

Main submission

We would be grateful if you could address the following issues within your submission to the CC.

1. How has the nature and extent of competition in grocery retailing situation changed since 2000? Do you expect this situation to change over the next 3 years?

Please give your reasons for your answers.

A glossary of definitions to be used when completing the questionnaire is as follows:

There have been several changes to competition in food retailing in the UK since the year 2000.

- a. For an extended period of 20 years, the major superstore retailers developed many large retail emporiums in the UK. These developments, in the main, varied from a net sales area of 15,000sq. ft. to, in the latter years, 60,000 sq. ft. and beyond in a few cases. There were many planning battles and a race to occupy the primary sites which would be defined as the locations with more population and more catchment area spend within certain isocromes. The catchment areas would vary in size depending on the density of population within them (during this period, the more efficient co-operatives developed stores of a higher standard in market towns which had been an area more overlooked by Asda and Tesco, but not now).*
- b. When most of these primary locations had been developed, there was a u turn in the market, as Tesco, the Co-op and then Sainsburys wanted to capture other pockets of food retailing by smaller convenience stores, as they were now able to run these smaller stores profitably, using highly developed distribution and EPOS software systems. These companies felt comfortable expanding in this convenience area of the market, having negotiated cost prices hard with suppliers and able to stock efficient, limited ranges and retail at competitive, but higher prices. As their clean, modern stores move into this market with their strong retail profile and company brand many independents will lose trade and close.*
- c. The growth of the hard discounter, Aldi, Netto and Lidl, have grown extensively within the UK market to the demise of softer discounter Kwik Save. Out of these three, Aldi and Lidl will expand from currently 700 stores to 1,100 stores by 2010 (the next four years). This outstanding performance will give them sales of 5.6 billion, as the hard discounters develop, they have changed into slightly larger stores of up to 12,000 sq. ft. sales, with revised, slightly larger ranges and more fresh produce, making them more acceptable to a greater number of UK customers. In the longer term, the hard discounters will achieve some 10% of the market. This in turn will affect the future of some independents, dependent on the quality of their operation and proximity.*
- d. Since 2000 there has been little inflation in the industry and Tesco are not far behind Asda in retail price competition (excluding the hard*

discounters). Morrisons have taken Safeway over, which in effect is a company with deeper discounted prices, buying Safeway, a company known to have had slightly higher retail prices.

In the next three years, Sainsbury and Tesco may wish to carry on expanding into the convenience sector, as the Competition Commission had excluded anything below 15,000 sq.ft. sales at their previous Inquiry, making the infiltration of this part of the market available to them and generally without the hassle and expense of the sequential planning system, opening up new territories and gaining market share. The trends I have mentioned will carry on over the next three years and will have a sizeable impact on the independent. This will be further compounded by the rapid expansion of Aldi and Lidl.

The independent market is going to shrink yet further. The better independents will be left, but even some of them will find achieving sales and profits difficult unless they have the opportunity to buy as individual companies, or through their buying groups, at lower cost prices, as does their competition.

It is important for the UK to have a prosperous independent sector, even if it is half the size it is today. Given the chance to have equal buying opportunities, an independent will be a fierce competitor and provide the UK customer with an interesting range with a good retail service and one which is flexible enough to raise the competition stakes in its own locality.