it competes less intensely and prices rise. Therefore, at a lower shareholding, Amazon would still enter unless the decision was marginal in the first place (ie the expected returns only just covered the costs of entry).

investment as opposed to a full merger. We note that some of the model's specific assumptions, and the calibration of the model, do not accurately reflect the market (such as the online restaurant platforms being treated as symmetric, the model not explaining current market outcomes, assuming that all existing players in the market are active in all local markets and unclear choice parameterisation).[218,219] As such, we place limited weight on the results produced by the model, but agree with the logic of the model and consider it is directionally helpful in illustrating that the effects of making a minority investment will be different to a full merger.

5.28 We also consider the model provides a static assessment of the financial implications of the investment in isolation. In particular, it does not account for the possibility that the investment is strategic in the sense that it gives Amazon a position from which it can continue to make further investment in Deliveroo or use its investment to generate a strategic partnership. We discuss our assessment of this in the following section. However, notwithstanding the limitations of the model, such that we place limited weight on the exact results, we do think it illustrates the limited cannibalisation effects of a 16% shareholding in comparison with a full merger. As such, if there was a strong financial incentive for Amazon to enter, it is unlikely that the 16% shareholding in Deliveroo would materially reduce Amazon's incentive to re-enter the supply of online restaurant platforms in the UK.

Amazon's status as a strategic investor

5.29 We considered whether Amazon may have broader strategic intentions in making the investment in Deliveroo, which could make it less likely that Amazon would look to re-enter the market through an alternative route because it saw the Transaction as part of its re-entry strategy. We have therefore considered the extent to which Amazon's investment should be viewed as a strategic entry route, either as a first step in ownership/control of Deliveroo, or as a hedge (which allows Amazon to assess the importance of

[218] The model assumes that firms are all similar along key dimensions, in technical terms symmetric. For instance, the players in the model are identical with respect to their costs, quality and coverage of areas they are active. These assumptions may bias the outcomes of the model and we are therefore concerned about the reliability of the exact numerical results of the model.
[219] The model is numerically simulated to illustrate different possible outcomes. We are concerned that, first, this numerical simulation is based on a model that does not approximate actual market shares. However, responses of firms may depend on their market share and therefore the model does not take this into account. Second, evidence suggests that not all players are active in all markets (we observe markets with one, two or three players). Third, while the Parties claim that they are using a wide and reasonable range in the numerical simulation for the inputs into the model, we are concerned that those numerical values are not the most realistic ones. For example, the Parties assume that the highest willingness to pay for an online delivery is a given amount, however, it is not clear that this reflects the actual maximum willingness to pay by consumers. Overall, we are therefore concerned about the reliability of the exact numerical results of the model.

restaurant delivery in a way it would not be able to do were it not actively involved with a market participant, like Deliveroo).

5.30 The Parties submitted that Amazon's investment in Deliveroo was financial and that it was investing, amongst other reasons, after being impressed by Deliveroo's performance and CEO. However, as described in our April Provisional Findings, we consider the evidence (in particular, Amazon's internal documents discussing the Transaction and the restaurant food delivery industry) demonstrates that Amazon considers Deliveroo to be of potential strategic value to it in future ([✂]), and that Amazon's investment in Deliveroo was strategic, [✂].[220]

5.31 The evidence we observed showing that the investment in Deliveroo had a strategic value beyond being merely a financial investment, includes:

(a) Evidence described in paragraphs 4.147 to 4.161 including that it considered a [✂] when it invested in Deliveroo, and its rationale for the [✂] and the pursued investment in Deliveroo.

(b) In an interview with [✂] (VP, Corporate Development) he told the CMA that [✂].

(c) Emails discussing [✂]. [✂] (SVP Amazon India, and one of the most senior executives at Amazon)[221] states that '[✂]'.[222]

(d) An internal Amazon email discussing a potential investment in [✂]. In this example, Amazon's internal discussion stated it was '[✂]'.[223]

5.32 This evidence suggests the investment in Deliveroo could be considered as Amazon's route of re-entry as:

(a) Amazon has a strong strategic interest in restaurant delivery;[224]

(b) Amazon originally considered [✂] Deliveroo, noting that it would be hard to achieve a [✂] and that Deliveroo '[✂]', whilst noting the [✂] of Deliveroo and broadly agreeing with Deliveroo's assessment of its [✂];

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[220] April Provisional Findings, 16 April 2020, paragraph 2.40.
[221] GeekWire, 5 December 2019, *Amazon expands Bezos' elite 'S-team', adding 6 execs from emerging branches of the company*.
[222] [✂].
[223] Amazon's acquisition of Ring (which provides doorbell security systems) is another example where Amazon appeared to invest strategically. It started with a small stake, stating this investment allowed Ring to integrate and 'lean in' to Alexa-related capabilities. Amazon then went on to make the full acquisition (see Amazon, 12 April 2018, *Amazon and Ring Close Acquisition—Now Working Together to Empower Neighbors with Affordable Ways to Monitor their Homes and Reduce Crime in Neighborhoods*).
[224] See April Provisional Findings, 16 April 2020, paragraph 2.32.

(c) The Parties told us that they see the investment as providing the possibility for further investment in Deliveroo (paragraph 5.35 below);

(d) Amazon's presence as a shareholder is a deterrent to rivals and future rivals, and third parties see the investment as Amazon's re-entry into the market;

(e) Other Deliveroo shareholders see the Transaction as a possible prelude to a full acquisition by Amazon, which would be a potential route for those shareholders to realise their investments in Deliveroo;[225] and

(f) Amazon has a higher liquidation preference, which Amazon describes as '[✂]'; and

(g) Amazon has a right [✂],[226] which contributes to Amazon's ability to exert influence over how a sale of Deliveroo might be achieved.

5.33 With regard to its interest and incentives in operating an online restaurant platform, Amazon submitted that [✂], it would need further integration than a minority investment. It submitted that these benefits were relevant only [✂].[227] We consider that the alignment of incentives under a 16% investment is likely to be less than if Amazon had invested more or acquired Deliveroo, and so the benefits described above are likely to be harder to achieve. However, we consider the Transaction gives a degree of alignment, which could give some ability and incentive for Amazon to pursue strategies that could achieve these benefits with Deliveroo.

5.34 The Parties' submission is supported by an Amazon internal email exchange on [✂] involving the corporate development team discussing whether Amazon would be interested in a minority investment in Deliveroo ([✂]), which states that:

> '[✂]'.

5.35 The email described above indicates that Amazon may see the minority investment as a first step to increasing its shareholding in Deliveroo [✂]. Amazon told us that it saw the investment as providing 'a little bit of optionality' around investing further or acquiring Deliveroo in the future, although stated it had no current plans to do so, and that any such further

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225 The evidence of Amazon forming a potential ([✂]) exit route [✂] is described in our April Provisional Findings (paragraphs 3.37–3.44). [✂].

226 [✂].

227 The rationale stated by Amazon for its minority investment are discussed in paragraph 4.159 and we note that reference to '[✂]' and the [✂] are not included in this rationale, despite being part of the rationale for [✂] (see paragraph 4.151).

investment would be subject to CMA review. [✂] (VP, Corporate Development) told the CMA that making an investment in Deliveroo was not a '[✂]'. Although the present Transaction involves the acquisition of only a minority stake, we may consider the extent to which that acquisition also affects Amazon's incentives and/or intention to invest in either acquiring or building an alternative online restaurant platform business, including if it reflects a decision to use Deliveroo as the route to re-entry.

Whether Amazon would pursue other routes to re-entry

5.36 We also considered whether any future alternative investment by Amazon could be an independent decision, unaffected by the Transaction. Despite having invested a significant amount in Deliveroo, Amazon has the resources and ability to make alternative investments if it had the incentive to do so.

5.37 We agree with the Parties' submission that if Amazon was presented with a compelling opportunity to re-enter this market then having a 16% investment in Deliveroo may not materially affect Amazon's incentive to undertake such a strategy. Its investment in Deliveroo, although significant, results in a minority shareholding, and so any alternative opportunities in this market would be subject to a separate cost-benefit analysis, and any cannibalisation effect could be expected to be small.

5.38 Amazon submitted examples of it entering a sector and cannibalising its own product line (for example it opened up its e-commerce marketplace to third party sellers despite this leading to it competing directly with them for sales). We considered that while these examples show Amazon's continued innovation and development of new products and services, they provide ultimately only weak evidence of Amazon cannibalising its own sales. The example provided of selling both Amazon Kindle e-readers and books, which are two substantially different products, is materially different in nature to offering restaurant food delivery from two online restaurant platform services.

5.39 There is some evidence to suggest that Amazon may have an interest in pursuing multiple entry routes into the supply of online restaurant platforms:

(a) An email exchange between Jeff Bezos (CEO) and [✂] (VP, Corporate Development) in [✂] discussing [✂] in this space [✂].

(b) Amazon has continued to pursue the development and launch of a trial for its own online restaurant platform in India despite investing in Deliveroo. This involves Amazon investing in building an online restaurant platform, which it could then look to expand into other jurisdictions, showing

Amazon pursuing both build and buy strategies in the online restaurant platform market globally.

(c) Amazon conducted discussions with [✂] during this period, [✂] (although Amazon submitted to us that it is not interested in pursuing this opportunity further).

(d) During email discussions with Deliveroo, [✂].

(e) Amazon's modelling of whether to build or buy in the context of deciding [✂] Deliveroo implies that building its own service would have a [✂], although this modelling was high-level and could be impacted by non-financial risks as mentioned elsewhere in the analysis (see detailed commentary in paragraphs 4.153 to 4.157). In the same excel workbook, Amazon modelled building a restaurant delivery service in the US despite Deliveroo not being active there (although these cells were hidden). We note this modelling was not particularly detailed, but still illustrates Amazon considering the economics of entry and being interested in launching an online restaurant platform in another jurisdiction.

5.40 With reference to its development of restaurant food delivery in India, Amazon submitted that this shows that Amazon is innovating globally and that 'it is fanciful that a 16% minority investment in a single service in a single country would prevent this deeply held commitment to innovation' and the potential application of this innovation to the UK. First, we note that Deliveroo is active in multiple different countries across the world in addition to the UK, and is clearly a business offering a service of interest to Amazon. However, we do agree that despite investing in Deliveroo, Amazon has continued to pursue the development of an online restaurant platform and, based on its global approach and examples from other business areas, if this were to result in a successful restaurant platform, a 16% investment in Deliveroo is unlikely to deter Amazon from rolling this out internationally. As stated in paragraph 4.97, we see a clear incentive for Amazon to prioritise the UK in any international rollout.

Conclusion on effects of the Transaction on Amazon's incentive to re-enter

5.41 We agree with the logic and intuition, as well as the principle of the Parties' model, that a 16% investment in Deliveroo will have a limited effect on Amazon's incentives to enter, when considered statically. However, as a strategic minority investment, the effect of the Transaction on Amazon's incentives to re-enter may be different when viewed dynamically (ie by placing Amazon in an advantageous position should it wish to increase its holding in Deliveroo). We consider there is mixed evidence as to whether Amazon's strategic investment is likely to materially alter its re-entry incentives. On the one hand, there is evidence indicating that Amazon views the investment in Deliveroo as its initial re-entry strategy and could use this investment in the future to realise its ambition in the UK market, and potentially internationally. On the other hand, there is evidence indicating that Amazon has an interest in pursuing multiple routes into the market and that the minority investment in Deliveroo is unlikely to be sufficient to prevent further investment by Amazon where a material alternative opportunity arose.

5.42 Based on this evidence, we do not currently believe it is sufficiently likely that the investment in Deliveroo would deter re-entry by Amazon if there was a strong financial incentive for Amazon to re-enter. We note that this assessment could be different should Amazon acquire a materially larger share in Deliveroo: should Amazon subsequently look to obtain de facto control, or a controlling interest in Deliveroo (in order to realise its re-entry strategy), the CMA would have the opportunity to assess such a transaction.

Impact of the Transaction on the nature of Amazon's entry

5.43 We assessed whether the Transaction could lead to an SLC as a result of Amazon still choosing to enter (despite having invested in Deliveroo) but having less incentive to compete strongly against Deliveroo because of the Transaction, giving rise to horizontal unilateral effects. Horizontal unilateral effects may arise when it becomes less costly for the merging parties to raise prices (or reduce quality) as a result of the merger, because they can recoup the profit from recaptured sales from customers who would have switched to the other merged party.[228]

5.44 As a minority shareholder in Deliveroo, Amazon benefits from 16% of Deliveroo's profits. As such, if Amazon loses a sale to Deliveroo, it retains 16% of the profits Deliveroo earns from the sale (but loses 100% of the profits it would have earned from the sale), while if Amazon wins a sale from Deliveroo, it captures 100% of the profits from winning the sale but also loses 16% of the profits that Deliveroo would have earned from that sale. This dynamic could reduce Amazon's incentive to compete aggressively.

5.45 We considered two scenarios under this theory of harm. In the first, we assessed whether as a result of the Transaction, Amazon would still re-enter but would do so in a weaker way (for example not investing as much in re-entering as it might have done absent the Transaction) leading to a loss of potential competition that could have been realised if Amazon entered more

[228] MAGs, paragraph 5.4.8.

strongly. In the second, we assessed whether as a result of the Transaction, Amazon could influence Deliveroo to worsen its offer, leading to a reduction in the level of competition that could have been realised if Deliveroo had competed strongly against Amazon in the future.

- *Amazon competing less strongly against Deliveroo*

5.46 The Parties submitted that Amazon's investment in Deliveroo would not cause Amazon to compete less strongly if it did choose to re-enter because a 16% investment in Deliveroo would only have a small impact on its pricing incentives as it would receive only 16% of any benefit Deliveroo received as a result of it competing less strongly.

5.47 If Amazon were to enter the market and then choose to compete less strongly against Deliveroo, we would expect Amazon to win fewer customers from Deliveroo than if it competed strongly. Amazon would also be likely to win fewer customers from the other incumbents (unless it could avoid competing strongly against Deliveroo while competing strongly against the other incumbents). Amazon would miss out on 100% of the profits from any customer it failed to win from any of the incumbents by not competing strongly. In contrast, Amazon would gain only 16% of the profits from any of those customers, retained by Deliveroo, who would have switched to Amazon if Amazon had competed strongly for them. It is possible that these customers would be more profitable overall if retained by Deliveroo than if acquired by Amazon, eg if Deliveroo has lower marginal costs or if the cost to Amazon of acquiring customers is high. However, we have no evidence to suggest this would be the case and on balance we would expect Amazon to have a strong preference for acquiring a customer (and receiving 100% of the profits from that customer) over allowing Deliveroo to retain that customer (with Amazon receiving 16% of profits), especially if by competing less strongly Amazon would also forego winning customers from the other incumbents in which it does not have an interest.

5.48 We would expect there to be less competitive impact of Amazon entry than if Deliveroo was the largest player. Just Eat is the current market leader with more customers (both restaurants and consumers), and so entry by Amazon is likely to have a disproportionate effect on Just Eat. Therefore, even if competition was expected to be particularly strong between Amazon and Deliveroo, there would still likely be material diversion to the other players as a result of Amazon worsening its offer.

5.49 Even if Amazon was a close competitor to Deliveroo, evidence shows that Deliveroo, Uber Eats and Just Eat are becoming more similar, both in terms of their business models (with all three platforms now offering restaurants the option to use their own in-house delivery or to use the platform's logistics) and the restaurants they target.[229] Although restaurant exclusivity may lead to some differentiation between the online restaurant platforms, evidence described at paragraph 5.58 shows that restaurants are increasingly moving towards a multi-homing strategy.[230]

5.50 We observed limited evidence that Amazon would be a significantly closer competitor to Deliveroo than either Uber Eats or Just Eat currently are (thus leading to higher diversion to Amazon than to either of these competitors). Some factors indicating Amazon would be a close competitor to Deliveroo include:

(a) A Deliveroo survey suggests [✂].[231,232] This would mean that both would be targeting and competing to win many of the same customers. In addition, both Deliveroo and Amazon's Prime Now[233] offerings concentrate on London and other major cities, indicating they would also be competing in the same areas geographically;

(b) Any Amazon offering is likely to include a logistics-enabled platform as opposed to just a marketplace in which restaurants arrange their own delivery, based on the importance to Amazon of maintaining control over the customer experience and the fact Amazon operated logistics as part of Amazon Restaurants and is doing so in its trial offering in India.[234] Offering logistics to restaurants would make Amazon a closer competitor to Deliveroo and give it the ability to target the large restaurant chains who work with Deliveroo and require their restaurant platform to provide the logistics; and

(c) The objective of Amazon Restaurants was to [✂], which have been a key part of Deliveroo's strategy. [✂], Just Eat has traditionally targeted [✂] who have their own delivery capability. This would make the choice of

[229] For discussion of business models see paragraphs 3.18 to 3.34 that discuss the move towards hybrid models. This has allowed the platforms to target the same restaurants. For example, large chain restaurants told us that they require the online restaurant platform they list on to provide a logistics-enabled service. In addition to this, we reviewed internal documents provided by Deliveroo, Just Eat and Uber Eats, which showed them competing to offer a similar restaurant selection (in particular [✂] which specifically looked to target [✂] restaurant partners).

[230] Evidence from Deliveroo suggests this has further increased as a result of Coronavirus (COVID-19), where one internal document noted that approximately [✂].

[231] A survey in one of Deliveroo's internal documents shows that [✂]% of its Plus customers subscribe to Amazon Prime.

[232] But we do not know how this varies for Uber Eats and Just Eat, or with non 'Plus' customers.

[233] [✂].

[234] In the [✂] (VP, Corporate Development) phase 1 interview with the CMA, 10 October 2019, he told the CMA that '[✂]'.

restaurants available for consumers on the Amazon and Deliveroo platform more similar.

5.51 Therefore, we currently agree with the Parties that it is unlikely the 16% investment in Deliveroo would cause Amazon to compete materially less aggressively if it did re-enter because it is not sufficiently likely that Amazon would have the incentive to worsen its offer in exchange for 16% of the potential benefit that such a strategy would confer on Deliveroo. We note that this assessment could be different should Amazon acquire a materially larger share of Deliveroo.

- *Amazon discouraging Deliveroo from competing against Amazon*

5.52 Finally, we considered whether Amazon's material influence could enable it to influence Deliveroo to worsen its offer, resulting in substantially less competition.[235] Under this scenario, Amazon would recoup 100% of any profit that arises from sales that are diverted from Deliveroo to Amazon as a result of this strategy. This means it may have a greater incentive to engage in this behaviour as opposed to worsening its own offering (where it would only recoup 16% of any extra profit).

5.53 We considered whether the Transaction could allow Amazon to discourage Deliveroo from competing against Amazon, for example by causing Deliveroo to worsen its offer or not pursue strategies that would conflict with Amazon. For example, it is possible that Amazon's influence over Deliveroo could create a perception among Deliveroo's management and shareholders of the need to act with caution to avoid conflicting with opportunities that Amazon is pursuing.[236] Whilst we believe the Transaction will confer on Amazon the ability to exert material influence over Deliveroo, this influence is less than would arise in an acquisition of a controlling interest and is not the same as an ability to control that policy. In particular, it does not amount to an ability to drive policy in a direction that other shareholders, management or the board object to. This could make it harder for Amazon to cause Deliveroo to worsen or reduce its offering if Deliveroo saw this as commercially damaging or preventing it from engaging in strong growth opportunities.

5.54 In addition, as noted below in paragraph 5.58, we saw evidence of strong competition between Deliveroo, Uber Eats and Just Eat, which would limit the scope for Deliveroo to worsen its offer to accommodate Amazon. To the extent that Amazon were able to influence Deliveroo to worsen its offer,

[235] As discussed in detail in the 'Jurisdiction' chapter of our April Provisional Findings, the Parties submitted that the Transaction does not result in Amazon acquiring material influence over Deliveroo.
[236] April Provisional Findings, 16 April 2020, paragraph 3.44.

customers (either restaurants or consumers) lost as a result of any deterioration of Deliveroo's offering may not move to Amazon. We would expect customers to move to Deliveroo's closest competitors, and so diversion to Amazon may not be high (depending on whether Amazon's re-entry into the market was similar to Deliveroo's offering).

