

03 August 2007

Mr T Oyler
Inquiry Secretary (2)
Groceries Market Investigation
Competition Commission
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Dear Tim

ACS welcomes the report by the Advanced Institute of Management Research into what grocery shopping provision is needed to make consumers happy. It is of course important to thoroughly examine what consumers want and what they feel they need to be satisfied with their local choice of grocery stores.

It is clear within this report that introducing one supermarket into an area to 'compete' with another supermarket will not increase consumer satisfaction. Instead the overall message of the report that a *mix* of stores is important to provide consumer satisfaction, a view which we fundamentally agree with.

ACS has argued consistently that consumers need a variety of stores to carry out their grocery shopping, and only through diversity and choice can this be satisfied. The report shows that consumers highly value a small store in their local area, and that a number of large stores would not satisfy their shopping needs. The report states that: "the presence of a small store is clearly valued as part of the store assortment" highlighting the importance of having a small shop for all consumers, but especially the elderly. While the report also states that the fascia of the small store does not matter Figure 1 shows that it is an independent store that contributes the most to consumer satisfaction, ahead of both Tesco Express and a Sainsbury convenience store. This shows the importance of independently run convenience stores to consumers, and the need for diversity in the store mix.

The report's findings on brand duplication and brand substitution also show that consumers want diversity, and are not just interested in having the same stores within a short distance. Figure 3, Local Store Assortment, shows that simply introducing the same fascia (in this case Tesco) has a significant negative effect on consumer satisfaction, more than halving consumer happiness with the choice available. Equally Figure 3 shows that there is little benefit to consumer satisfaction in introducing another supermarket within a small distance. The introduction of an additional supermarket at a very local level leads to a marginal

increase in satisfaction (0.1). This is a small increase which shows that choice cannot simply be provided by introducing more supermarkets.

Point 3 in the report's conclusions states that the importance of 'variety' within store assortment: "does not imply that every consumer will only be satisfied when they have equal access to all the main party stores within 5 minutes of their home. Variety can be achieved in many different ways and different store format solutions, and access does not necessarily have to mean 'proximity' or access by car." This is a statement that we wholeheartedly agree with. The importance consumers place on accessing a variety of stores should not be seen as being addressed by simply introducing one large supermarket into an area because there is only one other supermarket there. Smaller stores are a vital part of the store mix, especially for those without cars or other methods of visiting large supermarkets.

As initial findings this report should be used as a basis for further investigation into what consumers want in terms of store mix. Clearly the choice available at a local level is very important to consumers who want to have a variety of stores available, not just a small selection of supermarkets. Further work could take into account more areas than the three surveyed, while continuing to use the market concentration in an area as a basis for selecting areas. It may also be useful to take into account particular demographics to measure what choice different sections of society need and want, for example the elderly, specific ethnic groups and socio-demographic groups. This would provide further information on what consumers want across a broader range, while also taking into account the particular needs of all parts of society. ACS has consistently encouraged the Commission not to view consumers as one homogenous group – a point we believe the Commission has understood.

This report is a useful addition to the evidence that consumers need and want a variety of stores in order to be satisfied with the choice available. As we have said on a number of occasions, and the AIM report shows, we believe that consumers want diversity in the market, and see small shops as a key part of this mix. This report also shows that simply adding in more supermarkets will not improve satisfaction; in fact it will reduce it.

We are of course happy to discuss with you anything relating to the AIM report and our views on it.

Yours Sincerely

James Lowman
Chief Executive