

Main Submission

Booths welcomes the opportunity to contribute to the Competition Commission's market investigation into the supply of groceries by retailers in the United Kingdom.

Booths Supermarkets is a family owned and run business that has been in operation since 1847. To this day the founder's vision "to sell the best goods money can buy in shops staffed by first class assistants" remains at the core of Booths' strategic vision.

The following Main Submission systematically addresses the issues raised in the Issues Statement published on 15 June:

- a. Some of Booths success can be attributed to the strength of its localised supply chain. The company has far greater proportions than its competitors of smaller, regional suppliers who produce quality orientated goods helping to differentiate and strengthen the Booths grocery offer.

Therefore in order to continue this success it is in Booths' interest to support and nurture these suppliers by working in partnership ensuring the relationship prospers and the supplier develops a sustainable business that can support innovation and growth.

However, Booths cannot survive on its strong mix of regional product alone; the company must also deliver the full range of FMCG brands across all product categories and at a competitive price. Brand leader, FMCG suppliers, represent approximately 40% of Booths annual turnover.

Ironically, the relationship Booths has with its large FMCG suppliers is weighted very much in favour of the supplier. Booths represents only 0.3% of the UK grocery market and therefore its influence over large, multinational suppliers is negligible. Booths will often be one of the first in the grocery industry to receive cost price increases from large suppliers. This results in the company finding it increasingly difficult to maintain a competitive price position in the market.

- b. Booths believes there is a single grocery market in the UK that is best described as a continuum with Hypermarkets, selling the full spectrum of food and non-food groceries at one end and Farmer's Markets selling only local, high quality food at the other. UK customers do not make a distinction between grocery markets and will shop at different stores along the continuum depending on their situation and locality. Booths sits somewhere in the middle of this continuum with a "traditional" supermarket format both in terms of footprint and offer.

In recent times the product definition for grocery has become blurred; with traditional grocery items such as food, drink and cleaning (personal & household) products now augmented in some outlets by increasing proportions of non-food items including white goods, clothing, electrical and financial services. Booths, however, has not ventured very far into the non-food category due mainly to the standard store footprint preventing any significant range development.

- c. As the grocery market has continued to consolidate so the levels of competition have intensified. This increase in concentration has had a significant impact on Booths' position and relative strength in the market as well as impacting on the grocery market as a whole.

Specifically, the acquisition of Jackson's and Bells stores by Sainsbury's combined with Musgrave's acquisition of Budgens and Londis effectively led to the buying group function of Nisa-Today's, of which Booths was a member, disbanding.

Booths had used the buying group to help equalise its buying power with the large FMCG suppliers. Now without the support of the buying group it has meant a significant shift in negotiating strength away from the Booths buying team.

The Morrison's acquisition of Safeway has also led to an intensifying of direct competition for Booths. The compulsory sale of some of the Safeway stores by Morrison's has presented Waitrose, a potential close competitor of Booths, with an opportunity to gain a foothold in the North of England.

In other areas of the grocery retail industry, market concentration and subsequent intensifying of competition has meant that retailers must operate more effectively and efficiently than ever before to maintain their share of the market. Booths recognise that Sainsbury's, under the stewardship of Justin King have become more operationally effective which has helped to strengthen their position in the market.

- d. With near-to market saturation as well as significant concentration in the grocery retail market the nature of competition has tended to focus on the effective operational delivery of all competitive dimensions; price, quality, range and service.

Tesco, the market leader, has led the way in striving to deliver the best possible examples of generic category benefits to its customers while at the same time ensuring nothing is sacrificed to deliver these benefits. Tesco has also invested heavily in its ITC support systems to maximise its understanding of customer trends and behaviour and acts on this research to drive further spend from their available customer base.

Sainsbury's is working to match Tesco in all areas, however its price credibility is not as strong and therefore product quality plays a slightly more significant role in the company's positioning.

Waitrose is Booths' closest competitor in terms of target customer profile and product offer (not geography). It has a very strong own label proposition, a quality ethos and scale that allows the company to compete alongside the major multiples while at the same time distancing themselves by promoting exclusivity.

It is this exclusivity element of the brand that makes Waitrose distinctly different to Booths, however like Booths, Waitrose is also perceived by many consumers as expensive.

In order to successfully compete Booths must deliver generic category benefits to equivalent levels as its competitors as well as provide customers with additional reasons to shop.

It has already been identified that Booths cannot obtain the same trading terms with large, FMCG suppliers. Price is a very important part of any grocery retail offer and therefore Booths is being disadvantaged in the market because it

cannot offer the same retail price points on key FMCG lines as its major competitors.

However, in other areas of its offer Booths competes very successfully; delivering additional value to its customers with its strong regional supplier base, consistent and high quality and the emphasis on personal service in all areas of its operation.

- e. Booths are aware that price flexing and below cost pricing exists in the market however the company does not undertake this type of activity and has never experienced price flexing from its competitors. Booths do not know the extent or impact of such practices in the market.
- f. There is little doubt that the planning system has materially and detrimentally affected competition in grocery retailing. This has been caused by the application of ever increasingly strict policy controls over the past decade. What started as well intentioned control of out of town schemes (originally to protect town centres) has become a rigidly operated system which presumes against new grocery developments.

There are two key facets of policy which stifle competition:

- A preoccupation with the merit of focusing development to higher order city and town centres;
- A disproportionate interest in quantitative need; and insufficient attention to qualitative need – limiting choice

Development to higher order city & town centres

Over the years the Government's key policy tool for food retail has been PPG and now PPS6, in concert with various other PPGs and PPSs (PPG13 in particular). These policies have led to new food retail schemes being restricted to central locations (which are very small in area) within cities and large towns. The policies have become stricter as sustainable development principles have been superimposed on them. These policies are enshrined in formal documents at national, regional, sub-regional and local levels. They have colossal weight in decision making as they are part of the statutory plan system. They are also reinforced now by special statutory controls, introduced by the Secretary of State, which allows Central Government to intervene easily, even on relatively minor schemes.