5.55 Having considered the possible impact of Amazon's material influence and the incentives of Deliveroo's management and shareholders (aside from Amazon), as well as the specific market conditions, and taking these factors in the round, we provisionally believe that it is not sufficiently likely that the Transaction would result in Deliveroo competing less strongly against Amazon in the supply of online restaurant platforms in the UK. We note that this assessment could be different should Amazon acquire a much larger share of Deliveroo.

Impact of Amazon's re-entry

5.56 In the course of our investigation, we closely examined the online restaurant platform market in the UK in order to consider what impact re-entry by Amazon could have. This included reviewing large volumes of internal documents from the Parties as well as their competitors, conducting economic analysis based on data provided by Deliveroo and its competitors, and reviewing evidence from restaurant customers and other stakeholders, including overseas restaurant platforms.

5.57 The Parties submitted that the UK market is currently very competitive and so any further entry could be expected to have a limited impact. They pointed to other countries where there are only three platforms active as evidence that the market may only be able to sustain a small number of players.

5.58 We consider that Amazon would be well-placed to be an effective entrant. It has the unique asset of its Prime customers, which could allow it to more easily win customers with lower acquisition costs compared to competitors. It is well resourced, allowing it to invest in scaling and innovating its offering to compete effectively. Finally, it has a range of routes available to facilitate entry (as described from paragraph 4.163).

5.59 Based on the evidence examined during our investigation, we consider that there appears to be strong competition between Deliveroo, Just Eat and Uber Eats, but that there is a limited number of suppliers of online restaurant platforms in the UK. We would generally expect effective entry by a fourth player to have a positive impact on competition in a market.

5.60 In this market, which continues to grow and evolve, there are some additional reasons why we believe entry by a fourth player would have a positive effect on competition:

(a) Although as noted in paragraph 5.49 there is evidence that the online restaurant platforms are converging (in terms of their business models and the restaurants they target), the service offered by the online restaurant platforms is differentiated, with the current suppliers varying in strength across different parameters of competition eg delivery capability,[237] commission charged (and other fees),[238] range of restaurants (for consumers) or consumer base (for restaurants).[239]

(b) The intensity of competition between the online restaurant platforms varies between regions in the UK, with Deliveroo being seen as particularly strong in London.[240] In some areas, there are only one or two platforms currently operating, and so there may be scope for competition to increase further.[241] The entry of a fourth national player could therefore increase competition in some areas from one to two players, or two to three players.

5.61 A further reason might be the tendency for a market to tip (to a single online restaurant platform) or tend towards increased concentration, which entry could counterbalance. The extent of multi-homing we have observed means that it is not clear to us that the market is likely to tip. Multi-homing by both restaurants and consumers has become more commonplace in recent years, with this trend expected to continue.[242] In particular, fewer restaurants are wanting to form exclusive partnerships with online restaurant platforms and

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[237] For example, several restaurants highlighted the importance of Deliveroo's logistics services and told us that they have not seen Just Eat as suitable for them because it does not provide, or has not previously provided, its own drivers. Deliveroo's internal documents noted [✂].

[238] Deliveroo, Just Eat and Uber Eats charge a range of different fees to consumers and restaurants. Commission rates vary by restaurant and is generally negotiated between the restaurant and the platform. It can depend on whether the restaurant is part of a large chain, whether it is exclusive to that platform, whether it requires logistics or whether it operates its own delivery, its size and perceived attractiveness to the platform and location. Charges to consumers also varies with Just Eat, Deliveroo and Uber Eats charging different fees. Deliveroo, for example, also offers Deliveroo Plus, a membership scheme where consumers can pay a monthly fee for unlimited free delivery.

[239] Exclusive partnerships, such as the one previously between Uber Eats and McDonalds or the one between Deliveroo and Wagamama, can drive consumer preference for certain platforms. [✂]. In its documents, Deliveroo typically focused on large restaurant chains. For example, [✂]. Just Eat told us that it caters for everyone, including those who want something from their local restaurant as well as those who want to order from a branded restaurant, [✂].

[240] Deliveroo's strength in London was commented on by third parties and [✂].

[241] Our analysis of geographical coverage based on data submissions from Deliveroo, Just Eat and Uber Eats highlighted many geographical areas where just one platform (generally Just Eat) operated.

[242] For example, in relation to multi-homing by consumers, Deliveroo submitted data [✂]. In relation to multi-homing by restaurants, Deliveroo submitted that a [✂] proportion of Deliveroo's partner restaurants also self-deliver ([✂]%), work with Just Eat ([✂]%), and work with Uber Eats ([✂]%), as at October 2019 ([✂]). This evidence was supported by responses from Just Eat and Uber Eats, who submitted that multi-homing is common among consumers and certain restaurants. Half of the restaurants who responded to our questionnaire also confirmed they use multiple online restaurant platforms.

are increasingly moving towards a multi-homing strategy. Several restaurants who responded to our questionnaire explained they used multiple online restaurant platforms because they considered there to be limited consumer overlap between different platforms.

5.62 Based on our current view that we do not believe it is sufficiently likely that the Transaction will have a significant impact on Amazon's incentives to re-enter the market in the UK, or on its incentive to compete against Deliveroo in the event that it did re-enter, we have not needed to consider these points in further detail in these provisional findings, or to provisionally conclude on the impact re-entry by Amazon could have in the supply of online restaurant platforms in the UK.

Provisional conclusion on supply of online restaurant platforms in the UK

5.63 Whilst we provisionally believe that Amazon is a potential entrant who is likely to re-enter the supply of online restaurant platforms in the UK, we do not currently find it sufficiently likely that the Transaction will have a material impact on Amazon's incentives to re-enter, or a material impact on Amazon's incentives to compete with Deliveroo in the event of re-entry, such as to result in a substantial reduction in potential competition on the balance of probabilities. Therefore, we have provisionally concluded that the Transaction may not be expected to result in an SLC in the market for the supply of online restaurant platforms in the UK.

6. Supply of online convenience grocery services in the UK

Introduction

6.1 In this chapter we assess the effect of the Transaction on competition in the supply of online convenience groceries (OCG) in the UK, in which Amazon and Deliveroo are both present. As described in our Issues Statement,[243] we assess whether the Transaction will lead to horizontal unilateral effects (ie a loss of direct competition with a competitor that previously provided a competitive constraint, or which is expected to provide a competitive constraint). Horizontal unilateral effects are more likely to arise from a merger between firms which would otherwise compete closely.

[243] Issues Statement, 28 January 2020, paragraphs 30–32.

6.2 The OCG market is at an early stage of development; consumers spent around £[✂] million on OCG in 2019 (see Table 6.2 below). However, a number of providers have advanced their current and planned OCG services in response to the Coronavirus (COVID-19) crises.

6.3 The Parties submitted that Amazon and Deliveroo offer fundamentally different services, based on different types of logistics networks, and that closer competition is inconsistent with their respective plans for grocery delivery.[244] However, we consider that internal documents from each of the Parties support the view that they may become close competitors in future as a result of (a) Amazon investing in faster delivery and (b) Deliveroo expanding and improving its OCG offer.

6.4 The Parties submitted that even if they were to compete in future Deliveroo would compete closely with its current competitors (the online restaurant food delivery providers) and Amazon with its competitors ([✂]) within a highly competitive sector. We recognise that, if the market grows, other providers will develop OCG services in competition with the Parties. On the other hand, both Amazon and Deliveroo have advantages which could enable them to become market leaders.

6.5 We have assessed whether the Transaction would result in an SLC in the supply of OCG services due to one or more of the following:

(c) Amazon using its influence over Deliveroo to discourage Deliveroo from competing against Amazon in OCG;

(d) Amazon avoiding competing directly against Deliveroo in OCG, to protect the value of its investment in Deliveroo; and/or

(e) Amazon relying on Deliveroo to give Amazon a presence in OCG, rather than developing its own service to compete effectively in OCG.

6.6 The Transaction would give Amazon a 16% holding in Deliveroo. We consider that the likelihood of the Transaction leading to a SLC through each of the harms set out above, or a combination of these harms, is less than it would be in the case of a larger shareholding or a full acquisition. Our provisional view is that the Transaction will not lead to an SLC in the provision of OCG.

[244] Parties' Initial Submission, 24 December 2019, paragraph 1.6.

Background

6.7 In this section, we consider: (i) recent trends in the groceries industry, and (ii) how suppliers compete to supply OCG.

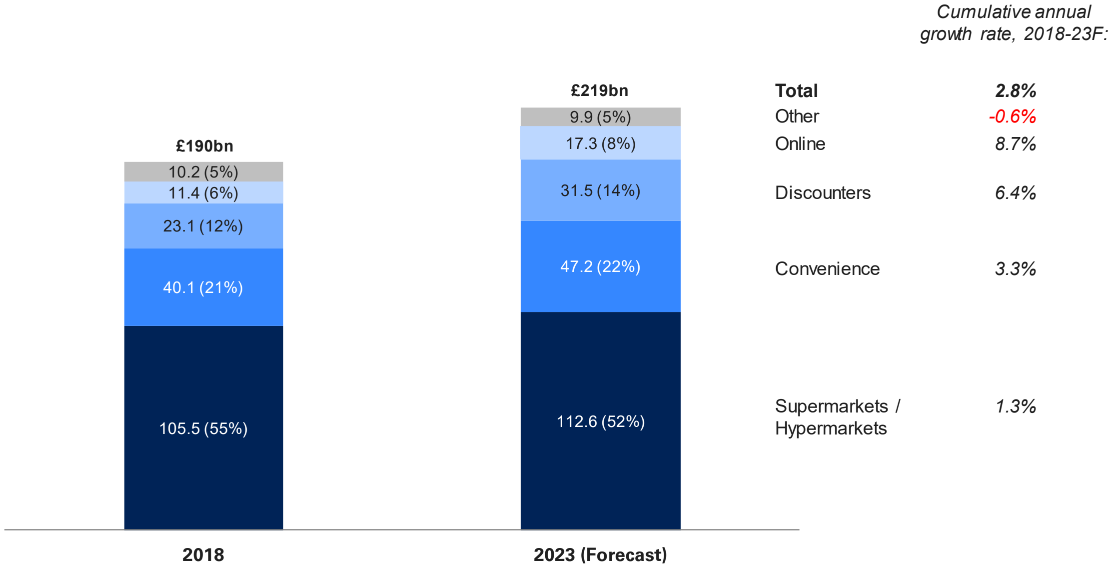
The groceries industry

6.8 UK groceries retailing is a critically important industry which was estimated to be worth around £190 billion in 2018. Prior to the Coronavirus (COVID-19) crisis, the industry was expected to grow by around 3% (in nominal terms) per year to 2023 (see Figure 6.1 below).

6.9 Based on 2018 figures, the majority of grocery sales are generated by large stores such as hypermarkets and supermarkets (around £106 billion),[245] followed by convenience stores[246] (around £40 billion), discounters[247] (£23 billion), and online groceries (£11 billion) (see Figure 6.1 below).

[245] Hypermarkets are defined by IGD as large format stores that sell a full range of grocery items and a substantial non-food range. Sales areas are typically 60,000 square feet (around 5,500 square metres). Supermarkets are defined by IGD as food-focused stores with sales areas of between 3,000 square feet (around 280 square metres) and 60,000 square feet (IGD (16 June 2015), *UK grocery retailing*).
[246] Convenience stores are defined by IGD as including store formats typically under 3,000 square feet (around 280 square metres) that sell at least seven core convenience categories. Subsectors include: Symbol groups, forecourts, convenience multiples, co-operatives and non-affiliated independents (IGD (16 June 2015), *UK grocery retailing*).
[247] The definition of Discounter which IGD uses includes all sales of Aldi and Lidl as well as grocery-only sales of bargains stores (Poundland, Poundworld, B&M Bargains, Home Bargains, Wilkinson and Poundstretcher) (IGD (16 June 2015), *UK grocery retailing*).

Figure 6.1: UK grocery sales, by 'channel', 2018 and 2023 Forecast (£billion, %)



Source: IGD (5 June 2018), *UK food and grocery market to grow 14.8% by £28.2 billion by 2023*.
Notes:
1. 'Other retailers' includes specialist food and drink retailers, CTNs (confectionery, tobacco and news), food sales from mainly non-food retailers and street markets. 'Discounters' includes all sales of Aldi and Lidl, and grocery-only sales of principal variety discounters, including Wilko.
2. The 2023 forecasts were made prior to the Coronavirus (COVID-19) crisis.

6.10 In its recent investigation of Sainsbury's proposed acquisition of Asda, the CMA noted several important trends in UK groceries retailing.[248] We consider the most relevant of these below, along with the potential impact of Coronavirus (COVID-19) on OCG.[249]

Growth of online groceries

6.11 Online sales of groceries were worth £11.6 billion in 2019 according to IGD, and represented 7.7% of the UK grocery sector. It was forecast to be the fastest growing grocery channel, expecting to increase in value to £16.7 billion by 2024, equivalent to a compound annual growth rate of 7.5%.[250] Prior to the wave of expansion by online restaurant platforms in the supply of online groceries, and the more recent expansion of OCG service during the Coronavirus (COVID-19) crisis, Mintel noted that growth of online groceries overall may be slowing, because 'online services are still best suited to the

[248] *Sainsbury's/Asda*, Final Report, 25 April 2019, paragraphs 4.17 and 4.18.
[249] In Sainsbury's/Asda, the CMA also noted the growth of 'discounters', ie Aldi and Lidl (*Sainsbury's/Asda*, Final Report, 25 April 2019). Neither is present in the supply of OCG.
[250] IGD (20 June 2019), UK food sales to grow by £24 billion by 2024.

traditional big-basket weekly shop, at a time when consumers are increasingly shopping on a top-up or when-needed basis'.[251]

6.12 Despite growth in revenues, suppliers of online groceries have struggled to make online grocery sales profitable. In March 2019, the Financial Times reported that the current economics of online delivered groceries are poor, if not loss making, for the vast majority of grocery retailers.[252]

Change in shopping habits

6.13 Prior to the Coronavirus (COVID-19) pandemic, customers of UK groceries were increasingly shopping 'little and often',[253] making around four shopping trips per week.[254] Within the supermarket (non-discounter) sector, between 2010 and 2018 the percentage of main shop missions declined from 49% to 42%.[255] However, weekly shopping missions remain important for consumers. Industry reports have found that 89% of customers still do a main weekly shop where they get all or most of their grocery shopping in one go, although 45% of customers combine this with other top-up shops.[256]

6.14 The Coronavirus (COVID-19) pandemic may have disrupted these trends. In the initial weeks of the pandemic, supermarkets, convenience stores and online delivery all saw increased demand.[257] Consumers are also likely to have changed their shopping habits in the short-term in response to social distancing (whether favouring convenience stores and online delivery over supermarket trips, or making fewer and larger supermarket trips to avoid time spent queuing for entry). However, the medium and longer-term impact of Coronavirus (COVID-19) on shopping habits remains uncertain.

Growth of convenience

6.15 In line with the gradual trend towards more frequent shopping trips, convenience store sales (in-store) have been growing in recent years, representing an estimated 22% of food and grocery sales in the UK in 2019.[258]

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[251] Mintel (12 April 2019), *Brits spent £12.3 billion on online groceries in 2018*.
[252] Financial Times (1 March 2019), *The difficulties of making online delivery pay*; or KPMG/Ipsos Retail Think Tank (August 2018), *What does the future hold for the UK grocery sector?*.
[253] IGD (9 February 2016), *Three key shopper insights to shape trading with Asda in 2016*.
[254] Based on Nielsen Homescan data for 'Average Shops' for the period ending January 2018 for the UK total grocers. Provided by Sainsbury's and Asda during *Sainsbury's/Asda* (2019).
[255] Based on Kantar data, submitted by Sainsbury's and Asda in *Sainsbury's/Asda* (2019).
[256] GlobalData (May 2017), *The UK Food & Grocery Market, 2017–2022*, page 96.
[257] As reported by Kantar (31 March 2020), *Record grocery sales as shoppers prepare for lockdown*.
[258] IGD (20 June 2019), UK food sales to grow by £24 billion by 2024.

6.16 In May 2019, Deliveroo forecasted OCG delivery in its markets would [✄] from £[✄] in 2018 to £[✄] in 2021.[259] This is consistent with the views of third parties expressed prior to the Coronavirus (COVID-19) crisis. For example, Morrisons told us OCG delivery would grow much more quickly than overall online groceries sales. Just Eat, Sainsbury's and Tesco told us that the consumer desire for OCG would continue to grow, as consumers increasingly expect to be able to order products at their convenience. Sainsbury's and Tesco suggested that the demand for OCG was in part a result of the expectations consumers have of hot food, being transferred into their expectations in grocery. However, Tesco told us that it was difficult to forecast how large the convenience groceries segment will ultimately become.

Effect of Coronavirus (COVID-19)

6.17 The Coronavirus (COVID-19) crisis has had a profound effect on grocery delivery in the UK, as well as on the grocery sector and the wider economy. In the short-term, the increase in demand for online grocery delivery has led to disruption, such as [✄] for Amazon Prime Now. However most OCG providers, including the Parties, have expanded their grocery offers in recent months. Some providers have said that the crisis has accelerated their expansion of OCG services. We discuss these developments in further detail below.

6.18 It remains to be seen how Coronavirus (COVID-19) will affect the nascent OCG market in the medium or longer-term. It is possible that ongoing health concerns or a change in shopping habits could sustain the uplift in demand for these services. On the other hand a number of factors could potentially contribute to a contraction in demand, such as an economic downturn, a relaxation of social distancing leading to increased use of bricks and mortar stores, or major grocery providers increasing their capacity in the provision of online scheduled delivery services.

How OCG services are supplied

6.19 The supply of OCG is a nascent market in which suppliers and potential suppliers continue to experiment. There is uncertainty about which models will succeed in this market, and how competition will proceed.

6.20 Supermarkets have been trialling OCG services for several years. An early example in this space was Tesco Now, which offered delivery of groceries

[259] Deliveroo's forecast reflects its presence across markets outside the UK, although the UK is Deliveroo's largest market.

within one-hour in central London from a range of 1,000 products, but which exited the market in 2018. Since 2018, other grocery suppliers have entered the market, as have suppliers of online restaurant platforms.

6.21 Third parties told us that offering OCG services cost-effectively is difficult. A persistent challenge is the cost of offering delivery within a few hours, which is particularly acute given that grocers are struggling to make delivery profitable even in next day grocery delivery.[260]

6.22 Point-to-point and point-to-multipoint delivery networks involve distinct assets which address these challenges in different ways:

(a) Point-to-point delivery involves taking a single order from a point of origin (eg a restaurant or grocery store) to a single point of delivery (eg a consumer) before moving on to deliver another order from a (generally) different point of origin.

(b) Point-to-multipoint delivery involves taking multiple orders from a point of origin (eg a logistics hub) and delivering these to multiple points of destination along a given route. This is sometimes described as the ‘travelling salesman’ or ‘milkman’ model.[261]

6.23 We consider below the assets and capabilities used by suppliers of online convenience groceries, and the extent to which this relates to their use of point-to-point and/or point-to-multipoint delivery models. Third parties told us that suppliers of OCG need the following:

(a) a customer-facing e-commerce platform;

(b) locations from which to source groceries;

(c) a courier network; and

(d) dispatch and routing technology.

E-commerce platforms

6.24 Suppliers use customer-facing e-commerce platforms to allow customers to search, select and pay for baskets of products.

6.25 Grocery retailers told us that an advantage of partnering with online restaurant platforms is their existing e-commerce platform and customer base, which

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[260] Mintel (12 April 2019), *Brits spent £12.3 billion on online groceries in 2018*.
[261] Parties’ Initial Submission, 24 December 2019, paragraph 5.29.

allows suppliers to market OCG to a targeted audience with a demonstrated willingness to pay for convenience. However, several grocery retailers told us that they preferred to use their own e-commerce website, as this gave them greater control over the customer relationship.[262] One grocery retailer said this ensured an ongoing element of direct customer contact and control over the proposition offered (in terms of range, price, promotions and delivery charges).

