

Summary of the second hearing with Waitrose held on Thursday 14 June 2007

1. Waitrose told us it was a national one-stop supermarket operator. The groceries market had high barriers to entry caused largely by the planning regime. Waitrose was a beneficiary of the Safeway and the Morrisons disposals. Such an opportunity to build market share in a short period of time was rare. Waitrose wanted to build market share because scale was important, but suitable sites came up only rarely. Waitrose had identified over [redacted] locations where it would like to establish stores.
2. Waitrose said that the current planning regime was blind to fascia in that it did not take into account the variety of offerings of different operators. This meant that incumbents could acquire sites and reinforce market position, rather than there being a preference in the planning regime for new entrants who would add diversity to a catchment area. Waitrose considered that planning permission should ensure that there was a pro-competitive outcome when stores became available through merger or sale or when new sites became available.
3. Waitrose attracted a broad customer base because it offered good fresh food and grocery lines often not available elsewhere. Its offer was distinctive and not targeted at competing retailers. All grocery retailers imposed competitive constraints on each other because it was a competitive market. Waitrose was focused on offering one-stop grocery shops. It did not wish to enter the convenience store sector. It operated one-stop-shop supermarkets with a preferred store size of 2,322 sq metres (25,000 sq feet). 15 per cent of its store space was below 1,393 sq metres (15,000 sq feet), [redacted].
4. Waitrose's ability to grow in the one-stop-shop market was constrained by the availability of sites in the UK and planning barriers. This meant that Waitrose was forced to consider new stores between [redacted] sq metres, which restricted it offering more choice to customers. Smaller stores were suboptimal economically, being more expensive to run relative to their turnover.
5. Waitrose had a non-food format called 'Food and Home', with a limited number of stores because of the scarcity of store sites. It also had Internet sales through Ocado, [redacted]. Ocado had a turnover of around £[redacted] million a week, which was equivalent to about [redacted] average Waitrose stores. Internet sales represented 1.3 per cent of the grocery market and would probably grow to only 5 per cent. Internet sales were a very small part of the marketplace and depended heavily on having a network of physical stores on which to base the Internet service. It was doubtful whether pure Internet retailers would be hugely profitable.
6. Waitrose had a Site Acquisition Team that sought to identify available sites. Local Development Plan frameworks governed what Waitrose bought, restricting it to consider locations identified as having a need and sites allocated for food use. Waitrose did not speculate in property; it was a food retailer and only bought sites that would serve that role. The sequential test meant starting with the least economic site and the least desirable in terms of customer access and convenience. Such a site also tended to be very expensive. Once a need in an area had been identified, an existing incumbent with a one-stop-shop could apply for an extension to its store, thereby filling the perceived need.
7. There had been occasions when Waitrose had been outbid for land by a competitor and where, if a competitive test (ie if preference was given to a new entrant in areas

where there were three or fewer existing operators) had been applied to the planning process, the competitor would not have been able to purchase the land. Very few sites fitting the planning criteria became available. If it were not for the opportunity to make acquisitions following the acquisition of Safeway, Waitrose would have been losing market share as a consequence of the scarcity of suitable sites caused, in part, by the planning framework.

8. Waitrose told us that it did not possess a land bank. However, land banking was one way to frustrate new entrants from entering a market. Fareham was an example of a site where Waitrose had been frustrated from entering. Tesco had acquired the land and put a planning application in. The store was not developed and the planning application not progressed, although the site had been identified in the Local Plan as meeting the needs test. As a result, Waitrose was unable to open in Fareham and consumers were denied the extra choice of fascia. Waitrose was supported by the local authority, which saw Waitrose as a part of the regeneration of the town, but the local authority was not able to consider increased choice of fascia as part of the planning process. For the incumbent, the holding cost of land was probably less than the competitive impact of a new entrant. Economically, it made sense to land bank because land values rose over time. [REDACTED].
9. Waitrose had tried, on occasions, to protect its market position through the planning regime when threatened by an out-of-town retailer. In [REDACTED], Waitrose [REDACTED]. So where Waitrose was an incumbent, it was also able to play the system. However, given the relatively small number of Waitrose sites, this had relatively little impact. Waitrose was in favour of a change to the planning regime to require planning authorities to restrict the opening of additional stores by incumbents in areas where there was a limited choice of fascia.
10. Whenever a new competitor opened, Waitrose assessed the likely impact and decided whether to take defensive measures, which could include store refurbishment and range maximization. It might also add services that the competitor was offering such as home shopping. Except for petrol, it operated one standard pricing regime throughout its estate, so it would not reduce in-store prices. Occasionally it might price below cost in response to competitor pricing; it did not price locally or below cost in one store as a result of a competitor coming in. It would rather compete on quality, range and service, rather than price. It was a price follower, not a price leader.
11. Waitrose agreed with the market definition applied by competition authorities in recent years: principally that separate markets could be distinguished on the basis of one-stop shopping and top-up shopping and that competition was primarily played out at the local level. But it also recognized that the operation of a number of stores (including convenience stores) by a single operator around a one-stop-shop could have an impact on competition at the one-stop shop level within certain local markets.
12. Waitrose told us that scale was important because it enabled a more competitive operation. Therefore, its recent 24 per cent expansion had enabled it to lower its prices because it had gained greater scale and greater efficiencies. It was now able to buy at better prices and gain better terms from its suppliers. In percentage terms, Waitrose had gained about [REDACTED] from its suppliers and had reduced its overall costs by about [REDACTED].
13. With respect to Waitrose's suppliers, it had a process in place to address any disputes. It also trained and monitored its buyers' performance against its own Code

of Practice. It believed that it had safeguards in place that addressed issues raised by its suppliers. [✂].

14. For the supply of beef, lamb, pork and eggs, Waitrose had 'farmer clubs', which meant having a relationship directly with the farmers. It was important for it to know where its fresh products were produced and to ensure that supplying farmers had a viable return. It had a number of suppliers who supplied it exclusively, although these suppliers were free to supply other markets.
15. One of Waitrose's main concerns was the lack of variety of brands in the UK market, which had been the result of consolidation of the supermarket industry and supplier base. It was interested in breadth of range and encouraging new suppliers into the market. It had launched a Small Suppliers Charter and the Small Producers Award. It now had just under 1,000 locally produced lines from about 300 suppliers in 135 shops.
16. Waitrose had used restrictive covenants in the past, but was not opposed to having the practice stopped, as it was anti-competitive. Waitrose itself had not been affected by the use of restrictive covenants. Tesco had twice the market share of its nearest competitor and an unbuilt estate of sites, which provided it with a five-year pipeline of stores. Competitors must be given permission to develop and allowed to compete in catchments where they were currently denied access.
17. [✂].
18. The biggest threat to Waitrose was not being able to expand. With food, pay, energy, rent and rate inflation there was enormous pressure on the cost base. Unless it was able to spread that cost over a larger sales base, its business would become less economic over time. The strength of Tesco was in being able to increase its sales (particularly through the sale of higher-margin non-food products) over its base cost.