Whereas the larger superstore operators had a model based on out of centre superstores to serve large catchments; they were forced to seek the very limited opportunities for new stores by pursuing sites in central areas in larger settlements.

Policy is geared up to this large scale centralist thinking with no space for smaller centres and smaller stores – even supermarkets. It is thus relatively easy for the 'big players' to monopolise the areas around these larger centres.

Central sites in market towns and smaller centres is the natural home for companies like Booths. However; the application of this centralist approach means that the scarce commodity of land for food retail has been made rarer and it is very difficult for companies of Booths' size to compete over the purchase of land against the national operators. (Where local authority land is involved it can

be exacerbated because the authorities have to secure the highest price for the land)

This whole area of trouble has been made worse by the introduction of what is known as the sequential approach. This approach means that if one operator controls the most central site, and can satisfy some notional 'need' for the area, other operators are effectively barred from entering the town.

The aim of this approach was well intentioned however this scarcity has affected central land values and it is obvious which types of business can best afford the highest values. It has become almost impossible to secure planning permission for sites where a competitor has a "so called" sequentially preferable site or has permission for one.

The sequential approach is now applied even within central areas and the simplistic definitions around it are applied prescriptively and rigidly. This is not only done by the local authorities but is also monitored very closely by regional planning bodies and central government offices.

It has given planning authorities a standardised process to matters which Booths' believes need much greater intellectual subtlety. As a result a pattern of large format superstore schemes have emerged to dominate town centre catchments.

Booths has traditionally traded from market towns and has happily competed with other operators of various shapes and sizes. When Booths seek to expand or build new stores it faces resistance on the basis that need is being met by the larger superstores often miles away from where are customers live. This is not allowing competition between respective types of operator and is weighted in favour of the superstore end of the market at the expense of choice and inclusivity.

Quantitative need

There has been a deliberate policy shift towards quantitative need as the single most important factor in deciding whether to grant permission for new food retail. In simple terms, retail analytical experts can decide a notional need for a given area. This is measured in quantitative terms using established methodologies. Whilst the situation has settled down to a culture which professionals understand, it is a simplistic and shallow approach to the quality of our lives.

The problem is that qualitative need is not given the same, if any weight. Thus, if an operator can prove that the notional quantitative need is met, competitors are unable to offer alternatives on the basis that their stores provide choice - be it based on range, quality, regionality and service.

Again, this approach plays into the hands of larger operators who already control vast catchments. It prevents competitors entering the same market and is particularly tough on smaller operators. Booths does not understand how this is in the public interest.

Another concern for smaller operators is that the major retailers have entered the local and neighbourhood grocery market. Again, the simplistic application of the quantitative need arithmetic then precludes new food stores from trading against them. In this way there is a worry that larger operators will control all levels to the exclusion of competition.

A related issue is the rigorous application of conditions on food store schemes concerning what can be sold. This is linked with quantitative need arguments but foils operators from offering choice. It seems contradictory to apply these types of restrictions on Town Centre stores when large out of centre superstores are able to sell virtually anything.

- g. Booths have not been adversely affected by others' approach to the acquisition, holding, development, use and disposal of land. Booths have a dynamic development programme but it is in proportion to its size; generally aiming to open a new supermarket every 18 months which often replaces an existing store.

It has never been Booths policy to acquire land or take leases on premises built by others other than where Booths fully intend to operate its stores. Booths are long established traders and are happy to live in a competitive market.

The Company have a team of professionals who are constantly assessing and bringing forward possible store schemes. Because of the complexity of the modern planning system and the difficulties faced in securing permissions, Booths have to pursue many sites at once.

Booths favour having a stream of planning permissions to work through for continuity. To date the Company has always built stores whenever it has secured permission.

Booths have purchased premises from other operators and sell on a continual basis as replacement facilities are introduced or markets change.

Questionnaire

1. The nature and extent of competition in grocery retailing has changed since 2000 in the following ways:

- **Growth of non-food:** There has been increased augmentation of retailer offers beyond food grocery into non-food areas such as clothing, electrical goods and financial services which has introduced a new set of competitive issues across the industry. Major supermarket retailers are building bigger stores, giving over more space to non-food items and cross subsidising margins achieved in non-food sales with those of food goods. This development has dramatically increased the intensity of competition in the industry.
- **Consolidation:** Since 2000 there have been a number of acquisitions within the grocery industry which has led to further consolidation and more intense competition. The convenience sector has seen significant consolidation with the major multiple retailers entering the sector and intensifying competition.
- **Demand for regional food:** Over the past 6 years consumers have become more aware of regionality and demand for local foods has increased. This trend has led to the proliferation and success of niche retailers such as farm shops and farmer's markets. The major multiple retailers have also recognised this trend as an opportunity to increase footfall by introducing buying strategies and marketing communications to promote their regional food activity.
- **The growth of Waitrose:** The expansion of Waitrose into the north of England is of particular competitive significance for Booths. The brand positioning of Waitrose is closely aligned with Booths and it is anticipated that competition will intensify as Waitrose penetrates further into the region.
- **Retail food price vs food quality:** Paradoxically, the ever increasing buying power of the major multiple retailers has led to the general deflation of retail food prices whilst at the same time driving up overall quality. In order to compete successfully smaller, independent grocery retailers are having to sacrifice margin as well as differentiate in other areas such quality, service and product provenance.

It is the view of Booths that these factors will continue to effect the competitive situation of the next 3 years.

The market(s)

Business strategy

2. [✂]