Stores and fulfilment centres ('under the roof')

6.26 Suppliers of OCG can source groceries from grocery stores or fulfilment centres. Suppliers can own these stores or fulfilment centres themselves, or they can partner with third party grocery suppliers. Items can be picked for a basket either by the delivery courier, or by in-store staff. Grocery suppliers told us that picking items quickly and efficiently, and reducing the extent of any substitutions, is a major challenge. For example, [✂] told us that one of the main challenges it encountered in operating [✂] (for which couriers picked orders) was slow picking and a high rate of substitutions. Co-op told us that it had temporarily paused its OCG expansion in 2019 to address these operational issues (although this expansion subsequently recommenced).

6.27 The Parties submitted that small convenience stores are better suited for a point-to-point network as items are within close reach,[263] while point-to-multipoint models are suited to 'central distribution centres/large supermarkets', where orders can be batched and picked efficiently. However, we note that the Parties' competitors do not necessarily follow one or other of these models: Ocado Zoom operates point-to-point deliveries (using Stuart) from its London fulfilment centre, while Sainsbury's fulfils Chop Chop from its supermarkets, rather than its convenience stores. In addition, [✂].

Courier network ('on the road')

6.28 Delivering groceries within one- or two-hours of ordering requires a dense network of couriers who can rapidly fulfil orders. Sainsbury's and Co-op told us that scaling a delivery network can be very expensive, while customer acquisition costs are high.

6.29 The Parties submitted that bicycles and mopeds are a [✂] component of an effective on-demand point-to-point model, because they move quickly through

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[262] Such as [✂]. For example, one grocery retailer told us that a key advantage to self-supply would be greater ownership of the customer relationship from point of sale to fulfilment.
[263] The Parties said this was the case for 'immediate consumption/impulse shopping missions'. However, the same logic would apply to other shopping missions that could be met from a convenience store's range.

congested cities, and that this limits the number of items which can be carried on point-to-point networks relative to point-to-multipoint networks (which use cars and vans).

6.30 However, we understand that many point-to-point courier networks use a mix of bicycles, mopeds and cars. Stuart and DoorDash told the CMA that cars tend to be more suited to rural and suburban geographies, while bikes and mopeds are best suited to cities.

6.31 Deliveroo's offer is focused on dense urban areas (primarily [✂]).[264] Prime Now operates from [✂] fulfilment centres in nine cities across the UK,[265] and also fulfils orders from [✂] Morrisons stores.

6.32 The Parties submitted that [✂]. In contrast, the Parties submitted, point-to-multipoint deliveries batch orders into single delivery routes [✂].[266] [✂] told the CMA that its point-to-point network could experience scale by batching two or more orders in the same car once it obtains significant density. We note that batching is unlikely to be possible using bicycles and mopeds.

Technology

6.33 The distinction between point-to-point and point-to-multipoint networks is set out in paragraph 6.22 above. The Parties submitted [✂].[267]

6.34 Third parties confirmed that these are distinct technologies. Stuart told the CMA that its point-to-point dispatch technology differs from that of traditional groceries providers. Co-op also told the CMA that traditional logistics providers' technology is not suited to supplying OCG.

6.35 On the other hand, DoorDash told the CMA that its point-to-point technology allows it to assess and trade off gains in costs from batching multiple deliveries against the associated reduction in delivery speed and accuracy, suggesting that logistics models do not necessarily fall neatly into one of the two categories described by the Parties.

6.36 We note that Amazon has expertise both in operating its point-to-multipoint operation, and a point-to-point service in the form of [✂].

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[264] Deliveroo told us that it is most developed in [✂] and has had less success in [✂].
[265] In Birmingham, Glasgow, Leeds, Liverpool, London, Manchester, Newcastle, Portsmouth and Sheffield.
[266] Parties' Initial Submission, 24 December 2019, paragraph 5.30.
[267] Parties' Initial Submission, 24 December 2019, paragraph 5.29.

Closeness of competition

6.37 Horizontal unilateral effects are more likely to arise when firms compete closely, as (i) the magnitude of any loss of competition will be greater, and (ii) each firm is more likely to capture any sales lost by the other as a result of any worsening in their competitive offer.

6.38 We consider below the likelihood that the Parties will compete in the supply of OCG in future. In doing so, we consider their:

(a) current OCG businesses and relevant assets;

(b) ambitions in the groceries industry; and

(c) future plans in the supply of OCG.

6.39 We note that while the closeness of competition between the Parties' existing offerings is relevant to our assessment, we are principally interested in the future competition between the Parties.

The Parties' current OCG businesses

6.40 In this section we compare the Parties' existing OCG businesses in the UK and assess their substitutability. Where relevant, we also consider the other assets and businesses which Deliveroo and Amazon possess which are relevant for their supply of OCG.

Amazon's OCG business

6.41 Amazon launched Prime Now in the UK in 2015, before its launch of Amazon Fresh in 2016. Prime Now operates from [✂] fulfilment centres across nine cities, while Amazon Fresh has [✂] fulfilment centre outside London and currently makes [✂] same-day groceries deliveries. In 2016, Amazon began to supply 'Morrisons at Amazon', which offers same-day delivery from Morrisons using its Prime Now network and Morrisons stores. In response to the Coronavirus (COVID-19) crisis, Amazon and Morrisons expanded this service to cover [✂] Morrisons stores (compared to 16 in 2019). In 2017, Amazon acquired the US grocery chain Whole Foods, which has seven stores in London.

6.42 Amazon Prime Now and Fresh had revenues of £[✂] million in 2019, with growth of around [✂]% per annum in 2018 and 2019. Groceries accounted for [✂]% of sales by value, and around [✂]% of deliveries were within [✂]-hours of ordering.

6.43 Amazon told us that Prime Now grocery orders increased by [✂]% between February and March 2020, but that due to [✂] its average delivery time [✂] from around [✂] hours in February 2020 to over [✂] hours in March 2020 and [✂] hours in April 2020. Amazon suggested that Coronavirus (COVID-19) had, if anything, accelerated the divergence between Prime Now's grocery offer and that of Deliveroo. However, Amazon also told us that while Coronavirus (COVID-19) had led it to make short-term adjustments to its service, [✂] of Amazon's grocery strategy in the UK.

Delivery

6.44 Prime Now is only available to members of Amazon Prime (which costs £79 per year or £7.99 per month).[268] Prime Now has a minimum order value of £15, and its delivery pricing varies according to the speed and window of the delivery, and the size of a customer's basket (a 'variable shipping threshold' or VST). Amazon Fresh is only available to Prime members in Greater London, and has a minimum order of £40. Further details of these offers are shown in Table 6.1.

6.45 We note that Amazon withdrew its Prime Now 'click to deliver' (CTD) and one-hour scheduled delivery window options on 16 March 2020. Amazon told us that it has also temporarily removed Prime Now's Free Shipping Threshold (FST) of £40 and started delivering all Prime now orders above the minimum order value of £15 with no delivery fee. Amazon told us that it made this change because [✂].

Table 6.1: [✂]

[✂]

Source: Amazon.

6.46 Orders are delivered within two-hour windows through the day. Customers can select a window a minimum of one hour prior to the window starting time.[269] Accordingly, a customer ordering for the soonest available two-hour window might guarantee delivery within three hours from ordering, or within five hours from ordering (if they have just missed the next available window).[270]

6.47 The Parties submitted that, in 2019, [✂]% of UK Prime Now grocery orders took more than two hours from order to delivery, just [✂]% took less than one

268 [✂].
269 This has recently increased from 45-minutes. Scheduled delivery windows are subject to availability.
270 For example, if a customer selects the first window available, an order placed just before 1pm will arrive in the 2pm to 4pm delivery window, ie between one and three hours of ordering. However, an order placed just after 1pm will arrive in the 4pm to 6pm window, ie between three and five hours of ordering.

hour, and just [✂]% were '[✂]' orders that Amazon committed to deliver [✂]. The Parties submitted that [✂] was only available to customers located within [✂]-minutes drive of fulfilment centres (whereas two-hour scheduled deliveries were available to addresses within 45-minutes' drive) and was unavailable up to [✂]% of the time for Prime Now and [✂]% of the time for Morrisons. The Parties submitted in November 2019 that [✂].[271] It withdrew this offer on 16 March 2020 in order to improve efficiency in response to the Coronavirus (COVID-19) crisis.

6.48 Most Prime Now deliveries are made within [✂] hours of ordering and more than [✂]% of Prime Now orders are delivered within [✂] hours from ordering. This figure rises to around [✂]% including deliveries made by Amazon for Morrisons at Amazon.

- *Amazon Flex*

6.49 Amazon Flex is Amazon's 'last-mile' point-to-multipoint logistics network, made up of independent contractors who deliver Prime Now orders using their own cars, typically within specified delivery blocks of two to four hours.[272] This network also fulfils same-day orders for Amazon's e-commerce marketplace. As such it delivers both groceries and non-grocery items.

6.50 The Parties submitted that [✂]. However, we note that in the UK Amazon [✂]. Amazon Flex also fulfilled Amazon Restaurants deliveries in the UK, [✂]. The Parties told us that Amazon Flex [✂].

- *[✂]*

6.51 [✂] was launched in October 2017 in the US, as part of Amazon Restaurants and subsequently rolled out to Amazon Restaurants in the UK. [✂].[273]

6.52 [✂]

Grocery products

6.53 Prime Now offers a range of approximately [✂] items from Amazon (including Whole Foods Market) and a range of approximately [✂] items from 'Morrisons at Amazon', while Amazon Fresh offers [✂] items.

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[271] Parties' Initial Submission, 24 December 2019, paragraphs 5.7, 5.13 and 5.36.
[272] See: Frequently asked questions about Amazon Flex webpage (accessed on 8 June 2020).
[273] [✂].

6.54 The average Prime Now order contains approximately [✂] items, while [✂]% of grocery orders contain at least [✂] items. Amazon Prime Now's average value for orders containing groceries is approximately £[✂], while its sales through 'Morrisons at Amazon' have an average order value of approximately £[✂].[274] The Parties submitted that Prime Now offers groceries at prices [✂].

Deliveroo's OCG business

6.55 Deliveroo developed its convenience groceries business as an extension of its restaurant food delivery business. It has trialled groceries delivery with Co-op, Nisa and Shell since January 2018, [✂]. However, in late 2018 and early 2019 Deliveroo began to pitch to additional potential partners. These pitches stated '[✂]'. Deliveroo grew its annual non-restaurant food orders from around [✂] in 2018 ([✂]) to around [✂] in 2019 ([✂]).

6.56 Deliveroo told us that it '[✂]'. It said its pitch document was '[✂]', that Deliveroo's grocery team comprises only [✂] dedicated FTEs with [✂], and that its FY2020 plan shows [✂].

6.57 Deliveroo provides a service through which consumers can access products from multiple grocery retailers[275] (ranging from retail or symbol group members to independent convenience stores and off-licences) who can list convenience items for on-demand delivery. In 2019, Deliveroo's top five non-restaurant partners were [✂].

Delivery

6.58 Groceries purchased on Deliveroo are for immediate delivery, within an average of around [✂]-minutes and with [✂]% of orders delivered in under 30-minutes.

6.59 Deliveroo's groceries fee structure is the same as for restaurant food delivery, including a delivery fee (which varies with the distance over which a delivery is made), a service fee of £0.49 and a 'small order fee' (for orders with value below a minimum threshold) per delivery. For groceries, Deliveroo charges on average a delivery fee of around £[✂]. Delivery is free (except for the service fee) for Deliveroo Plus members. [✂].

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[274] Parties' Initial Submission, 24 December 2019, paragraph 5.11.
[275] Although customers cannot order from different retailers in the same order.

Grocery products

6.60 Each of Deliveroo's partners offers a limited selection of products. (The following figures relate to ranges offered prior to the Coronavirus (COVID-19) crisis). For example, Co-op (a key partner which constitutes around [✂]% of Deliveroo's OCG sales) offered [✂] items via Deliveroo. The average range of a Deliveroo partner was [✂] items, although some offered over [✂] items. Although the total range offered on Deliveroo across its various partners is large, in any given local area the range of products currently offered on Deliveroo is limited.

6.61 [✂]

6.62 The Parties submitted that the [✂] of orders on Deliveroo are [✂] ([✂]% of orders include [✂] or other age-restricted items),[276] and that of the [✂] by quantity in October 2019, [✂] are [✂] and [✂] are [✂]. The Parties further submitted that [✂] accounted for around [✂]% of its orders by value (and [✂]% by volume) from Co-op in 2019, while other important categories included [✂].

6.63 We analysed the list of the 50 items most sold by Deliveroo's ten largest partners prior to the Coronavirus (COVID-19) crisis. We find that, consistent with the Parties' submissions, [✂] are the main drivers of demand. On average, the items in these categories counted respectively for [✂]% and [✂]% of the total units sold among items listed. Other important categories were [✂] ([✂]%), [✂] ([✂]%) [✂] ([✂]%). Items outside these categories accounted for only [✂]%.

6.64 The Parties submitted that in 2019, the average Deliveroo order contained [✂] items, [✂]% of orders contained one item, and [✂]% of orders contained five or fewer items.

6.65 Prior to the Coronavirus (COVID-19) crisis, Deliveroo's average order value was £[✂], and [✂]% of its orders were below £15, [✂]% of orders were below £25 and [✂]% were below £40. Deliveroo noted that its order values reflected a heavy weighting of [✂].

6.66 During Coronavirus (COVID-19) Deliveroo's average order value has risen to around £[✂] (April 2020). Deliveroo told us that [✂] had become more popular over its platform during Coronavirus (COVID-19). However, [✂] purchases were still by far the largest category of purchases, with [✂]

[276] We note that in the Parties' Initial Submission, 24 December 2019, paragraph 5.7(ii), the Parties submitted that the orders including alcohol were [✂]% of the total.

accounting for an average of [✂]% of orders by volume across February to April 2020. In April 2020, [✂] of the [✂] items excluding [✂] were in the [✂] category, whereas in February 2019, [✂] of the [✂] had been [✂].

6.67 Deliveroo told us that it has expanded its offering in response to an uplift in consumer demand, arising from the unavailability of grocery delivery slots and a reluctance among consumers to visit physical stores. Since mid-March 2020, Deliveroo has launched partnerships with BP (M&S food range), M&S (Standalone), Holland & Barratt, and McColls.

6.68 Morrisons told us that in response to the Coronavirus (COVID-19) lockdown, it had accelerated its plans with Deliveroo and now services orders from 140 Morrisons stores with a menu of 75 grocery items including fresh food, groceries and alcohol (compared to one store with a hot food offering at the start of March 2020). Aldi, told us that prior to Coronavirus (COVID-19) it had no plans to enter the online convenience grocery space, but that it had started limited OCG trials with Deliveroo in May 2020.

Substitutability of the Parties' OCG propositions

6.69 The Parties submitted that Amazon's grocery delivery service is fundamentally different from Deliveroo's service and [✂].[277] The Parties submitted that [✂].

6.70 The Parties submitted that the on-demand convenience 'top-up' proposition offered by Deliveroo is focused on satisfying an emergency or immediate need and optimized for immediate use/impulse missions.[278] The Parties submitted that Prime Now is used to [✂].[279]

6.71 We consider below the characteristics of the Parties' OCG propositions, and the extent to which these suggest that they are being used by their customers to fulfil different shopping missions. We consider the Parties' propositions from the perspective of both (i) consumers and (ii) grocery suppliers.

Competition for consumers

6.72 In this section we compare the main features of the Parties' OCG propositions: their delivery service, range and price.

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[277] Parties' Initial Submission, 24 December 2019, paragraph 5.5.
[278] Parties' Initial Submission, 24 December 2019, paragraph 5.5.
[279] Parties' Initial Submission, 24 December 2019, paragraph 5.5.

Delivery service

6.73 The Parties have different logistics networks:

(a) Deliveroo's point-to-point network achieves delivery speeds of less than 30-minutes, reflecting its primary purpose as a restaurant delivery network. It is limited (compared to Amazon) in the basket sizes and product ranges it can offer.

(b) Amazon's point-to-multipoint network largely delivers within several hours of ordering, with (until recently) a limited amount of one-hour delivery. Amazon is [✂].

6.74 Amazon's Prime Now average delivery speed of around [✂] hours is much slower than Deliveroo's average delivery speed of [✂]-minutes. Prime Now's [✂].

Price

6.75 The Parties submitted (prior to the Coronavirus (COVID-19) crisis) that Deliveroo's main groceries partner, the Co-op, prices its groceries on Deliveroo on average at [✂]% more than Amazon's prices, based on a comparison against the top 20 grossing products sold by Co-op on Deliveroo in 2019 which could be compared. However, our comparison of the top 50 most popular products on Co-op found that Co-op's prices were [✂] than Prime Now, and [✂] than Morrisons at Amazon.[280] On the other hand, the average prices of the 50 most popular products sold by Deliveroo's five largest groceries partners are [✂] than those sold on Amazon Prime Now, and some partners [✂].[281]

6.76 [✂], as described below. Morrisons told us that [✂] in its initial trial with Deliveroo.

6.77 Amazon and Deliveroo use different pricing strategies. Although both Amazon and Deliveroo charge similar delivery fees, Amazon offers free delivery on orders over £40. Deliveroo customers effectively pay more for building large baskets (since commission is paid on each item), while Amazon's customers are rewarded for building large baskets which exceed the free shipping threshold. Deliveroo charges [✂], while Amazon retails its products, typically at prices [✂]. Amazon also requires customers to subscribe to Amazon Prime

[280] The overprice factors have been derived taking into account only the items within the 50 most popular products sold by Deliveroo's five largest groceries partners which had an exact correspondence with a product offered by Amazon.
[281] [✂] and items found on Prime Now accessed on 28 February and on 2 March 2020.

for an annual or monthly fee. We would expect customers to take some account of subscription and per-delivery fees in evaluating the total cost per basket delivered (for example when considering whether to re-subscribe to the service).

6.78 In June 2020, Morrisons told us that in its partnership with Deliveroo (which has expanded to 140 stores in response to the Coronavirus (COVID-19) crisis), the prices charged to customers are the same as the instore prices. [✄] orders attract a delivery charge of £4.50. [✄] of the retail value of the product to Deliveroo as a commission. We note that Deliveroo has [✄] during the Coronavirus (COVID-19) crisis ([✄] from [✄]% prior to 1 March 2020). If [✄] in the future, this would likely require [✄] to change their offer via Deliveroo.

Range

6.79 We note that Prime Now is also advertised with reference to shorter shopping missions: 'Try getting your last-minute items and other household goods'; 'from a last-minute dinner-party disaster to an emergency diaper situation'; or 'Twelve guests coming at 6:00 p.m.? And you need a roasting pan because your leg of lamb is too big for the makeshift pan you usually use? Plus some wine (in select cities) to get you through dinner prep?'.[282] The Parties commented that 'Amazon cannot offer an "ultrafast" on-demand grocery delivery like Deliveroo and that the language referred to in this paragraph concerns marketing material, which differs from the documents setting out details of Amazon's actual offering'.

6.80 Moreover, Amazon's internal documents suggest it attempts, among other things, to meet consumers' short-term meal needs. For example, [✄].

6.81 Nonetheless, Amazon's range is significantly broader than Deliveroo's. We therefore note that while some customers' purchases from Prime Now taking advantage of its wider range are unlikely to be in competition with Deliveroo, customers ordering from convenience-focused parts of Amazon's range may consider Deliveroo an alternative.

Competition for grocery suppliers

6.82 In this section, we consider closeness of competition between the Parties in terms of the route to market which they offer to grocery suppliers.

[282] See 'Everything you need to know about Prime Now' webpage accessed on date 9 June 2020.

6.83 The Parties submitted that:

(a) Deliveroo is able to offer retailers genuine on-demand order fulfilment for a limited range of convenience items and (hot) food deli items (eg in-store pizza) to be delivered in 20 to 30-minutes from order.

(a) Deliveroo is currently unable to [✂].

6.84 The Parties submitted that, in contrast to Deliveroo, Amazon can deliver a full range of goods and offers cold-chain capability, a scheduled service and warehousing capabilities.[283] The Parties submitted that the service provided by Deliveroo is largely complementary, rather than substitutable, with the type of service offered by Prime Now.[284]

6.85 We note that Deliveroo currently delivers a range of frozen and chilled items.[285] Stuart suggested that [✂]. Stuart also told us that it is able to offer scheduled orders by delaying the point at which an order is entered into its system.

