

**MARKET INVESTIGATION: THE SUPPLY OF GROCERIES BY
RETAILERS IN THE U.K.
MAIN PARTY SUBMISSION AND MAIN PARTY QUESTIONNAIRE
COSTCUTTER – REFERENCE CC/INQSEC(2)/GROCERIES/470-06**

Main Submission

1. The situation has changed dramatically. Costcutter operate primarily as convenience stores and have experienced more competition in these stores over the last 6 years. We have had to implement far more promotional activity to keep a competitive edge in the stores in order to keep footfall. This has included having to introduce a “consumer promotion leaflet” for our stores to compete. This has had an impact of reducing store margin. We have increased the number of leaflet options for Costcutter retailers from just 3 options to 11 leaflet options over the 6 years. This increase has had to happen to accommodate the need to feature stronger promotional activity to compete in the various store sizes and store offer. We have had to introduce an even smaller leaflet so that our smaller stores have a promotional offer to compete –

As well as implementing promotional activity to maintain footfall we have also implemented initiatives to focus on “everyday low value lines” in a number of stores which has also had an impact on margin. See attached [X] and updated [X] – the latter demonstrating margin impact.

Stores have also had to invest heavily in upgrading their sites to compete. One example of this, amongst others included in this submission is Costcutter Dronfield, near Sheffield. Sales were hit by – 13% when a J Sainsbury opened 1 mile away. We had to invest £200,000 in upgrading the store with the result of regaining the 13% lost sales but no more. The store only generates about £20,000 profit per year. This has been a massive investment for Costcutter, but with a 10 year return on investment, it is likely to need upgrading again within the next 5 years. We need to achieve higher sales and profit to continue with this store.