

## Summary of the hearing with NETTO

1. Netto set up its UK retail business in 1990 based on the model of its Danish parent group but with a UK buying team. It boasted 170 stores nationally. Its offer was tailored to the UK market and the store structure was standardized: approximately 1,000 square metres and with associated car parking.

### Product market

2. Netto's customer base was mixed with some customers making it their weekly shop and others visiting it for one-off special offers. Netto's base did depend on the geographic location; in an urban centre, customers were more likely to shop around. Netto's width of product range meant that it had a high number of secondary shoppers—it covered 90 to 95 per cent of the range of goods which would be required as part of a typical weekly shop in its stores. Netto believed that a recent trend was for customers to be less loyal with a propensity to shop around, and cited the Internet as having contributed to an increased awareness of prices and comparison.

### Market

3. Netto considered the major supermarkets to be its principal competitors—but did regard everyone as a potential competitor, with the possible exception of the most 'upmarket' retailers which it did not believe to be within the same market.
4. Netto differentiated itself from other 'discounters' in its focus on price and its UK brand offering. It noted that particularly Aldi had changed direction and was seeking a different demographic recently.
5. Netto considered the use of brands to be crucial in competing in the UK and had a blend of own brands and named brands. It carried 1,100 lines, of which 200 were top brands; a major brand in each category; and between 150 and 200 one-off buy products, which would be split 50:50 between food and non-food. Approximately 10 per cent of this offer was described as redundant packaging or surplus stock which it had agreed with a branded manufacturer. The second 50 per cent was part of a formally agreed promotional programme and the remaining 40 per cent would be one-off deals where it bought from grey-market sources.
6. The range Netto offered was designed to give a good broad-brush shopping experience so it could not afford to currently skew towards fresh foods as much as would be ideal with present space constraints, even though this was a growing sector.
7. Netto believed that it was too small in the market and planned to expand, subject to planning permission and the availability and price of land, by 20 or 25 new stores each year for the next five years.
8. Netto considered the geographic market to be dependent on whether it was an urban or rural store. In the major cities, it did not expect customers to travel for more than 5 minutes; whereas in more rural areas customers would travel to within a 15-minute catchment area. The local planning authorities assessed Netto's catchment within a 5-minute drive-time.

9. The decision as to whether to enter an area was based on an analytical process to determine whether Netto could trade profitably. It was an assessment of the population, its profile and past experience in similar areas.
10. When Netto considered the impact of entry, the particular fascia of the new entrant into a catchment of a current store would have differing effects on the existing store. Generally speaking, the larger the size of the store, the larger the impact was expected.
11. Netto did not think that the Supermarket Code of Practice had had a significant effect on the multiples.
12. Netto considered that there was some exhaustion felt by suppliers who were, as a result, now looking to develop business with other retailers, which Netto had benefited from.

## **Entry**

13. Land, planning, development and related issues all led to difficulties opening a store in a new geographical area. Netto wanted sites which gave it an effective platform from which to compete, with main road and car parking, but this was not necessarily what a local authority wanted. Accessibility and visibility of its stores were important. Scotland had proven particularly difficult to penetrate for this reason.
14. Netto told us that the scarcity of planning permission drove prices up and the recent expansion of the large superstores had meant that it had to compete with them in terms of proving need for a new store to the authorities. Netto considered that the supermarkets were much better placed to prove need because of their greater resources, due to the length of the process and their ability to deal with a possible appeal.
15. There were also less second-hand sites coming on to the market and Netto had seen examples where the vendor was one of the four multiples and decided to sell to a buyer for another use than a food competitor. Netto was of the opinion that it was an effective competitor for major supermarkets and should have the opportunity to purchase sites in the event of a divestment by such a retailer.
16. Netto's mission was to have the lowest price on everything that it stocked and it had a uniform national pricing policy. Setting prices at a local level would be costly and cumbersome to administer.
17. Netto believed that it was obliged to price some items below cost. This was due to the pricing of the multiples. Such pricing was more likely to be on the private-label side, where the major retailers focused their low-cost strategy.
18. Prices would only be altered on a local basis in two circumstances: by the store manager to reduce weekly deals even further, and in fresh foods where the product would be marked down to clear.
19. Netto did not usually price mark its own-label packs and would always sell below any price-marked price as a policy, which were branded goods.

## Switching

21. Any switch of supplier would be likely to be to an alternative that already supplied other major retailers. Then it would look to the quality of product and the price of the deal. If the supplier was already supplying one of the multiples, it would benefit from the research and development and product assessment that would have been undertaken as part of their selection process.
20. Netto could take advantage of its parent company's buying group, Dansk Supermarked and also AMS—a European buying consortium—particularly for the purchase of volume commodities. This was of less use for sourcing UK-specific product.