6.86 [✂] told us that they can offer scheduled delivery using their point-to-point delivery networks simply by delaying the point at which the order is fulfilled. We therefore consider that it would be relatively easy for Deliveroo to add this capability to its proposition.

6.87 However, we accept that Deliveroo's vehicle fleet limits the size and weight of the grocery basket which it can currently deliver, and that it therefore cannot fulfil larger orders for grocers. Addressing this would require Deliveroo to change the composition of its fleet.

6.88 [✂] told us that a factor that could make restaurant delivery platforms less attractive as partners is that this would involve losing control of the customer relationship. One grocery retailer told us that using an online restaurant platform would remove them from the direct customer relationship, thereby limiting their ability to control the quality of the delivery service and conduct appropriate checks and verifications (eg age checks for alcohol/tobacco sales). Despite this, the retailer would still bear liability and brand reputational impacts for any failures in the service. The same factor makes Amazon less attractive as a potential partner. However, as described below, grocers have few options for partnering with business-to-business providers to offer OCG.

[283] Parties' Initial Submission, 24 December 2019, paragraph 5.23.
[284] Parties' Initial Submission, 24 December 2019, paragraph 5.24.
[285] The Parties commented that there was a difference between delivering frozen products for immediate consumption and for storage, but did not explain how this placed different requirements on the supply chain.

In practice, grocers have chosen to partner with Deliveroo and Amazon (and in Morrison's case, both).

Survey evidence on substitutability

6.89 Deliveroo's grocery offering is a recent development and to date has been of limited scale. This makes it difficult to evidence the extent to which customers of either party see the current offer from the other party as a substitute, and the extent to which this would change as Deliveroo makes its offer available more widely.

6.90 The Parties have argued that the two offers serve different shopping missions, with Deliveroo's offer serving more urgent impulse purchases and Amazon's offer being closer to a weekly 'big basket' shop. Impulse items (such as alcohol and confectionary) account for a large proportion of Deliveroo sales.

6.91 We commissioned an online survey of the Parties' OCG customers,[286] which was conducted by Accent and PJM Economics.[287] The survey included standard questions about how the current services are used and whether they are seen by customers as alternatives to one another. It also included a conjoint analysis (discussed below) which was intended to provide evidence of how future changes to the services offered may affect demand. As regards the current services, the survey found that:

(a) While each Party had a different 'typical' shopping mission, both served a range of shopping missions. A majority of Amazon customers (55%) had most recently used the service for general groceries, whereas a majority of Deliveroo customers (59%) had most recently used the service for impulse/indulgence goods (eg alcohol, tobacco, confectionary). However, 11% of Deliveroo customers most recently used the service for general grocery shopping, and 12% of Amazon customers most recently used the service for impulse/indulgence goods. Similar proportions of each customer group had used the service most recently for other shopping missions such as convenience items (Amazon 17%, Deliveroo 16%), or items forgotten from a planned shop (Amazon 8%, Deliveroo 9%).

(b) Deliveroo customers typically had a more immediate service need. Three quarters of Deliveroo customers either said they wanted to consume the items purchased straight away/as soon as possible (57%) or within an hour or so (17%), whereas the highest proportion of Amazon customers

[286] That is Amazon Prime Now customers who had recently ordered groceries for same-day delivery, and Deliveroo customers who had recently ordered groceries.
[287] Accent and PJM Economics (April 2020), Final Report.

said they wanted to consume purchased items the next day or later (38%). However, around a quarter of Amazon customers wanted to consume the items either straight away/as soon as possible (20%) or within an hour or so (6%).

(c) Correspondingly, nine out of ten Deliveroo customers said they needed delivery within 30-minutes (53%) or 30-minutes to one hour (37%). In contrast, only one in five Amazon customers said they needed delivery within either 30-minutes (2%) or 30-minutes to one-hour (17%).

(d) Most Deliveroo customers (59%) reported buying 'hardly any' of their total groceries over the last three months via Deliveroo's service, compared with 18% of Amazon customers buying 'hardly any' from Prime Now. In contrast, 42% of Amazon customers reported buying half or more of their groceries via Prime Now, compared with only 7% of Deliveroo customers buying half or more from Deliveroo.

(e) Fast delivery was the most commonly mentioned reason for choice of provider (76% of Amazon customers and 59% of Deliveroo customers gave it as a reason).

(f) Customers of the two Parties identified a broadly similar set of changes that would make them use the service for more of their grocery shopping. These included wider range (Amazon 58%, Deliveroo 47%), free/lower delivery charges (Amazon 35%, Deliveroo 48%), and lower item prices (Amazon 32%, Deliveroo 48%). As the figures indicate, delivery charges and prices were more of an issue for Deliveroo customers but also important to Amazon customers.

(g) A majority of customers reported that they would not purchase groceries via OCG if, hypothetically, their provider stopped offering the service, with the most common response being that they would purchase in-store (31% of Amazon customers and 37% of Deliveroo customers). Only 11% of Amazon customers and 20% of Deliveroo customers said they would have ordered groceries for same-day delivery from another provider.

(h) Of the 11% of Amazon customers who said they would have used a different provider for same-day OCG had Amazon stopped offering the service, the most frequently mentioned alternatives were Just Eat (13%), Zoom (13%), Deliveroo (12%), Iceland (10%), Uber Eats (9%) and Chop Chop (5%), but 28% did not identify an alternative supplier. Of the 20% of Deliveroo customers who said they would have used a different provider for same-day OCG delivery had Deliveroo stopped offering the service, the most frequently mentioned alternatives were Uber Eats (35%), Just

Eat (19%),[288] and Amazon (17%), with other providers each mentioned by less than 10% of customers and only 8% not identifying an alternative provider.

(i) The proportion of respondents for whom the other merger party would be their next best alternative (diversion ratio) was low (the diversion ratio for Amazon to Deliveroo is 2% and for Deliveroo to Amazon is 5%). However, this may reflect the relatively limited roll-out and awareness of OCG services at the time this research was conducted. Indeed the diversion ratios between Amazon and Deliveroo are comparable to diversion ratios from Amazon to other providers who provide similar services (Zoom and Chop Chop).

(j) When asked about their habits over the past 12 months in relation to the Parties' wider offerings,[289] just over half (52%) of Deliveroo customers reported using an Amazon Prime subscription to order non-grocery goods, while 27% said they had ordered groceries (for same-day or longer delivery); overall, 69% reported having a subscription with Amazon Prime. Amongst Amazon customers, a third (34%) had used Deliveroo's restaurant/take-away service and a fifth (20%) Deliveroo's OCG service in the last 12 months.

6.92 Taken in the round, the survey evidence indicates that Amazon and Deliveroo tend to be used for different shopping missions, but there is some overlap in the shopping missions which they serve (and more substantial overlap amongst the attributes of choice that matter most to customers). The results indicate that diversion ratios between the Parties, while low, are comparable to those from each of the Parties to other market participants who have similar offers, indicating that the diversion rates may reflect limited consumer awareness (or availability) of different OCG offers, in addition to any differences in the shopping missions they serve.

6.93 The survey was also the basis for a conjoint analysis which assessed the trade-offs customers may be willing to make between various attributes of choice[290] and predicted shares of preference for hypothetical future offerings. The conjoint design and analysis are described in detail in the survey report.

6.94 Among other results, this analysis confirmed that Deliveroo customers placed higher value on delivery speed than Amazon customers in making trade-offs

[288] In fact, Just Eat's OCG offer is still at a low-level trial stage at only 15 stores. This may suggest that some respondents confused the online restaurant and OCG offers of Just Eat (and potentially of other online restaurant platforms).
[289] Including, but not limited to, groceries.
[290] That is price, delivery charge, range and speed of delivery and the levels of these attributes.

between both speed and price level and speed and delivery charge, while Amazon customers valued range much more than speed.

6.95 The Parties expressed concerns about the validity of our survey, in particular relating to the comprehensibility of the choices offered for the conjoint analysis, and the risk that Coronavirus (COVID-19) biased the results. As to survey comprehensibility, we note that (a) we appointed an independent expert (Professor Stephane Hess) to peer review the conjoint component of the survey; (b) Accent conducted cognitive testing of the survey design, including the choices for the conjoint study, to ensure it was understood by respondents. We recognise the risk that the survey was influenced by the Coronavirus (COVID-19) crisis. However we note that Accent considered its results were unlikely to have been significantly affected by Coronavirus (COVID-19) because the sample was selected based on customer orders made in advance of widespread reporting of Coronavirus (COVID-19) cases in the UK, and the majority of the fieldwork was completed before social distancing guidelines were introduced (see page 14 of the Accent report).[291]

6.96 The Parties also conducted their own survey of their customers. We have a number of methodological concerns about the conduct of this survey which mean that the results cannot be compared directly with the CMA survey, in particular: it was not limited to customers for same-day delivery; only a very limited number of interviews with Amazon customers were achieved; early questions referring to alternative options may have biased responses to diversion questions. In addition, the survey was conducted after social distancing guidelines were introduced in the UK, which may have biased the results.[292]

Impact of Coronavirus (COVID-19) on closeness of competition

6.97 We have considered whether the changes Deliveroo has made to its OCG business during the Coronavirus (COVID-19) crisis may have brought it into closer competition with Amazon. Deliveroo's internal document '[✂]' notes that:

(a) '[✂]'.

(b) This will be delivered from brands such as Co-op, Morrisons, M&S via BP, McColls, and independents/specialists.

[291] Accent and PJM Economics (April 2020), Final Report.
[292] Accent and PJM Economics (April 2020), Final Report, page 14.

6.98 In addition, Deliveroo is now offering a 'Deliveroo Essentials' service from its Editions sites.

6.99 These developments could be seen as an extension of Deliveroo's service from 'impulse' shopping missions into the 'core grocery' mission. However, we have reviewed evidence on the changes Deliveroo have introduced in response to Coronavirus (COVID-19) and note that the changes do not include any increase in the ranges (from individual suppliers) or basket sizes offered (although the range available will vary as Deliveroo develops new partnerships), and the range offered through Deliveroo Essentials is limited to around 35 items. We also note that the groceries offered through Deliveroo's OCG service prior to the Coronavirus (COVID-19) crisis included non-impulse essential groceries.

6.100 In addition, Deliveroo's [✄] notes at the outset that:

(a) Consumers are primarily confined to their homes, in need of obtaining basic ingredients to cook meals, as supermarkets struggle to provide a constant food supply, and restaurants are closed to the public.

(b) Governments have asked Deliveroo to help ensure individuals who are at home during the Coronavirus (COVID-19) pandemic continue to have access to food.

6.101 Deliveroo told us that the NHS and Department for Health specifically asked Deliveroo to increase its selection of grocery providers on the platform given the lack of delivery slots with existing supermarkets.

6.102 Deliveroo continues to service OCG orders using its restaurant delivery network. We understand that Deliveroo has not [✄] in order to provide the services discussed above, and it is not clear that Deliveroo will have a commercial incentive to continue providing the same services in the medium-term, when the circumstances outlined above have changed.

Provisional conclusion on current competition between the Parties in OCG

6.103 As described above, the OCG offers of Deliveroo and Amazon are differentiated in terms of their delivery speed, pricing strategies and range. Our survey found that Amazon's customers typically use the service for general groceries, whereas customers typically use Deliveroo to purchase impulse/indulgence goods (eg alcohol, tobacco, confectionary). However, our survey also found overlap between the shopping missions fulfilled by the Parties' OCG services, and fast delivery was the most commonly mentioned reason for choice of provider for customers of both.

6.104 The Parties' logistics networks use different operational models. However, Amazon has in the past offered delivery within one hour, and currently does so in the US using a model more similar to [✂] (see paragraph 6.121).

6.105 On balance, our provisional view is that the Parties are differentiated competitors which currently compete only to a limited extent.

The Parties' ambitions in groceries

6.106 In the following, we consider evidence from the Parties' internal documents relating to their plans and ambitions in groceries generally, and then specifically in OCG. These internal documents predate the Coronavirus (COVID-19) crisis. However, Amazon told us that adjusting to increased demand resulting from COVID-19 has not led it to [✂], and Deliveroo has not [✂] as a result of COVID-19, [✂].

Amazon's ambitions in groceries

Scale of Amazon's groceries ambitions

6.107 Internal documents evidence Amazon's ambitions [✂]. The UK in particular is seen as a 'big opportunity' for Amazon in groceries, [✂]:

(a) [✂].[293] The Parties submitted that this document set out 'uninhibited blue-sky aspirations' rather than the reality of Amazon's business, and that it focused exclusively on the US market, which differs materially from the UK.

(b) A March 2019 document from Amazon's corporate development team proposed [✂]. When Amazon decided on a minority investment in Deliveroo, its investment approval document noted that [✂].

(c) [✂].[294] Amazon commented that this document was exclusively US-focused, had become outdated, and in any case represented a 'stretch-goal'.

(d) [✂]

[✂] and online delivery plans

6.108 [✂]:

293 [✂].
294 [✂].

(a) [✂]

(b) [✂]

6.109 [✂]

6.110 [✂]

6.111 Amazon told us that [✂]. We note that the plans included delivery within [✂] hour, but that they do not describe in detail how this will be achieved, and [✂]. [✂].

Deliveroo's food ambitions

6.112 Given its rapid growth, Deliveroo engaged [✂].

6.113 [✂][295]

6.114 A June 2019 Deliveroo strategy document identified grocery as [✂].

6.115 Deliveroo told us that it was focused on its restaurant food delivery business and has not [✂]. It said it had [✂]. The Parties told us that Deliveroo's ambition to be the 'definitive food company' was [✂]. The Parties submitted that 'the CMA has chosen to refer to an early scoping document (from June 2019)' which did not reflect the subsequent evolution of Deliveroo's business. We note that June 2019 is a relatively recent document within the context of Deliveroo's groceries business.

The Parties' plans to supply OCG

6.116 As shown above, both Amazon and Deliveroo internal documents indicate ambitions to compete in the supply of delivered groceries. We now consider their plans to compete in the supply of OCG.

Amazon's OCG plans

6.117 Amazon plans [✂] online groceries delivery business. Its documents describe this as a 'Ultrafast Groceries' business, [✂]. Amazon told us that its current plans [✂] remain unchanged in light of Coronavirus (COVID-19), [✂].

6.118 [✂]

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[295] [✂].

6.119 [✄]

(a) [✄]

(b) [✄]

(c) [✄]

(d) [✄]

(e) [✄]. The Parties submitted that the CMA inquiry had no impact on Amazon's business planning.

(f) [✄]

6.120 In summary, grocery delivery within [✄] hours of ordering was discussed in a number of Amazon documents dating up to late 2019.

6.121 [✄]

6.122 [✄]

6.123 Amazon told us that [✄].

6.124 [✄]. We also note that [✄][296] (although it has not done so to date).

6.125 The Parties told us that '[✄] is aimed at [✄] by [✄] depending on its supply-side capabilities. It underlines, rather than refutes, the fact that Amazon's network of centralized FCs [fulfilment centres] [✄]'.

6.126 We note that delivery within [✄] would be substantially faster than current Prime Now delivery in the UK. It remains to be seen whether such a service, if made widely available, would compete with sub-30-minute OCG offers.

6.127 [✄]. The same document also notes [✄].

6.128 [✄].[297] The Parties commented that 'the experimental offerings referenced are the quickest offerings of Amazon's supermarket competitors [✄]'.

Our provisional view of Amazon's OCG plans

6.129 Amazon's Ultrafast Groceries service will supply a wide range of products in the UK, and for many customer missions we would expect this to compete with traditional grocers' online delivered groceries offers. However, we

[296] Parties' Initial Submission, 24 December 2019, paragraphs 5.7, 5.13 and 5.36.
[297] [✄].

consider there is evidence that Amazon is likely to compete to offer faster delivery in OCG as:

(a) Amazon has made repeated and sustained efforts to differentiate itself from traditional grocers on the basis of delivery speed.

(b) offering delivery within one hour was part of Amazon's plans as recently as [✄]; and

(c) Amazon has continued to develop its capabilities to offer rapid delivery in the US.

Deliveroo's OCG plans

6.130 As described above, Deliveroo has already entered the supply of convenience groceries in the UK through several partnerships, including with Co-op, Shell, BP and local symbol group stores. In a short period, it has already built a business area generating [✄] per year in sales, and over £[✄] in delivery and other fees, even prior to conducting its strategic planning exercise in 2019.

6.131 As part of its 2019 strategy review, Deliveroo identified an 'Online Convenience Grocery Opportunity' [✄].

Figure 6.2: Deliveroo overview of grocery competitors

[✄]

Source: Deliveroo.

6.132 Amazon's Prime Now service is [✄] in the list of UK 'On Demand' competitors (see Figure 6.2), [✄].

6.133 Deliveroo developed its OCG business case over the summer of 2019. By August 2019, it planned to address [✄].

Figure 6.3: [✄]

[✄]

Source: Deliveroo.

6.134 Deliveroo's planning document stated it would:

(a) [✄]. Deliveroo has made a [✄] with Co-op, through which Deliveroo would [✄] expand its partnership with Co-op [✄]. Co-op has since confirmed that, although this rollout was paused in 2019, it plans to go ahead and roll out this business to [✄].

(b) [✄]

(c) [✄]

6.135 In summary, Deliveroo's internal documents appear to propose a [✄] of its online convenience grocery offer, with a broad-based strategy including [✄], and a target of achieving revenues of £[✄].

6.136 Deliveroo told us that these plans did not reflect the views of its executive team, and that it has [✄]. It said that the potential offers with partners such as [✄], Booths, and Holland & Barrett would be focused on food for immediate consumption and impulse items.[298] It also said that its identification of [✄] reflected that Deliveroo had not fully understood its own capabilities at that stage. The Parties submitted that in relation to 'add-ons', Deliveroo's aim was to [✄] and as such this was an [✄].

Competition in OCG

6.137 As we discuss below, a number of players are interested in supplying OCGs and have been expanding in the market, whether in the form of rolling out services, conducting trials, or negotiating with potential partners. These potential market participants include:

(a) Online grocery providers, namely Amazon and Ocado.

(b) Online Restaurant Delivery marketplaces, namely Deliveroo, Uber Eats and Just Eat.

(c) Convenience store providers including Co-op, Costcutter, Londis and Nisa.

(d) Traditional grocery providers such as Sainsbury's, Waitrose, Tesco and Asda.

6.138 In considering future competition between Amazon and Deliveroo, the activities of these other players are relevant in that:

(a) The services available on the market may need to evolve in response to competition from one another. In particular, providers who currently offer slower delivery speeds may need to find ways to speed up to compete with OCGs delivered via point-to-point delivery networks, while in turn services relying on point-to-point networks may need to expand their

[298] We note that Holland & Barrett currently offers cooking ingredients, toiletries and other non-impulse items through Deliveroo.

ranges and/or price more competitively. Market participants face significant challenges in improving their offers in these ways, and also in rolling out their services. However, several players have told us they are seeking to improve their offers along these lines. To the extent that the OCG services offered by Deliveroo and Amazon are subject to these same competitive forces, they may be compelled to improve their services in ways that will bring them into closer competition with one another than at present.

(b) As rival services improve and expand, they may become a competitive constraint on Amazon and/or Deliveroo. Given the nascent state of the market, and the impact of Coronavirus (COVID-19), recent market shares may not be informative of future competition constraints. We consider the relative strengths of current and potential market players, and on the nature and scale of their recent expansion/entry plans. In addition, we note that an OCG service requires a number of elements: an ordering interface (website and app), a grocery supply chain (to stores and/or fulfilment centres), and a last mile delivery network. Individual market participants who do not have all of these elements in a fully-developed form may be able to compete in the market in partnership with others, or by sub-contracting elements which they do not have in house.

6.139 Our assessment focuses on OCG services. We have considered the extent of constraint from grocery and convenience stores ('bricks and mortar' stores) on the OCG market. On the assumption that overall demand and household budgets for grocery will be broadly stable, growth in demand for OCG is likely to be largely at the expense of traditional grocers. In order to grow, OCG providers will need to ensure that delivery charges and item prices (relative to in-store) do not exceed customers' willingness to pay for fast home delivery. Strong initial demand for some OCG trials and services indicate that some operators have been able to develop services that achieve this.

6.140 In the following, we briefly describe the services and plans of current market participants. These descriptions reflect both the services and plans prior to the Coronavirus (COVID-19) crisis, and updated information from most providers about their services and plans in light of Coronavirus (COVID-19).

Online grocery providers

Ocado Zoom

6.141 Ocado has provided an OCG service through Zoom since February 2019. Zoom offers:

(a) **Delivery:** within 30-minutes or one-hour, or 30-minute scheduled delivery windows later the same day;

(b) **Range:** around 10,000 products;

(c) **Prices:** matched to Ocado's wider grocery offer;

(d) **Minimum order value**: £15; and

(e) **Delivery charge**: from £1.99 to £2.99.

6.142 Ocado told us that average basket spend on Zoom was between £[✂] and £[✂].[299] Zoom deliveries are fulfilled from a [✂] warehouse and the service is available only in West London (Ealing, Acton, Chiswick, Kew and some other surrounding parts of West London). Ocado estimates Zoom's reach at [✂]% of the UK population and recorded revenues of £[✂] million in 2019 (for deliveries within four hours of ordering). Deliveries are fulfilled exclusively by Stuart.

6.143 Ocado told us its first site had performed strongly, with retention and spend exceeding Ocado's initial business plan. In February 2020, Ocado forecast that Zoom would reach [✂]% of the UK population and achieve revenues of £[✂] million in 2020. [✂].[300]

6.144 Ocado has seen demand for Zoom across a wide range of shopping missions:

> 'Most orders are 'small' or 'top-up shops' of £30–£50. We also do see some 'full shops' ([✂]) and 'dinner for tonight' missions, very few orders we would classify as 'distress purchases'. OZ over-trades in impulse/BWS [beer, wine and spirits] and under-trades in household/core grocery'.

6.145 January 2020 sales data indicate demand for groceries via Zoom across the full range of grocery categories, although with some differences in the distribution from the standard Ocado service ([✂]), as shown in Figure 6.4 below.

Figure 6.4: [✂]

[✂]

Source: Ocado.

[299] However, average basket sizes have increased during the Coronavirus (COVID-19) crisis.
[300] [✂].

6.146 As it continues to develop Zoom, Ocado said it intended to test different lead times of On Demand (eg delivered in 90/120-minutes) and sensitivity of delivery pricing, and to transition to the M&S range, following its partnership with M&S.

6.147 [✂]:

(a) [✂]

(b) [✂]

6.148 Ocado expects that design improvements will enable future sites to achieve much greater productivity ([✂]).

Online restaurant delivery marketplaces

Just Eat

6.149 Just Eat told us that it had only recently launched into on-demand groceries and is still at a trial stage. It is in early discussions with some UK grocers including Asda, One Stop (Tesco), Co-op Central England and Nisa and is currently trialling with Asda and One Stop. It told us that its OCG service had not grown materially between March and May 2020.

6.150 Orders are fulfilled by Stuart. Just Eat is also developing its own last-mile logistics network, primarily for restaurant delivery.

6.151 Prior to the Coronavirus (COVID-19) crisis, Just Eat was partnered with Asda to deliver OCG. However, Asda told us (at the start of June 2020) that its online convenience grocery offer had been stopped due to the demand for high volumes of products and the limitations brought in with social distancing as a result of the Coronavirus (COVID-19) crisis. Asda told us that it expects to reintroduce this offer, and that demand is expected to be high when that happens.

6.152 Prior to the Coronavirus (COVID-19) crisis, Just Eat's partnership with Asda offered:

(a) **Delivery:** within around 30-minutes, or with scheduled delivery within two days;

(b) **Range:** 160 products; and

(c) **Delivery charge:** £4 (including a 50p service charge).

6.153 Just Eat's partnership with Asda was fulfilled from five Asda stores in London, Leeds and Leicester, reaching an estimated [✂]% of the UK population in 2019. Asda forecasted (prior to the Coronavirus (COVID-19) crisis) that [✂].

6.154 In addition to the services it was trialling with Just Eat, Asda told us (prior to the Coronavirus (COVID-19) crisis) that [✂].

6.155 [✂]

6.156 Just Eat is also conducting an initial trial with Tesco One Stop, offering on-demand (30-minutes to one-hour) deliveries of around 200 products, with orders mainly fulfilled [✂].

Uber Eats

6.157 Uber Eats had [✂] relationships with convenience-focused stores as of February 2020 including Costcutter ([✂] stores), Bestway Wholesale (Bargain Booze, Wine Rack, Select Convenience, Central Convenience Stores, Best One) ([✂] stores), McColls ([✂] stores), and Iceland under the brand 'Sweet Justice' ([✂] store). In 2019, Uber also agreed to acquire Cornershop, a grocery-focused operator primarily active in Latin America. Uber Eats told us that it had seen (approximately) [✂] convenience/grocery stores on its App since the start of March 2020.

6.158 Uber Eats partnership with Costcutter offers:

(a) **Delivery:** within around [✂]-minutes;

(b) **Delivery charge:** variable, dependent on the Costcutter store, customer location and order value.

6.159 Costcutter told us that its offer through Uber Eats was similar to those of Co-op and Nisa offered through Deliveroo, in terms of range, basket sizes, item prices, service price and delivery experience. Costcutter expected to reach [✂]% of the UK population through Uber Eats in 2020, with revenues of £[✂] million. Costcutter submitted that its ambition is to have over [✂] on Uber Eats platform in 2022. The offer reached an estimated [✂]% of the UK population in 2019, with revenues from the online convenience groceries at £[✂] million.

6.160 Costcutter has seen the number of independent retailers signed up to the Uber Eats App through Costcutter increase from around [✂] per week in the period preceding the Coronavirus (COVID-19) crisis to around [✂] stores per week as of 1 June 2020. Costcutter told us that it expects that the total online growth that has been seen during the Coronavirus (COVID-19) crisis will continue to accelerate but at a slower speed.

6.161 Overall, in 2019, Uber Eats reached an estimated [✂]% of the UK population with online convenience grocery deliveries, earning revenues of around £[✂] million. Uber Eats has also been in discussions about delivering for additional [✂] stores.

6.162 As a result of the Coronavirus (COVID-19) crisis, Uber Eats has seen [✂] growth in the number of grocery/convenience stores listed on its App, with the number [✂] between the start of March 2020 and the start of June 2020. Uber Eats told us that it believes that this growth has been driven primarily by the increase in consumer demand for online grocery shopping as a result of Government restrictions and as consumers have sought to avoid in-person journeys. It told us that it believes that in the long-term, even if some of the demand that has moved online shifts back to in store as Government restrictions are eased, there will continue to be a wider offering for customers to shop online, increasing competition and growth of this segment.

Convenience store providers

Co-op

6.163 In addition to its agreement with Deliveroo, Co-op has been trialling its own online convenience grocery service since March 2019. Co-op offers:

(a) **Delivery:** within two hours and scheduled one-hour windows later the same day;

(b) **Range:** around 2,500 products;

(c) **Prices:** at the in-store price; and

(d) **Delivery charge:** £3, or free for orders above £25.

6.164 For almost all of its stores, deliveries are fulfilled by Stuart and Ecargo Bikes via cars, motorbikes or bikes. A partnership with Starship Technologies includes seven stores where groceries deliveries are made within two hours in autonomous delivery vehicles. Co-op has also launched a partnership with personal shopper service Buymie and will be launching a partnership with [✂] (another personal shopper service) [✂].

6.165 Co-op told us that its own on-demand food delivery service is a very similar proposition to the service it runs in partnership with Deliveroo, with the main differences being that it offers a wider range of products, and these products are priced at the same level as in Co-op's stores. Co-op told us that on the Deliveroo service, different products tend to sell well compared to its own service, indicating it is reaching different customers.

6.166 Co-op is planning on extending its own OCG service [✂]. It expects to be able to achieve one-hour delivery in 2020 and [✂].

6.167 The number of stores fulfilling Co-op's OCG service grew from 99 stores to 167 stores between March and April 2020. Co-op told us that this expansion is in line with its rollout plan from before the Coronavirus (COVID-19) crisis.

6.168 Prior to the Coronavirus (COVID-19) crisis, Co-op forecast that its online convenience grocery service would expand [✂].

6.169 In April 2020, Co-op modelled a number of scenarios for how the Coronavirus (COVID-19) crisis may impact its OCG sales. It forecast that there would be an additional £[✂] million in revenues from across its own OCG service and its sales through Deliveroo in 2020.

Traditional grocery stores

Sainsbury's Chop Chop

6.170 Sainsbury's has provided online convenience grocery services through Chop Chop since September 2016. Currently Chop Chop offers:

(a) **Delivery:** within one hour and scheduled one hour windows later the same day;

(b) **Range:** around 5,000 to 6,000 products;

(c) **Minimum order value:** None; and

(d) **Delivery charge:** £4.99.

6.171 Prior to the Coronavirus (COVID-19) crisis, Chop Chop had a maximum basket size of 25 items. However, in order to deal with the increased demand during the Coronavirus (COVID-19) crisis this was reduced to 20 items.

6.172 As of February 2020, Chop Chop was only available in London, with its deliveries fulfilled from seven Sainsbury's retail stores (picked and packed by store assistants). Each store offered delivery within a three kilometre radius (covering most of Zones 1 and 2). Sainsbury's estimated Chop Chop's reach at around [✂]% of the UK population with revenues of £[✂] million in 2019.

6.173 Chop Chop's footprint has expanded significantly since March 2020, as a result of increased customer demand for OCG brought about by the Coronavirus (COVID-19) crisis. In April 2020, Chop Chop added two further London locations. Since then, it has opened a further four locations in London and non-London stores across Reading, Manchester, Bristol and Brighton. In total, Chop Chop has moved from seven London stores in early March 2020 to 19 stores as of 1 June 2020, almost doubling its initial postcode reach.

6.174 In 2019 Sainsbury's estimated Chop Chop's reach at around [✂]% of the UK population with revenues of £[✂] million. Deliveries are fulfilled by Stuart, [✂].

Waitrose Rapid

6.175 Waitrose has offered a convenience grocery service through Rapid since September 2018. Rapid offers:

(a) **Delivery:** within two hours or in a same-day one hour window;

(b) **Range:** around 2,500 products;

(c) **Minimum order value:** £10; and

(d) **Delivery charge:** £5.

6.176 Rapid has a maximum basket size of 25 items. Deliveries are fulfilled by Stuart.

6.177 Prior to the Coronavirus (COVID-19) pandemic, Waitrose deliveries were fulfilled from ten Waitrose branches – eight within London, one in Hove and one in Bath. Each store offers on-demand delivery within approximately a three mile radius. In 2019 Waitrose estimated Rapid reached [✂]% of the UK population, with revenues of £[✂] million.

6.178 In April 2020, Waitrose rolled out Rapid delivery to [✂] new shops in London.[301] Waitrose Rapid order volumes increased from [✂] in February 2020 to [✂] in May 2020, with revenues growing from £[✂] to £[✂] million over this period.

Expansion and development of competitive offers

6.179 As customer demand evolves and competitors expand and improve their offers, Amazon and Deliveroo may come under pressure to respond in ways

[301] Waitrose told us that [✂].

that are likely to bring them into closer competition with one another, and on the other hand competitor expansion may provide an increasing constraint to Amazon and Deliveroo. In assessing potential competitive dynamics, we consider the following points:

(a) Perceptions of consumer trends and the potential market;

(b) Market participants' current perception of their offers and competitors;

(c) Plans and/or intentions to expand in the market;

(d) Plans to develop aspects of the service offered; and

(e) Challenges to expansion and service development.

Perceptions of consumer trends and the potential market

6.180 An Ocado internal strategy document comments that: '[w]e launched Zoom to respond to the market and consumer shifts to immediacy. Zoom is an immediacy offer launched given the trend to more frequent, smaller baskets and demand for shorter lead teams [sic]. The launch of an immediacy service was supported by three clear grocery trends: (i) smaller basket, more frequent, shops; (ii) spend shifting online; and (iii) demand for shorter-lead time delivery'.

6.181 Ocado told us that Zoom has performed strongly, with retention metrics and average spend both exceeding its original business plan.

6.182 Uber Eats told us that the Coronavirus (COVID-19) crisis has resulted in increased consumer demand, which has accelerated conversations between retailers and online convenience grocery platforms. Uber Eats told us that this increase in consumer demand is likely to have some lasting impact on buying behaviour. However, it expected that in the longer-term when stores reopen, some consumer demand would move back into stores.

6.183 Co-op expanded its OCG after its initial trial showed evidence of consumer demand. It commented that one longer-term effect of Coronavirus (COVID-19) could be an increased market size due to changes in consumer behaviour.

6.184 Sainsbury's submitted (prior to Coronavirus (COVID-19) that it had witnessed an increase in consumer demand whereby consumers expect to be able to get what they want exactly when they want it. This includes an aggregation of missions (order types) from groceries to hot food. The (on-demand) expectations that consumers have of hot food is now translating into grocery, and Sainsbury's aims to make sure that it does both activities. Sainsbury's has seen a generational trend in the way consumers shop and it predicts that the next generation of shoppers won't shop in the same way current and previous shoppers have done. This has blurred the lines of competition between supermarkets and convenience delivery services.[302] On the other hand, Sainsbury's told us that it sees the OCG proposition as highly challenging and expects [✄].

6.185 Sainsbury's told us that the Coronavirus (COVID-19) crisis had considerably accelerated demand for online groceries, including OCG, and supply of OCG services. It does not believe these levels will return to the pre-crisis position once the crisis settles.

6.186 Waitrose told us that the Coronavirus (COVID-19) pandemic had increased consumer demand for OCG. It estimates that the market will accelerate rapidly in 2020, [✄]. In 2021, it assumes that the overall retail sector will return to normal and that online convenience will pull back sharply, but to a level that is above the pre-crisis position. Beyond this, it assumes that the OCG market will grow faster than the overall online grocery market, driven by continued customer behaviour change towards online grocery shopping and convenience missions.

6.187 Just Eat told us that '[g]iven the market for convenience grocery has a value of £42 billion in the UK and is currently all offline, industry experts are estimating approx. 10% to move online (source: Bernstein Report, although this does not specify a timeframe for this shift to online)'.

6.188 Morrisons considers that ultrafast delivery will grow in the future and that this area of the grocery industry will grow faster than other channels.

6.189 Tesco told us that it does not have a view of how large the OCG market will be. However, it said that the market has grown as customer expectations and needs have changed.

6.190 Tesco told us that instant delivery is currently a different shopping mission to next-day delivery. However, in the long-term as the instant delivery market grows and becomes more of the norm for customers, shopping missions are likely to converge and customers are likely to shop for small and big baskets alike through either instant or next day delivery. This is likely to be driven by the propositions retailers offer in the market.

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[302] Sainsbury's sees online restaurant delivery as part of this trend, noting that eating at home used to involve a takeaway or self-prepared food, but with services such as Deliveroo, consumers are able to eat restaurant food at home. This competes with Sainsbury's as fewer people are eating Sainsbury's self-prepared food at home.

6.191 Asda told us that the impact of Coronavirus (COVID-19) is likely to accelerate growth in the online convenience grocery market. It believes the online convenience grocery market will continue to grow as customers demand quicker, cheaper and smarter solutions.

6.192 Stuart told us that people have started to become more accustomed to the idea of ordering through their phones and have expectations of delivery that are far faster for items other than prepared food. It has in turn become more common for retailers to view speed as either a potential competitive advantage or a necessity.

6.193 Stuart commented that in future, if grocers believe that one-hour delivery is limited to satisfying urgent needs, then basket sizes will remain small, but the alternative could be that grocers will identify a new shopping experience for customers, such as shopping for two or three days, which would require a larger basket.

6.194 A recent report by Mintel notes that existing online convenience grocery propositions have been 'small localised or trial schemes, not on the national level needed to drive a true step change in growth. Indeed even if they were scaled to be national, if that is indeed even possible, the additional costs associated with such services would be unlikely to attract many consumers outside the affluent base who are already most likely to shop online’.[303]

6.195 In summary, third parties reported a change in shopping habits to smaller and more frequent shops, and growing expectations for faster delivery. This is supported by the fact that some early trials have seen a strong demand response. However, there is no consensus among third parties as to how significant OCG will become in the context of the broader groceries sector. This will depend in large part on whether market participants will be able to sustain offers that will be attractive to consumers.

6.196 Providers who expressed a view generally expected that the Coronavirus (COVID-19) crisis had accelerated both demand and supply for OCG services, and would have an impact on consumer behaviour beyond the short-term, increasing the size of the market.

Market participants’ perceptions of their offers and competitors

6.197 A recent Ocado strategy document indicates that it takes a broad view of potential competitors in OCG ‘[a] number of competitors from different fields (traditional supermarkets, delivery specialists, Amazon, start-ups) are

[303] Mintel, Online Grocery Retailing UK 2019.

exploring this field, though we don't believe any are profitable or, Amazon aside and [sic], have scale in the UK – though Co-Op are expanding rapidly (Exhibit 1). We are also seeing additional competition from hot food delivery competitors, and the merger of Just-eats and Takeaway, as well as the potential merger of Amazon and Deliveroo will drive additional competition'.

6.198 Ocado told us it has seen growth in OCG and competitor activity in response to Coronavirus (COVID-19). This included:

(a) Sainsbury's Chop Chop, Co-op quick shop and Waitrose Rapid significantly increasing capacity and coverage.

(b) Amazon expanding its Prime Now food range in partnership with Morrisons and press reports that Amazon will be launching 'Amazon Ultra Fast Fresh' which will 'bring rapid delivery grocery to 40% of UK households by 2021'.

(c) Online delivery platforms/takeaway players (such as Deliveroo, Just Eat and Uber Eats) increasing their range of groceries.

6.199 Uber Eats told us it currently offers an effective solution (as shown by the demand response to its offer) for a somewhat urgent, last-minute, complementary groceries shopping mission, [✂].

6.200 In a communications plan for the launch of its partnership with Costcutter, Uber Eats describes the service as offering '[i]ncreasing selection and choice for users – whether you forgot to pick up everyday essentials like bread and milk or a simple snack, our partnership with Costcutter will give users access to everyday staples at the push of a button'. On the other hand, the same document also notes that '[m]ost popular items ordered during the trial included chocolate, crisps, milk, alcohol and soft drinks'.

6.201 An Uber Eats internal document indicates that it views [✂] as competitors for its online convenience grocery offer. A 'convenience store strategy' presentation refers to a range of competitors including [✂].

6.202 Co-op told us that when it expanded its relationship with Deliveroo after the initial trial (which ended in November 2018), it increased the number of products [✂], and that one of the aims of the product extension was to include products for meals, not just supplementary products such as confectionary or alcohol. In a November 2019 internal document setting out its own (non-Deliveroo) online customer proposition, Co-op commented that: '[✂]'.

6.203 Co-op told us that its own service offers a wider range of products than offered via Deliveroo, and these products are priced at the same level as in the Co-op's stores. However, delivery times are slower (typically two hours) than through Deliveroo. With the Co-op's offering on Deliveroo, prices are a little bit higher and the product range is smaller.

6.204 Co-op has found that on the Deliveroo service, different products tend to sell well compared to its own service, indicating it is reaching different customers. It has found that the 'missions' (items to be delivered) tend to vary by delivery time. For 30-minute deliveries, Co-op has found that the orders often include items which customers 'need now' such as forgotten ingredients. It has found that customers using its own platform tend to order larger baskets and are likely to order food for more than one meal or for a couple of days. [✄], as Co-op works under the assumption that these services reach different customers.

6.205 In discussing competitors, Co-op focused on the OCG trials and offers of major grocery providers [✄]. Co-op told us that among the longer-term effects of Coronavirus (COVID-19) it had identified an increase in competition, as main competitors had realised the demand for online convenience groceries and this will likely form a bigger part of their future strategies.

6.206 Sainsbury's told us it took a wide view towards who it competes with, and noted that a common measurement in the industry is 'share of stomach'. However, Sainsbury's also said that on-demand and online delivery represent two separate infrastructures and support two separate customer needs. 'Next-hour'/ASAP and 'an hour of your choice' are different customer propositions. Customers who use an on-demand service need the product within an hour whereas customers who use online delivery are happy to wait until their scheduled delivery time.

6.207 A grocery retailer told us that the significant increase in customer demand for OCG services in response to Coronavirus (COVID-19) has generated considerable competition in the OCG market. It said Amazon and Deliveroo have taken extensive steps during the crisis to expand their presence in the OCG market – making it clear that: (i) they are actual, direct and close competitors in OCG/same day grocery delivery; and (ii) they are each a key route for retailers to access customers and customers to access groceries in the OCG space. It was of the view that the crisis has enabled Deliveroo to entrench a first mover advantage in this space. It said that the vast majority of activity in the OCG space since 1 March 2020 seemed to have been undertaken by Deliveroo and Amazon.

6.208 Morrisons saw Amazon as an ultrafast provider.[304] However, Morrisons expected 30-minute delivery to remain limited to hot food and certain grocery categories.

6.209 In summary, market participants tended to identify a range of different OCG providers as current or potential competitors, including the on-demand offers of online grocery providers (Amazon and Ocado), traditional grocery providers, and convenience store providers, but also grocery delivery through online restaurant delivery marketplaces including Deliveroo.

6.210 Some market participants saw OCG served via online food delivery marketplaces and those served via the grocery provider and/or third-party logistics providers as serving distinct shopping missions. However, we note this was a matter of perception, and was not supported by evidence from commercial interactions or market research. In addition, there is potential for the distinctions between shopping missions to converge as the market evolves.

Plans and/or intentions to expand in the market

6.211 Prior to the Coronavirus (COVID-19) crisis, Ocado told us that its plan for Zoom was to [✂].

6.212 Due to recent growth in the OCG channel and competitor activity resulting from the Coronavirus (COVID-19) lockdown, Ocado told us that [✂].

6.213 As of February 2020, Uber Eats had partnered with [✂] convenience stores including fascia organisations and independent sites. Around three-quarters of these arrangements had begun in the past few months.

6.214 Uber Eats told us that it wants to [✂] OCG, and this was [✂].

6.215 As a result of the Coronavirus (COVID-19) crisis, Uber Eats has seen [✂] growth in the number of grocery/convenience stores listed on its App, with the number [✂] between the start of March and the start of June 2020.

6.216 Just Eat told us that while it is active in OCG, this was not a strategic priority, as it is focusing on scaling its logistics platform and attracting brands to its platform. [✂]. Just Eat is also trialling an offer from Tesco One Stop. One Stop us told that it expects OCG to grow [✂].

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[304] With ultrafast food delivery Morrisons considers that it would be quite difficult for it to do this by itself. Therefore, partnership with an established player such as Amazon was an attractive way to enter the market.

6.217 In an internal document, Co-op describes its vision as '[t]o be the number one online convenience retailer in the UK, giving more customers access to our Co-op and seeks to achieve this through a combination of its own online platform and fleet, and through expansion of its Deliveroo partnership and other partners'. A Co-op planning document states '[p]lanning 2020 – we will continue to expand the offer as demand grows, we'll also work closely with Deliveroo as they move to new areas [✂]'. In recent months, Co-op has increased the number of stores in its Co-op Quick Shop offer from 99 to 167, in line with its plans prior to the Coronavirus (COVID-19) crisis.

6.218 Sainsbury's Chop Chop has expanded significantly since March 2020 as a result of the increased customer demand brought about by the Coronavirus (COVID-19), and it has plans to operate from 50 stores in 20 cities by mid-2020. Sainsbury's told us that this reflects its belief in long-term changes to customer behaviour and continued demand for OCG brought about by the Coronavirus (COVID-19). Its forecasts (as of 1 June 2020) show Chop Chop order volumes increasing from [✂] in March 2020 to [✂] in March 2021. However, Sainsbury's also said that to ensure reliability of its service [✂].

6.219 For Morrisons, the main focus was to increase its share of the weekly shopping online grocery business as it sees a bigger opportunity for growth there. However, Morrisons has accelerated its plans with Deliveroo and now services orders from 140 Morrisons stores.

6.220 Waitrose told us that its expansion plans have been accelerated due to elevated demand experienced under the Coronavirus (COVID-19) pandemic.[305] Waitrose told us that it is also evaluating potential plans to roll out Rapid Delivery to a further [✂]. However, no concrete decision has been made at this stage.

6.221 [✂]

6.222 In summary, most current and potential market participants expressed an interest or intention to enter or expand their presence in the OCG market, and interest in growing in the market was shared across different types of market participant – online grocery, online restaurant marketplace, convenience stores and traditional grocers.

6.223 Third parties varied widely in their ambitions for the OCG market, and in the nature of their plans and activities. However, as described above, a number of

[305] Waitrose told us that it also had to pause the service in Bath, due to operational constraints with the 3PL it uses for last-mile delivery, taking the total number of stores offering the Waitrose Rapid service to 29.

market participants have accelerated their plans in response to elevated demand experienced under the Coronavirus (COVID-19) crisis.

Plans to develop aspects of the service offered

6.224 Uber Eats told us that in the longer-term, [✂]. In March 2020, Uber Eats noted that it was currently seeking to acquire a grocery provider in Latin America (Cornershop) and that this was subject to regulatory review. [✂].

6.225 Co-op told us that it aspires to achieve one-hour delivery in the near future, [✂]. The challenges to faster delivery include: (a) the time taken by Co-op works to pick items in store; (b) the load capacity of couriers; and (c) the technology to help the Co-op predict basket size and plan courier availability. Co-op told us that it may bring its OCG delivery in-house, either using its current fleet of home delivery vehicles or leasing new vehicles.

6.226 [✂]. One grocery retailer notes that scale and order density are two essential components to achieving profitability.

6.227 Stuart said its prediction was that one grocery provider would make a commitment to offering a high-quality one hour delivery service and that other market participants would quickly seek to improve their offers in response.

6.228 Asda told us that [✂].

6.229 In summary, market participants are considering various developments of their activities in OCG, including serving broader grocery needs or increasing basket sizes ([✂]), and achieving or launching faster delivery ([✂]).

Challenges to expansion and service development

6.230 Ocado told us that the model used by some providers of fulfilling orders through retail outlets would raise problems with stock management as demand expanded. Ocado planned to expand Zoom by building more fulfilment centres.

6.231 Co-op told us it had experienced such problems. Its internal documents confirm this, but also describe ways in which Co-op is seeking to manage the issue: A September 2019 document states '[e]nhanced & integrated reporting – we're working with Retail IT to feed Deliveroo MI into our Data Warehouse so that we can provide comprehensive reporting that will allow us to understand performance, support stores where needed and provide additional information to Supply Chain colleagues so that they can also support the stores and making sure they have all the products they need'. However, an October 2019 document notes that '[t]he decision has been taken to pause roll-out through November and focus resource on providing coaching and support to stores in order to help improve rejection rates in stores'.

6.232 Co-op told us that the challenges to developing an OCG service included developing a platform, last-mile routing, and courier fleet integration. It said the necessary technology could be bought or used in partnership. For example, Co-op uses Bringg for last-mile routing, Asda uses Oracle and Morrisons uses Ocado. The e-commerce platform needs to be integrated with the courier fleet, which can be challenging if several courier services are used for different locations or purposes (eg bike vs refrigerated van).

6.233 Fixed costs of self-provision are high, so there are benefits to using a 'pay per order' courier service. Co-op has such an agreement with Stuart. However, we note that [✂].

6.234 Sainsbury's told us that it currently only uses Stuart for the logistics side of its Chop Chop offering. It had started in-house, but it was not economically viable to maintain an on-demand delivery fleet at that scale; having dedicated bikes or vans was far too expensive.

6.235 A groceries retailer identified a number of challenges to achieving a profitable OCG service, including:

(a) Customer acquisition costs: an expensive marketing campaign was not feasible.

(b) Baskets need to be expensive enough to cover the cost of the courier, but small enough to be transportable. The groceries retailer currently offers a maximum [✂] item basket and this can create issues with the load capacity of couriers.

(c) Stock management to ensure item availability.

(d) Limited availability of couriers at peak times or in bad weather.

6.236 A groceries retailer also noted the challenge of maintaining an element of customer contact if using a third-party platform (eg Uber Eats) for delivery, as opposed to using a logistics provider such as Stuart.

6.237 Tesco told us that the key challenges to its Tesco Now trial were: [✂]. The proposition was deemed to be unscalable without further technological development to address these issues.

6.238 [✂]. Stuart said that technology was the most important aspect of its business, because of the need for speed and accuracy in delivery, and this included having data for forecasting and modelling demand. In addition, having the density of orders to attract couriers was also important, and this makes it an expensive business in the early days.

6.239 Stuart told us that if demand shifted to larger baskets for instant delivery then Stuart would shift its fleet capacity accordingly, for example by adding more cars, or by adding trailers to bikes. This could also entail moving away from its existing model in which all its couriers use their own vehicles.

6.240 Stuart told us it had one huge advantage compared to a marketplace which is the lack of the customer acquisition and retention costs, and Stuart can then redeploy that money elsewhere.

6.241 In summary, OCG providers have identified a range of challenges to achieving fast and reliable on-demand delivery, while managing costs to enable a profitable and price-competitive offer, including customer acquisition costs. However, at present most market participants are seeking to expand and improve their offers, while engaging with possible solutions to these challenges.

Assessment

6.242 Current and potential market participants largely agree that there is scope for significant growth in the OCG market, consistent with relatively recent assessments by both Amazon and Deliveroo as set out above. Market participants also generally see the Coronavirus (COVID-19) crisis as having accelerated growth in the market. There is no consensus on the likely future size of this market, which depends on the ability of providers to roll out compelling offers to consumers, such that consumers will be willing to pay a premium over instore prices.

6.243 Delivery via online restaurant marketplaces is seen as different from other shopping missions. This may be because of the speed of delivery, range, or its relatively high price. We note in this respect that, given the limited scale of OCG services to date, demand for offers via online restaurant marketplaces may reflect a lack of alternatives (other than visiting a store), rather than necessarily implying a strong preference for delivery within 30-minutes over delivery within one hour.

6.244 Almost all larger players in the categories of online delivered groceries, online restaurant delivery, convenience stores and traditional groceries are currently active in trialling or offering OCG services with on-demand delivery of between 30-minutes and two-hours. A number of potentially important market participants have increased the pace of their OCG expansion plans in response to Coronavirus (COVID-19).

6.245 Market participants vary widely in a number of respects, including:

(a) the extent to which they see OCG as a priority relative to their core business, or to other growth opportunities;

(b) how far they have engaged with the challenges of OCG delivery;

(c) the scale and pace of their current OCG activities; and

(d) their business models.

6.246 However, most market participants share an intention not only to expand their existing offers but also to address their specific limitations, such as higher prices, limited range, or relatively slow delivery speeds. In addition, we note that some services – in particular Ocado, and to a lesser extent Waitrose, already offer a relatively large range, fast delivery, prices which reflect scheduled delivery or in-store prices and, in Ocado's case, a modest delivery charge. As the market matures, and if these or similar offers become more widespread, they are likely to put pressure on other market participants to improve their offers along these metrics.

Parties' incentives to improve offers

6.247 In the counterfactual, both Amazon and Deliveroo are also likely to have incentives to improve their OCG offers as the market evolves. To begin with Amazon, we note that:

(a) Amazon has consistently differentiated itself from competitors on its speed of delivery. Amazon Prime Now had a USP of offering same-day delivery within several hours while traditional grocers were offering next-day delivery or same-day delivery for orders placed in the morning and delivered that evening.

(b) To the extent that growth in OCG occurs at the expense of current demand for online delivered groceries (rather than traditional grocers or convenience stores) this would have a particular impact on Amazon's grocery services.

(c) An effective nationwide OCG service, offering a wide range, could potentially expand into other aspects of e-commerce, threatening Amazon's core business.

6.248 Amazon has expressed its intention to sell food in a 'differentiated, compelling way', in the context of its acquisition of Whole Foods. Recent internal documents indicate the strategic importance to Amazon of [✄] as a differentiator against its grocery competitors:

(a) [✄]

(b) [✄]

6.249 Amazon's [✄] describes a need to [✄].

> '[✄]'.

6.250 We note that this comment does not distinguish between the 'ultra-fast' offer from Amazon and those of Ocado (Zoom) and Waitrose (Rapid).

6.251 As regards the threat to Amazon's e-commerce business, in one email chain discussing [✄], an online food delivery company in [✄], an Amazon representative states that '[✄]'. The Parties submitted that circumstances in India were not comparable to those in the UK.

6.252 Amazon has submitted that [✄]. However, we note that a range of other OCG providers are seeking ways to address similar challenges in order to achieve delivery speeds of two hours, one hour or faster.

6.253 As set out above, we note that Amazon was in fact considering [✄] in the UK until very recently (see paragraph 6.119 above). In addition, it is rolling out its [✄] offer in the US (paragraphs 6.121 to 6.128). The reason Amazon gives for rolling out faster delivery in the US but not the UK relates to [✄], but this also appears to be an issue in the US (see paragraph 6.127 above).

6.254 In addition, we note that Amazon has begun to trial an online restaurant food delivery service in India.[306] As we discuss in the context of entry to online restaurant delivery, partnership or acquisition of a non-UK party with a point-to-point delivery system is another option available to Amazon in introducing such a system in the UK. Third parties have told us that the technology powering their platform and delivery network is generally transferable between countries.

6.255 Overall, our view is that Amazon has an incentive to compete in the supply of OCG services and, as such, will have a strong incentive to adapt its business model in order to ensure its offer is competitive with other market participants. In addition, as we discuss below, Amazon has a number of advantages as an

[306] The Parties submitted that this project does not build materially on the experience from Amazon Restaurants, as India is a very different market.

OCG provider, which could put it in a strong position if it overcame the challenges around last-mile delivery.

6.256 Deliveroo has set out ambitious plans for OCG delivery, as described in paragraphs 6.131 to 6.136, although it has subsequently told us that these plans do not reflect its current position. [✂].

Future competitive constraints on Amazon and Deliveroo in OCG

6.257 As the discussion above indicates, a successful roll-out of the services currently planned by rivals may be expected to impose a degree of competitive pressure on Amazon, Deliveroo, or both. However, a merger may still give rise to an SLC where other market participants are competing against the merging parties. The likelihood that other providers will provide a sufficient constraint on the merging parties to prevent an SLC will be informed by the competitive strength of the merging parties relative to the overall market, and in particular the extent to which the merging parties' offers are differentiated from other providers and from one another.

Shares of supply

6.258 Because OCG is a nascent market, and particularly in light of Coronavirus (COVID-19), historical sales are unlikely to be informative of the relative importance of market participants. Most offers have been introduced relatively recently, and to date have operated at a very limited geographic scale, but are supported by participants with expansion plans and a presence in related markets. In addition, the Coronavirus (COVID-19) crisis has led to a substantial expansion of some OCG services. The Parties submitted that in 2019, most UK Prime Now grocery orders took more than [✂].

6.259 Table 6.2 sets out sales data for 2019. [✂].

Table 6.2: OCG sales (gross merchandise value, £m)

Party	*2019*
Amazon Prime Now (including Morrisons)*	[✂]
Co-op	[✂]
Deliveroo	[✂]
Ocado	[✂]
Sainsbury's	[✂]
Uber Eats**	[✂]
Waitrose	[✂]
Total Market	[✂]

Source: CMA analysis based on data from parties.
Notes:
* [✂].
** [✂].

Amazon and Deliveroo's future market position

6.260 Amazon has a number of advantages which could put it in a strong market position in OCG, particularly if it were to develop a fast (one or two hour) offer. In particular:

(a) As a web/app-based service, Amazon already has a significant presence in online retailing, relative to traditional grocers and convenience stores. It has a large base (a projected [✂]% of households) of Amazon Prime customers to whom it could promote its service, reducing the customer acquisition costs which have been identified as a challenge by some other market participants. Amazon could also promote its service to non-Prime Amazon customers.

(b) Prime Now has given Amazon a logistics model which it could use as the basis for expanding its OCG services. [✂]. The Parties submitted that Amazon does not currently envisage any [✂] that would be required to fulfil faster delivery promises.

(c) Take-up of its OCG service could allow Amazon to attract more customers to Prime and achieve 'flywheel' benefits which would not be available to most other current or prospective providers of OCG.[307] This is likely to increase the value of customer acquisitions to Amazon relative to other OCGs who have less scope to achieve such flywheel benefits, making Amazon a relatively aggressive competitor. The Parties submitted that additions to Amazon's business do not always lead to flywheel benefits, and those that perform badly can have a negative impact on customers' perception of Amazon.

(d) In courier acquisition, Amazon has a well-known brand and a model ([✂]) which could allow it to build a large courier base relatively quickly. In addition, while its existing couriers mostly use cars, these can also be used for point-to-point delivery in some circumstances.

6.261 Our assessment of entry by Amazon into the online food delivery market identified some further points which could give Amazon an advantage in OCG (whether or not it also entered into online food delivery):

[307] The term 'flywheel' is used at Amazon to describe something similar to a virtuous cycle, which powers the business. For example, lower prices lead to more customer visits, more customer visits increase the volume of sales, and that results in more commission-paying third-party sellers to the site. [✂].

(a) Amazon's ability to sustain losses while it builds the scale needed to be successful as well as its ability to invest significantly in marketing and its customer proposition ([✂]).

(b) Amazon being well placed to innovate (due to its 'deep pockets' and leadership in technological innovations).

6.262 Amazon also has disadvantages relative to some OCG market participants. As discussed above, it does not yet have a point-to-point logistics network that could be used for OCG in the UK, which reduces its ability to cost-effectively deliver OCG within one or two hours. In addition, while it has a grocery supply chain this is less extensive than those of some traditional grocers.

6.263 Deliveroo has some important advantages in OCG supply:

(a) As an app-based service, Deliveroo already has a significant presence in online retailing, relative to traditional grocers and convenience stores. It has a large customer base on its app, which is likely to have a similar demographic to the OCG market. For example, [✂]. The future scale of this advantage will depend on Deliveroo's future performance in online restaurant delivery.

(b) Deliveroo has described itself as having '[✂]'. This is supported by a sophisticated and well-developed optimisation technology. A key challenge to potential competitors in the OCG market is the small number of suppliers of rapid logistics with a wide geographic coverage in the UK. The only other substantial point-to-point networks are those of Uber Eats and Stuart, however a grocery retailer told us that Stuart cannot support expansion into all areas which it would like to target.

(c) Deliveroo has already begun rolling out its OCG offer to a substantial number of stores. This could potentially give it an early-mover advantage, however it remains to be seen whether such an advantage will be important in this market.

(d) As a delivery-only player in the market, along with Uber Eats and Just Eat it may be able to rely on its grocery partners to address challenges around supply chain, stock management, and product picking, while Deliveroo retains ownership of the customer relationship.

6.264 On the other hand, Deliveroo has some disadvantages in the market compared to some competitors:

(a) [✂]

(b) [✂]

(c) [✂]

Potential closeness of competition between Amazon and Deliveroo

6.265 The Parties have submitted that their current offers are highly differentiated from one another. We have considered the scope for customers to see the services offered by each as substitutes as the market expands, and particularly as the market evolves and potentially converges on very fast delivery times, sufficiently wide ranges to allow for most grocery shopping missions, and prices that are broadly competitive with in-store offers.

6.266 To the extent that OCG offers converge in this way, those of Amazon and Deliveroo may be in closer competition with one another than with some other market participants. As noted, both Amazon and Deliveroo are app-based and/or web-based services, in common with Ocado, Uber Eats and Just Eat, but unlike traditional grocers and convenience stores, Deliveroo's online restaurant delivery offer [✂], and [✂]. [✂].[308] This may differentiate Deliveroo to a degree from Just Eat, and from most convenience stores and traditional grocery stores [✂]. The Parties submitted that the overlap in customer bases is no evidence that they would compete in future, and cited survey evidence that Amazon and Deliveroo's (OCG) customers have different profiles. We note that this could change if more Prime and Deliveroo Plus customers become OCG customers, and as OCG offers evolve.

Other competitors

6.267 For a market participant to compete effectively in OCG it requires (a) access to a customer base; (b) a grocery supply chain (ie delivery of groceries to a chain of stores and/or fulfilment centres); and (c) a last mile delivery solution. These service elements may be achieved in partnership with other market participants, or contracted to a third party.

6.268 Online restaurant delivery providers can most readily access a grocery supply chain by partnering with an existing convenience store chain or traditional grocer.

(a) Uber Eats is a close competitor to Deliveroo in the UK, with a similar business model, a large customer base in online restaurant food, and

[308] A survey in one of Deliveroo's internal documents shows that [✂]% of its Plus customers subscribe to Prime.

operating a courier network of a similar, if slightly smaller, scale. Uber Eats appears well-placed to compete as the market develops.

(b) Just Eat may also develop into a credible competitor in the market, building on its large customer base. However, its attractiveness as a partner to grocery providers may depend in part on its success in building its own courier network. We have not identified evidence that any other logistics-enabled marketplaces will be credible competitors.

6.269 Traditional grocers and convenience stores have the advantages of (a) an existing grocery supply chain, reflecting their presence in traditional and scheduled online groceries and (b) established customer bases and brands. Grocers can partner with an online restaurant delivery provider for both access to a customer base and last-mile delivery. Alternatively, they can sell to their existing customer bases and employ a third party to provide last-mile delivery. The majority of grocery retailers offering OCG use Stuart to fulfil their deliveries, although some are considering or developing in-house solutions.

6.270 As discussed above, the OCG services offered by traditional grocers and convenience stores are at trial phase or at an early stage of roll-out. Their ability to develop profitable services at a large scale will be subject to the general challenges in the market (which also affect the Parties), such as uncertain demand and willingness to pay for OCG and the resulting need to offer value for money while covering the cost of delivery, and the impact of Coronavirus (COVID-19). In addition, grocers may face the challenges of:

(a) Limited choice of last-mile delivery solution. Stuart currently offers this as a 'white label' solution allowing the grocer to own the customer interface and relationship, but alternatives to Stuart appear limited, particularly outside London while development on an in-house point-to-point delivery solution is challenging.

(b) Developing a large online customer base. Traditional grocers may be able to convert existing customers of scheduled delivery services to OCG. They may also be able to market their OCG services to in-store customers eg via loyalty card schemes. However, as many of their existing customers are not regularly using the grocer for online purchases, grocers may face relatively high customer acquisition costs, and a limited ability to cross-sell to their existing customers.

Theories of harm

6.271 As set out in our guidelines,[309] in formulating theories of harm, the CMA will consider how rivalry might be affected by the merger. For some mergers, the CMA may consider several theories, sometimes affecting the same market. The CMA will determine whether an SLC arises or is expected to arise from a merger, having considered one or more theories of harm. It need not determine this in respect of each of the theories considered and its overall expectation of an SLC may be based upon one theory only or upon its composite view of multiple alternative theories.

6.272 As noted in our Issues Statement, we have considered whether the Transaction may give rise to horizontal unilateral effects in the supply of OCG services. We have focused on three theories of harm:

(a) Amazon using its influence over Deliveroo to discourage Deliveroo from competing against Amazon in OCG.

(b) Amazon avoiding competing directly against Deliveroo in OCG, to protect the value of its investment in Deliveroo.

(c) Amazon relying on Deliveroo to give Amazon a presence in OCG, rather than developing its own service to compete effectively in OCG.

6.273 Several third parties have raised additional theories of harm relating to OCG services and these are discussed in Chapter 7.

6.274 Before discussing each of the above theories of harm in turn, we comment on two issues which are of general relevance to the assessment: (a) potential Amazon re-entry in restaurants and (b) future competition in the OCG market, particularly in the light of the Coronavirus (COVID-19) crisis.

Potential Amazon re-entry in restaurants

6.275 We have set out our provisional views on future Amazon re-entry into the online restaurant platforms market:

(a) We provisionally conclude that the most likely counterfactual for our assessment of online restaurant platforms is one in which Amazon re-enters the supply of online restaurant platforms in the UK (see paragraph 4.198.

[309] MAGs, paragraphs 4.2.3 to 4.2.6.

(b) If there were a strong financial incentive for Amazon to enter, it is unlikely that the 16% shareholding in Deliveroo would materially reduce Amazon's incentive to re-enter the supply of online restaurant platforms in the UK (see paragraph 5.28).

6.276 Entering the online restaurant platforms market would require Amazon to have access to a logistics network which could compete with existing online restaurant platforms (eg by offering delivery in under 30-minutes). As discussed in paragraph 6.312 below, an Amazon strategy document [✄] considered the possibility that Amazon would '[✄]'. We note that all three incumbent online restaurant platforms currently offer OCG services using the same logistics solutions as for their restaurant delivery services. We therefore expect that if Amazon entered as an online restaurant platform it could also potentially provide some or all of its OCG services over the same platform and logistics network as for restaurant delivery.[310]

Future competition

6.277 In order to assess whether any of our theories of harm is likely to lead to an SLC, we have assessed (amongst other things) the likelihood, absent the Transaction, of Amazon and Deliveroo emerging as strong players in the provision of OCG services, and acting as important competitive constraints on one another. We have also assessed whether the development of the other market participants may be timely, likely and sufficient to prevent any SLC from arising.

6.278 As discussed in paragraphs 6.244 to 6.246, we note that:

(a) Almost all larger players in the categories of online delivered groceries, online restaurant delivery, convenience stores and traditional groceries are currently active in trialling or offering OCG services with on-demand delivery of between 30-minutes and two-hours.

(b) Most market participants share an intention to expand their existing offers and address their specific limitations.

(c) Some services already offer a relatively large range, fast delivery, and prices which are competitive with in-store offers.

[310] It remains to be seen how Amazon might configure a combined restaurants and OCG solution in this scenario. For example, Amazon could integrate such a service with its existing logistics network or operate both independently, and it could supply groceries through its existing grocery supply chain or through partnerships with other grocery providers, or both.

6.279 In addition, a number of OCG services are currently in a process of relatively rapid expansion, in some cases prompted by the Coronavirus (COVID-19) crisis. In particular:

(a) [✂] (paragraph 6.212);

(b) Uber Eats has seen [✂] growth in the number of grocery/convenience stores listed on its App, with the number [✂] between the start of March 2020 and the start of June 2020 (paragraph 6.215);

(c) Tesco One Stop anticipates [✂] (paragraph 6.216);

(d) Co-op is continuing the rapid expansion of its Quick Shop offer (paragraph 6.217);

(e) Sainsbury's Chop Chop has expanded its footprint significantly since March 2020, as a result of the increased customer demand brought about by the Coronavirus (COVID-19) crisis. It plans to operate from 50 stores in 20 cities by mid-2020 (paragraph 6.218);[311] and

(f) Waitrose has expanded its OCG offer in response to growth in demand during the Coronavirus (COVID-19) crisis and is evaluating options for further expansion (paragraph 6.220.

6.280 While the future development of the market remains uncertain, we consider that on the basis of current evidence other market participants appear well-placed to compete in OCG provision, particularly in light of the expansion plans and activities set out above.

6.281 As regards the future market position of Amazon and Deliveroo, as described in paragraphs 6.260 to 6.264, each of the Parties has advantages which could mean they are well-placed to compete in OCG services, although each also has disadvantages relative to certain other market participants.

6.282 A groceries retailer submitted that Amazon and Deliveroo had each taken extensive steps to expand their position in the OCG market during the Coronavirus (COVID-19) crises, that the crisis had enabled Deliveroo to entrench a first mover advantage in this space, and that post-Transaction this would place the combined entity in a considerable position of power and weaken the incentive of both Amazon and Deliveroo – who were two key drivers of competition in this space – to innovate and invest to improve their respective service offerings.

[311] Although it notes that doing so [✂].

6.283 Changes to Amazon and Deliveroo's OCG and groceries services in response to Coronavirus (COVID-19) are set out above. While both Parties have expanded their services in recent months, in our view these changes are broadly in line with wider developments in the OCG services market in recent months.

6.284 A groceries retailer submitted that the steps which the Parties had taken in recent months to expand their OCG services made it clear that they were 'actual, direct and close competitors in OCG/same day grocery delivery'.

6.285 However, we note that the changes to Amazon's service which a groceries retailer highlighted do not relate to on-demand delivery (and indeed Amazon has cancelled its [✂] offer). While Deliveroo has launched partnerships with a number of additional grocery providers, we understand these to be similar in nature to its existing grocery partnerships ie with a limited range of items. Deliveroo is also offering a Deliveroo Essentials service independently of grocery partners, however the service is limited to a small range of items.

6.286 In our view, there is scope for a significant degree of competitive interaction between Amazon and Deliveroo as their OCG services evolve, but they are also likely to face competition from other providers who are well placed to compete in the market. On balance we do not consider there is sufficient evidence that Amazon and Deliveroo will have a decisive advantage over other market participants in the medium to longer-term.

Amazon discouraging Deliveroo from competing against Amazon in OCG

6.287 Turning to our first theory of harm, if Amazon decided to expand its presence in OCG (including on-demand delivery), or if it was concerned about Deliveroo's expansion, it could potentially seek to use its material influence over Deliveroo to discourage Deliveroo from also expanding its own OCG offer (which would otherwise be in competition with Amazon). For instance, Amazon might use its influence to seek to discourage additional investment by Deliveroo in OCG and/or to prioritise other areas for expansion.

Amazon's ability to discourage Deliveroo from expanding its OCG offer in competition with Amazon

6.288 The Transaction would provide Amazon with a 16% shareholding in Deliveroo, a board seat and certain other rights. Whilst we have provisionally concluded the Transaction is more likely than not to provide Amazon with the ability to exercise material influence over the policy of Deliveroo, this is not the same as an ability to control that policy. In particular, it does not amount to an ability to drive policy in a direction that other shareholders, management or the board object to.

6.289 As such, we cannot assume that Amazon will be able to drive policy in a direction that would lead to a substantial lessening of competition if that would lead to Deliveroo foregoing a compelling commercial opportunity for Deliveroo. This could make it more difficult for Amazon to discourage Deliveroo from expanding its OCG business, especially if Deliveroo saw a strong growth opportunity for OCG.

Effect of Amazon discouraging Deliveroo from expanding its OCG offering

6.290 To the extent that Amazon may be able to influence aspects of Deliveroo's strategy in ways that would reduce competitive pressure on Amazon, we also need to assess whether this would result in an SLC.

6.291 To reach that conclusion, first, we need to assess whether without Amazon's influence Deliveroo would be likely to expand its OCG offering to compete more directly with Amazon. As discussed above, Deliveroo's internal documents identify groceries as an important opportunity. Deliveroo has submitted to us that it sees groceries as a 'bolt-on' to its restaurant service. However, we note that it has continued to expand its OCG offer in recent months and has launched a number of new partnerships, in addition to its own Essentials service.

6.292 While Deliveroo is likely to expand its OCG offering, it is not clear that this expansion will bring it into closer competition with Amazon. While Deliveroo has recently expanded its services, launching partnerships with a number of additional grocery providers, we understand these to be similar in nature to its existing grocery partnerships, ie with a limited range of items. Deliveroo is also offering a Deliveroo Essentials service independently of grocery partners, however the service is limited to a small range of items. As yet, Deliveroo does not offer a comparable range to that of Amazon from any grocery provider, and its logistics network consists of bicycles and mopeds which do not enable it to deliver larger baskets.

6.293 Second, as regards competition in the market generally, we need to assess whether Amazon and Deliveroo would emerge as strong players in the provision of OCG services, and act as an important competitive constraint on one another, while other market participants would not expand to a sufficient extent to ensure effective competition.

6.294 As set out in paragraphs 6.260 to 6.264, each of the Parties has advantages which could mean they are well-placed to compete in OCG services, although, each also has disadvantages relative to certain other market participants. Further, as set out in paragraphs 6.277 to 6.280, almost all larger players in the categories of online delivered groceries, online restaurant delivery, convenience stores and traditional groceries are currently active in trialling or offering OCG services with on-demand delivery of between 30-minutes and two-hours. Most market participants share an intention to expand their existing offers, and a number are currently in a process of relatively rapid expansion. As a result, while the future development of the market remains uncertain, we consider that on the basis of current evidence other market participants appear well-placed to compete in OCG provision.

6.295 Considering these issues in the round, our provisional view is that the Transaction is unlikely to lead to an SLC through Amazon discouraging Deliveroo from competing in online convenience grocery services.

Amazon competing less aggressively in OCG services

6.296 We have considered whether Amazon may compete less aggressively against Deliveroo in the supply of OCG services because of its minority (16%) shareholding in Deliveroo. In the counterfactual if Amazon increased its prices or reduced its service quality (eg to save costs), it would expect some of its customers to switch to other OCG providers, including Deliveroo. But following the Transaction, if Amazon increased its prices and some customers responded by switching to Deliveroo, Amazon would have a 16% share of any increase in Deliveroo's profits from these customers. As a result, Amazon may have an incentive to set higher prices following the Transaction than in the counterfactual.

6.297 Conversely, if Deliveroo faced aggressive competition from Amazon this could reduce its profitability, which would in turn reduce the profitability of Amazon's 16% shareholding in Deliveroo. This possibility could lead Amazon to avoid competing directly against Deliveroo. For example, if Amazon were developing its own point-to-point delivery network it could potentially decide not to do so in areas where Deliveroo was present, out of a concern that this would make it more difficult for Deliveroo to achieve economies across its courier network or on other fixed costs such as advertising or IT development.

6.298 We have considered both (a) the effect of the Transaction on Amazon's incentive to compete in the supply of OCG services; and (b) the effect of Amazon competing less aggressively in the supply of OCG services.

Effect of the Transaction on Amazon's incentive to compete aggressively in the supply of OCG services

6.299 Horizontal unilateral effects of a merger arise when it becomes less costly for a merged firm to raise its prices (or reduce quality), because it can recoup the profit from recaptured sales from customers who would have switched to the other merged firm.[312]

6.300 As a minority shareholder in Deliveroo, Amazon benefits from 16% of Deliveroo's profits. As such, if Amazon loses a sale to Deliveroo, it retains 16% of the profits Deliveroo earns from the sale, while if Amazon wins a sale from Deliveroo, it also loses 16% of the profits that Deliveroo would have earned from that sale. This dynamic will tend to reduce Amazon's incentive to compete aggressively.

6.301 The question for us is whether a 16% shareholding reduces Amazon's incentive sufficiently that it would prevent Amazon from making investments it otherwise would have made to improve its OCG offering.

6.302 The magnitude of these effects depends on the future closeness of competition between the two Parties (in the counterfactual), and competition from other OCG providers (ie the effect would be weaker if most customers who switched from Amazon switched to other providers rather than Deliveroo).

6.303 In our assessment of online restaurant platforms (paragraphs 5.25 to 5.27) we discuss an analysis submitted by the Parties which finds that the acquisition of a 16% holding does not lead to material horizonal price effects. This analysis is in the context of a four-to-three merger in online restaurant platforms, and some specific modelling assumptions. However, in broad terms we would expect the 16% holding arising from the Transaction to produce a weaker price effect on OCG services than might be expected from a full acquisition.

Effect of Amazon competing less aggressively in OCG provision

6.304 Even if we had provisionally concluded that as a result of the Transaction Amazon would have an incentive to compete less aggressively in OCG, we also need to assess whether this would result in SLC in the OCG market.

6.305 Almost all larger players in the categories of online delivered groceries, online restaurant delivery, convenience stores and traditional groceries are currently active in trialling or offering OCG services. As discussed above, market

[312] MAGs, paragraph 5.4.8.

participants share an intention to expand their existing offers, and a number of OCG services are currently in a process of relatively rapid expansion. As a result, while the future development of the market remains uncertain, we consider that on the basis of current evidence other market participants appear well-placed to compete in OCG provision.

6.306 We consider that this will further weaken any price effect arising from the Transaction because (a) if Amazon increase its prices, customers may switch to providers other than Deliveroo, and (b) even if Amazon were to compete less aggressively against Deliveroo, Deliveroo would still face competition from these other providers. Considering these issues in the round, our provisional view is that the Transaction is unlikely to lead to an SLC arising from Amazon avoiding direct competition against Deliveroo in the provision of OCG.

Amazon relying on Deliveroo for its presence in OCG

6.307 Finally, we consider whether the Transaction would harm competition by reducing the incentive for Amazon to invest in competing more effectively as an OCG provider, because the proposed acquisition either secures Amazon an option to acquire Deliveroo or is a first step towards a full acquisition.

6.308 The future development of the OCG market is uncertain. One possibility is that it will expand rapidly with an increasing focus on a fast (eg one hour) service with widespread coverage. Given the overall scale of the grocery sector (see paragraphs 6.8 and 6.9, and Figure 6.1) OCG could reach a very material scale by winning a relatively small proportion of shopping missions.

6.309 If the market evolved towards faster delivery and Amazon did not have a widely available one-hour or two-hour service, Amazon could miss out on a significant opportunity for growth and profits (including flywheel benefits). In addition, it would face the risks of:

(a) Faster OCG providers winning business from Amazon Prime Now, which is currently differentiated from the online offers of traditional grocers by offering approximately [✂] delivery rather than slower same-day or next-day delivery.

(b) Rivals using OCG to develop a base of regular customers and a point-to-point delivery network, from which they could potentially expand to other areas (eg e-commerce) in competition with Amazon.

6.310 Absent the proposed Transaction, Amazon may therefore have a strong incentive to invest in developing point-to-point logistics capabilities or by otherwise improving the delivery speeds it can offer or other aspects of its service to ensure that it can remain competitive if faster delivery increases in importance.

6.311 Internal documents from Amazon and other Deliveroo shareholders indicate that they see the Transaction as [✂], rather than a purely financial investment:

(a) An internal email [✂].

(b) [✂]

(c) [✂][313]

(d) [✂] commented on Amazon's intentions regarding its investment in Deliveroo: [✂].

(e) [✂] noted, [✂]. [✂]. It also commented that '[✂]'.

6.312 In summary, the evidence indicates that [✂].

6.313 If Amazon sees the Transaction as giving it a plan or an option for achieving a stronger presence in OCG provision (ie doing so via Deliveroo), it may be less likely to have an incentive to improve its own OCG service.

6.314 In our assessment of online restaurant platforms (paragraph 5.63), we have reached a provisional view on the balance of probabilities that Transaction will not give rise to an SLC by changing Amazon's incentives to re-enter that market. Our provisional view on this point is informed by:

(a) the Parties' argument that, if Amazon was presented with a compelling opportunity to re-enter the market, then having a 16% investment in Deliveroo may not materially alter Amazon's incentive to undertake such a strategy;

(b) Amazon's argument that in order to realise the key benefits of offering restaurant delivery it would need further integration than a minority investment;

(c) Evidence to suggest that Amazon may have an interest in pursuing multiple entry routes into supplying online restaurant platforms; and

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[313] [✂].

(d) Our view Amazon has continued to pursue the development of an online restaurant platform and if this were to result in a successful restaurant platform, we would expect this to be rolled out internationally.

6.315 Some of these points are also relevant to the assessment of the present theory of harm. However, there are differences between the two questions, in particular in that (i) the online restaurant platform is an established and large market with a proven business case, whereas OCG is a nascent market, and (ii) whether Amazon will invest in competing more effectively in a market where it is already present, building on its existing grocery/OCG provision, is different from the question of *de novo* entry into online restaurant platforms.

6.316 In particular, it may be the case that if Amazon were presented with a compelling opportunity to develop its OCG offer (such as by building a point-to-point network) then a 16% investment in Deliveroo may not affect its incentives to do so. On the other hand, since OCG is a nascent market which does not yet have an established business case, Amazon may see faster grocery delivery as a defensive necessity rather than a compelling opportunity.[314] In which case it could potentially see its holding in Deliveroo as providing it with a sufficient '[✂]' (see paragraph 6.311(c) above) if market developments towards faster delivery threaten its own grocery plans.

6.317 In considering whether the Transaction may reduce Amazon's incentives to improve its own OCG services, we note that:

(a) The fact that, in our provisional assessment, the most likely counterfactual involves Amazon entering the online restaurants platform in future (and the Transaction would not affect its incentives to do so) provides a potential route for Amazon to improve its OCG services, namely by using the same logistics network for its online restaurants delivery and for some or all of its OCG services. We note that both logistics-enabled online restaurants platforms (Deliveroo and Uber Eats) offer OCG services.[315]

(b) Amazon may in any case prefer to develop its own OCG service given that in doing so it could potentially build on its experience in developing such a service in the US, and [✂].

(c) While the Transaction potentially gives Amazon a route to acquire Deliveroo, Amazon would face a significant cost in making such an

[314] As noted above, it has described its [✂] as a 'necessary strategic move' in light of competitor offers.
[315] As does Just Eat, using the same logistics provider for both restaurant and OCG delivery.

acquisition – particularly if Deliveroo's OCG business increases in value. It would also face risks eg of being outbid by another buyer.

6.318 Again, this issue needs to be assessed in the context of wider competition in the OCG services market, and we note that almost all larger players in the categories of online delivered groceries, online restaurant delivery, convenience stores and traditional groceries are currently active in trialling or offering OCG services. Most market participants share an intention to expand their existing offers, and a number of OCG services are currently in a process of relatively rapid expansion. As a result, while the future development of the market remains uncertain, we consider that, on the basis of current evidence, other market participants appear well-placed to compete in OCG provision.

6.319 In this context, if the Transaction were to reduce Amazon's incentives to improve its own OCG services, improvements by its competitors of their own OCG services could nevertheless lead to effective competition. In addition, we note that if the market grows substantially this makes it more likely that it will be seen as a compelling commercial opportunity, both by Amazon and its competitors.

6.320 Considering these issues in the round, our provisional view is that the Transaction is not likely to lead to a SLC by removing the strategic benefit to Amazon of developing its own OCG service.

7. Additional theories of harm

7.1 Our Issues Statement[316] set out that we would consider theories of harm relating to horizontal unilateral effects in online restaurant platforms and online convenience grocery delivery in the UK, and our provisional assessments of these issues are in Chapters 5 and 6. We did not receive any responses to our Issues Statement. However, later in our inquiry, some third parties have raised additional competition concerns about the impact of the Transaction. We consider these concerns in this chapter.

7.2 The concerns that have been raised are:

(a) That the Transaction will allow Amazon to bundle Amazon Prime and Deliveroo's services, with a negative impact on other providers.

(b) That Amazon will prevent other OCG providers from having access to Deliveroo's logistics network.

[316] Issues Statement, 28 January 2020, paragraphs 24 and 25.

Bundling of Deliveroo in Amazon Prime

7.3 In response to our April Provisional Findings,[317] two third parties expressed concerns relating to the possible bundling of Deliveroo within Amazon Prime.

Third party views

7.4 Company D submitted that post-Transaction, Amazon has an incentive to promote its own groceries business, and potentially its wider business, by offering Deliveroo's service as part of Amazon Prime.[318] It said that the Transaction would allow Amazon to offer its Amazon Prime customers cheap or free delivery, or more preferential delivery timings, on Deliveroo. Company D submitted that this could: (a) drive additional customer traffic through Deliveroo's app at the expense of other online restaurant platforms; and/or (b) drive additional traffic to Amazon's on-demand grocery offering at the expense of other grocery retailers (ie because the inclusion of preferential access to Deliveroo within the Amazon Prime offer would increase demand for Amazon Prime and Amazon Groceries). It submitted that, given that Amazon Prime already covered a substantial proportion of UK households, any impact of a strategy of this kind would have a considerable negative effect on other players.[319]

7.5 Company A submitted that the CMA should consider seeking commitments from Amazon which would, among other things, limit Amazon's shareholding to the level resulting from the initial investment without prior approval from the CMA. Company A commented that Amazon's incentives to engage in an anti-competitive bundling strategy could increase if Amazon were to increase its shareholding in Deliveroo in future.[320]

Our assessment

7.6 As set out in the CMA's Phase 1 Decision,[321] conglomerate effects may arise in mergers of firms that are active in the supply of goods or services that do not form part of the same markets but which are nevertheless related in some way, for example because their products are complements (so that a fall in the price of one good increases the customer's demand for another) or

[317] April Provisional Findings, 16 April 2020.
[318] Company D response to April Provisional Findings, 11 May 2020, paragraph 29(a).
[319] Company D response to April Provisional Findings, 11 May 2020, Annex A.
[320] Company A response to April Provisional Findings, 7 May 2020, paragraph 13.
[321] Phase 1 Decision, paragraphs 299–364.

because there are economies of scale in purchasing them (so that customers buy them together).

7.7 The CMA's approach to assessing conglomerate theories of harm is to analyse (a) the ability of the merged entity to foreclose competitors, (b) the incentive of it to do so, and (c) the overall effect of the strategy on competition.[322]

7.8 In phase 1, the CMA considered: whether the Parties could bundle Amazon Prime and Deliveroo Plus by offering Deliveroo Plus to Prime members at a discounted price, or alternatively by offering Deliveroo Plus as a free benefit to all Prime customers (likely with a price increase across the Prime subscriber base); and if so whether this could foreclose (or prevent) either other food delivery companies or other suppliers of subscription services from competing with them.

7.9 At phase 1, the CMA found, on a realistic prospect basis, that the Parties may have the ability to use this strategy to foreclose Deliveroo's competitors. However, even though the Parties would have the ability to bundle Deliveroo Plus and Prime, the CMA did not find that they would have the incentive to do so.

7.10 The CMA concluded that, for a bundle of Deliveroo Plus and Amazon Prime to be successful in attracting a large volume of customers, the Parties would need to offer the bundled product to those customers at a substantial discount to the price of Amazon Prime and Deliveroo Plus on a standalone basis. The level of Amazon's shareholding in Deliveroo would limit its incentive to fund a large discount, as Amazon would only gain a small part of the benefit from each additional customer won by Deliveroo.

7.11 In addition, the CMA noted that Amazon's shareholding in Deliveroo did not increase Deliveroo's incentive to discount Deliveroo Plus through Amazon Prime.

7.12 The CMA therefore concluded at phase 1 that the Transaction did not give rise to a realistic prospect of an SLC as a result of conglomerate effects (ie bundling of Deliveroo Plus and Amazon Prime) in the supply of online food delivery platforms in the UK.

7.13 We consider that the concerns raised by Company D and Company A in relation to bundling of Deliveroo and Amazon Prime are, in substance, the

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[322] MAGs, paragraph 5.6.6.

same as those which the CMA considered in its Phase 1 Decision, in which the CMA concluded that the Transaction did not give rise to a realistic prospect of an SLC as a result of conglomerate effects.[323]

7.14 We have not seen any new evidence (and, in particular, Company D and Company A have not submitted any evidence to support their submissions) that would lead us to reopen the phase 1 conclusion on this point.[324]

7.15 Regarding the additional points raised by Company A, we note that:

(a) The purpose of the present review is to consider the Transaction's impact on competition. We cannot speculate about the impact of other transactions on competition. Moreover, increases in shareholding that lead to a change in the quality of Amazon's control over Deliveroo may be subject to the CMA's merger control jurisdiction.

(b) We are required to consider whether the Transaction is more likely than not to result in an SLC. If we do not find an SLC in any of the relevant markets, there is no basis on which the CMA can impose remedies, and we do not otherwise have a discretion to take actions such as seeking commitments from Amazon (as suggested by Company A).

Preventing third party access to Deliveroo's delivery network

7.16 Two third parties submitted that following the Transaction Amazon could prevent rival grocery suppliers from accessing Deliveroo's logistics network at competitive prices.

7.17 The concern is one of partial input foreclosure, arising from the 'vertical' combination between the provision of an upstream input (Deliveroo's logistics network) and a downstream product (OCG services). In such cases, the theory of harm to be assessed is that the merged firm could increase the price it charges for the input (on-demand delivery) to rival OCG providers which, in turn, could make it harder for rival OCG providers to compete by increasing their costs, making them less competitive, and lessening downstream competition.[325]

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[323] Phase 1 Decision, 27 December 2019.
[324] Under the UK's two-phase merger control regime, the CMA is required to apply different evidentiary thresholds at phase 1 and phase 2 when answering the statutory questions in the Act. At phase 1 the CMA applies a 'realistic prospect' threshold whereas at phase 2 it applies a (higher) 'balance of probabilities' threshold. See MAGs, paragraph 2.2.
[325] See MAGs, paragraph 5.6.9.

7.18 As with conglomerate effects, the CMA's approach to assessing partial input foreclosures is to analyse (a) the ability of the merged entity to foreclose competitors, (b) the incentive of it to do so, and (c) the overall effect of the strategy on competition.[326]

Third party views

7.19 In response to our April Provisional Findings, Company D submitted that:

(a) The Transaction will give Amazon 'the ability (via its material influence) and incentive to impede the ability of other players to use Deliveroo to offer OCG services to consumers at reasonable prices'.

(b) 'Once Amazon secures exclusive use of Deliveroo for its own benefit, it will be extremely challenging for other players to access customers in the OCG market through the remaining two point-to-point delivery networks'.[327]

7.20 Company D previously submitted that:

(a) Amazon would control Deliveroo as a result of the Transaction;

(b) Amazon will have no incentive to afford traditional grocery retailers the opportunity to access/use Deliveroo as a key route to market for online convenience groceries, either at all or on fair and reasonable terms;

(c) there are limited alternative routes to market for online convenience grocery (only Uber Eats, Just Eat and a handful of third-party logistics companies, none of which have the requisite scale to grow at pace);

(d) several traditional grocery retailers have taken steps to enter or grow within this space, often using the services of Deliveroo to do so. The Transaction would stifle this emerging competition and give Amazon an unfair advantage;

(e) a first-mover advantage is key to entrenching a strong position in OCG services; and

(f) the revenues Amazon may stand to earn via its minority stake in allowing traditional grocery retailers to sell groceries through Deliveroo will be

[326] See MAGs, paragraph 5.6.6.
[327] Company D response to April Provisional Findings, 11 May 2020, paragraph 29(a) –(b).

significantly lower than the benefits it could reap by leveraging Deliveroo to its exclusive advantage.

7.21 A groceries retailer told us that the biggest challenge of using online delivery platforms is commission and making it economical to use them. Online delivery platforms own rider networks which can deliver more effectively in terms of scope and scale than Stuart, and it would like access to Deliveroo's network but not at the cost Deliveroo wants to charge. If Deliveroo had Amazon as its grocery supplier, there would be much less incentive for it to lower the cost of its service to competing grocery suppliers. This would also reduce its ability to negotiate a competitive arrangement with Uber Eats, Deliveroo and/or Just Eat.

7.22 Company A submitted that:

> 'Preventing Deliveroo from engaging in exclusive commercial arrangements with Amazon would help avoid the situation where other online convenience grocery suppliers are deprived of one of the most credible delivery routes to market.
>
> As the CMA held at phase 1, supermarkets do not have the necessary logistical capabilities to offer online convenience groceries and are reliant upon businesses such as Deliveroo, Uber Eats, or third party logistics providers like Stuart in order to offer ultrafast delivery services.
>
> A positive obligation requiring Deliveroo to engage with partners other than Amazon would prevent Deliveroo from sourcing all of its convenience groceries from Amazon and would ensure that other grocery retailers continue to have a route to market. This would help prevent the nascent online convenience groceries market segment from developing into one dominated by Amazon and would ensure that the Deliveroo delivery platform remains open for other competitors to use'.[328]

7.23 In addition, one retailer told us it believed that Deliveroo and Uber Eats could increasingly become the instinctive starting place for consumers on an online convenience grocery mission, with the result that grocery brands wishing to play in this space may have little choice but to list on Deliveroo or Uber Eats. It added that, without significant resources, it would be difficult for grocery brands to reach sufficient scale in order to deliver sustainable economics and compete with third party delivery platforms, particularly if they are financially

[328] Company A response to April Provisional Findings, 7 May 2020, paragraph 13(c)–(d).

backed by the likes of Amazon, and the result would be a stifling of competition. On the other hand, Co-op told us that it expected an increase in competition as the main competitors have realised the demand for online convenience groceries and this will likely form a bigger part of their future strategies.

Our assessment

7.24 As discussed further below, this concern is in some respects related to our horizontal unilateral effects theories of harm, which was considered at phase 1 and on which our provisional view is set out in in Chapter 6. However, the CMA's Phase 1 Decision did not specifically consider a vertical effects theory of harm, arising from concerns about third-party access to Deliveroo's delivery network.[329]

7.25 As noted above, our approach is to consider the ability of the merged entity to foreclose competitors, its incentive to do so, and the overall effect of the strategy on competition. We begin by considering ability and incentive in the round, in relation to Amazon's ability to influence Deliveroo to foreclose competitors.

Amazon's influence on Deliveroo

7.26 As set out in paragraphs 6.288 and 6.289, we consider that the Transaction is more likely than not to provide Amazon with the ability to exercise material influence over the commercial policy of Deliveroo (see further the April Provisional Findings[330]). This is not the same as an ability to control that policy. In particular, it does not amount to an ability to drive policy in a specific direction against the objections of other shareholders, management or the board.

7.27 As such, we do not assume that Amazon will be able to drive policy in a direction that would lead to Deliveroo foregoing a compelling commercial opportunity.

7.28 The evidence to date indicates that Deliveroo has seen, and continues to see a compelling commercial opportunity in partnering with a wide range of grocery suppliers:

(a) A June 2019 Deliveroo strategy document identified grocery as [✂]. To the extent that Deliveroo continues to pursue either of these opportunities,

[329] Phase 1 Decision, 27 December 2019.
[330] April Provisional Findings, 16 April 2020.

they will give third party grocery suppliers the opportunity to access Deliveroo's logistics network for grocery delivery.

(b) Deliveroo has pursued this opportunity by delivering groceries through its app from a range of grocery providers, including Co-op, Nisa, BP and Shell.

(c) Since the beginning of March 2020, Deliveroo has begun delivering from 140 Morrisons stores (from a single-store trial), launched a trial with Aldi and launched partnerships with BP (M&S food range), M&S (Standalone), Holland & Barratt, and McColls.

7.29 From Deliveroo's perspective, the attractiveness of an exclusive or preferential supply arrangement with Amazon would depend on the value to Deliveroo of such an arrangement relative to the partnerships with other grocery providers which it would forego in pursuing such an exclusive arrangement. At present, Amazon has a relatively limited physical presence in groceries, consisting of [✂] fulfilment centres and seven Whole Foods stores. On the other hand, these tend to be located in high-value local markets such as west London, where Deliveroo also has a substantial network presence, and Amazon currently delivers groceries in partnership with Morrisons. In addition, we note (see paragraphs 6.108 to 6.111) that Amazon plans to [✂].[331]

7.30 Finally, we note that any attempt by Amazon to restrict third party access to Deliveroo's network would likely be to the advantage of Uber Eats and Just Eat and, as such, if Deliveroo were to engage in such a strategy, it would risk strengthening its two key competitors in its core market of online restaurant platforms. We consider that this effect could weaken Deliveroo's incentives to pursue a foreclosure strategy.[332]

Impact on competition

7.31 Next we consider the likelihood of competitive harm arising if Deliveroo were to restrict or prevent other OCG providers from accessing its delivery network or app.

7.32 To date, Deliveroo has largely been focused on impulse/immediate shopping missions. In this it differs from the nascent OCG offers of online grocery suppliers and supermarkets which offer a wider range and larger baskets.

[331] While these plans predate the Coronavirus (COVID-19) crisis, Amazon has told us that it has not materially changed its [✂] plans in response to the crisis.
[332] We note that, in principle, even if Deliveroo faced limited competition in OCG it may benefit from competition between grocers in OCG services, as this could help to expand the market.

Until recently (and in contrast to Company D's claim in paragraph 7.20(d) above, these providers have largely contracted a third party (Stuart) for their grocery delivery rather than Deliveroo or other online restaurant platforms. OCG providers have noted that the advantage to them of using Stuart is that it allows them to maintain control over customer relationships.

7.33 As discussed in Chapter 6 Deliveroo's offer and capability may evolve as the market develops, and the expansion of its deal with Morrisons in recent months may be a step in this direction. On the other hand, such an evolution will require Deliveroo to address a number of challenges, particularly if it is to serve a wider range of shopping missions. As an illustration, in late 2019 Sainsbury's conducted a small trial with Deliveroo for delivery of hot food and a limited range of groceries. Sainsbury's reported that the trial resulted in [✂], and identified challenges (in technology, managing product substitutions, food safety, payments processing and labour arrangements) which it would need to address in order to scale the offer.

7.34 The importance of Deliveroo as a route to market for OCG delivery for third parties will depend on the future scale of its logistics network, and potentially the popularity of its app. Deliveroo developed its network and app to serve its primary market ie online restaurant delivery, and Deliveroo's future importance to OCG is likely to be driven to a significant extent by competitive outcomes in online restaurant delivery. While Deliveroo is a strong player in this market, it faces competition from Just Eat and Uber Eats. Just Eat is the market leader and has recently been acquired by Takeaway.com.[333] The impact of these developments on the UK market remain to be seen. In addition, if Amazon were to enter the market and compete independently this could also be expected to have an impact on Deliveroo.

7.35 In our view, the available evidence does not indicate that Deliveroo has achieved a 'first mover advantage' in OCG delivery. Its OCG offer has until recently been at a relatively nascent stage. It has expanded its offer in response to the Coronavirus (COVID-19) crisis, as described above. Uber Eats told us that it had [✂] grocery/convenience suppliers to its app and had [✂] the number of stores on its app since 1 March 2020. As discussed in paragraph 6.279, a number of grocers have also expanded their OCG services during the Coronavirus (COVID-19) crisis.

[333] See Takeaway.com N.V./Just Eat plc merger inquiry.

7.36 Finally, and as set out in our market definition assessment (paragraphs 3.195 to 3.216, we note that grocery suppliers have options other than Deliveroo for OCG delivery:

(a) Uber Eats and Just Eat: the future attractiveness of these firms as OCG delivery partners will depend in large part on their performance in online restaurant delivery (which is likely to affect their scale and app traffic) and, in the case of Just Eat, its success in developing an independent logistics network.

(b) Third-party logistics: using a third-party logistics provider for OCG delivery can have benefits in that (i) the logistics network may be better suited to OCG delivery than those of online restaurant platforms, (ii) use of a third party operator allows the grocer to own the customer relationship.[334] In practice, a number of the most developed OCG offers are fulfilled by a third-party logistics provider (Ocado Zoom, Sainsbury's Chop Chop, Waitrose Rapid currently only use Stuart, while Co-op uses Stuart and Ecargo for its Quick Shop offer).

(c) In-house supply: while grocers have identified challenges to developing their own logistics networks for supply of OCG services, some are already developing such networks or considering ways to address these challenges.

Our provisional view

7.37 We note that the possibility of competitive harm arising from the foreclosure concern outlined above depends on:

(a) whether Amazon will be able to drive policy in a direction that would lead to Deliveroo foregoing a compelling commercial opportunity; and

(b) absent competition between Amazon and Deliveroo other OCG providers would not ensure effective competition in the market.

7.38 As set out in our assessment of horizontal unilateral effects in the OCG market our provisional view is that:

(a) we cannot assume that Amazon will be able to drive policy in a direction that would lead to a SLC if that would lead to Deliveroo foregoing a

[334] Although we note this could also be an option from restaurant delivery platforms if they were to offer their logistics network for 'white label' OCG supply.

compelling commercial opportunity for Deliveroo (see paragraph 6.289); and

(b) while the future development of the market remains uncertain, we consider that on the basis of current evidence other market participants appear well-placed to compete in OCG provision (see paragraphs 6.277 to 6.280).

7.39 Accordingly, we have not carried out further investigation on this foreclosure concern.

8. Provisional conclusion on the SLC test

8.1 We have provisionally concluded that the anticipated acquisition by Amazon of certain rights and a 16% minority shareholding in Deliveroo may not be expected to result in an SLC within a market or markets in the UK for goods and services.