

Competition Commission Questionnaire

Main submission

1. In the CC's 2000 report on supermarkets and in the CC's 2003 report on the Safeway merger, the CC concluded (i) that primary and secondary shopping were separate; (ii) that primary shopping takes place predominantly in "one stop shops" of over 1,400m sq and secondary shopping predominantly in smaller stores; (iii) that consumers travelled no more than 5 minutes to smaller stores in urban areas and no more than 10 minutes to larger stores; and (iv) that consumers travelled no more than 10 minutes to smaller stores in rural areas and no more than 15 minutes to larger stores.

Having regard to the four aspects of these market definitions (i.e. shopping patterns, store size, travel time and the urban/rural split) please outline how you believe the relevant market should be defined in the present case. Please explain your reasoning and provide evidence.

High-level response to Question 1

We *broadly* agree with the previous CC's definitions for the first two aspects of defining the market around **shopping patterns** and **store size**

- We agree that the primary shop (or Main shop) and the secondary shop (or Top-up shop) are **different shopping missions**
- We agree that the primary shop **generally takes place in larger shops** than the secondary shop

However:

- We believe that there are **more than two shopping missions**. Within the primary shop, we believe that there is a **one-stop main shop** mission and a **fractured** (or staggered) **main** shop mission. Within the secondary shop, we believe that there is a **planned top-up** mission and a **distressed top-up** mission
- We believe it is **incorrect merely to use store size to define the shopping mission**. There are a number of factors that will determine the mission (store size and hence range stocked is only one factor). What distinguishes what mission a store fulfils is **how the consumer chooses to shop** the particular store.

We believe that using **travel time** is the **right way to think about competitive boundaries** (as this is how consumers think), however with **two caveats**:

1. Current software packages are **unable to estimate drive times accurately**, especially when covering small distances (as times are based on average speeds for road types). We suggest that when analysing the market, the **CC remain aware of the limitations**, and consider other factors
2. Using the 5 and 10 minute and the 10 and 15 minute criteria **appear to be somewhat arbitrary**. Consumers will choose where to shop **based on the shopping mission they are trying to satisfy**
 - For example consumers in London will drive more than 10 minutes to a one-stop shop major multiple grocery retailer, passing several smaller shops en-route as the smaller shops are unable to satisfy fully their primary shopping mission

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More detailed response to Question 1

We believe that the primary shop, or main shop, breaks down into **one-stop main shops** and **fractured main shops** (sometimes referred to as the staggered main shops).

The one-stop Main shop:

- This mission takes place in large stores (generally over 20,000 ft²)
- These stores tend to be located on the outskirts of towns, with substantial car parks. As a result, consumers drive to these stores (rather than walking or using public transport)
- These stores are operated by the major multiple grocery retailers (MMGR's - Tesco, Asda, Sainsbury's and Morrisons)
- These stores offer a substantial range of products, with significant space given to non-food categories such as health & beauty, entertainment, household, clothing and electrical
- Consumers shop all these categories, so they do not have to shop the high street or their local neighbourhood stores – hence the one-stop nature of the shop
- Consumers only visit these stores once a week (sometimes only once a fortnight)
- Consumers shop these stores using large trolleys, not baskets
- All consumer groups will shop these stores – although especially families

The fractured Main shop:

- This mission tends to be shopped by older consumers, as these consumers choose to shop the high street and local neighbourhoods rather than go to an out-of-town supermarket
 - These consumers will buy their groceries from a local grocery shop, health & beauty products from high street or neighbourhood chemist, meat from the local butcher, fresh bread from local baker, withdraw money from high street bank and regularly use the post office
- These stores are located on the high street or in residential neighbourhood areas
- The location of these stores is generally more important than size. These tend to be mid-sized stores, as size is driven by availability of space on the high street, in neighbourhood areas or in conveniently located edge-of-town stores. The high-street stores tend to have minimal car parking space; the neighbourhood and edge-of-town stores tend to have slightly larger car parks – although nothing like the space that the MMGRs have at their out-of-town stores
- These stores are operated by the high street and neighbourhood players: Somerfield, the Coop, the Limited Assortment Discounters (Aldi, Lidl and Netto) and Iceland. In addition, the more conveniently located major multiple grocery retailers will also attract the fractured main shop consumers
- Consumers shop these stores using baskets, not large trolleys
- These stores can be shopped several times a week
- These stores tend to have a limited range of product, with generally no clothing and limited electrical offerings

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Similarly, we believe that the top-up shopping mission breaks down into a **planned top-up shop** and a **distressed top-up shop**.

The planned top-up:

- Tends to take place in mid-sized stores that are conveniently located – similar to the stores shopped in the fractured main shop
- These stores are operated by the high street and neighbourhood players: Somerfield, the Coop, the Limited Assortment Discounters (Aldi, Lidl and Netto) and Iceland. Once again, the more conveniently located major multiple grocery retailers will also attract the planned top-up shopper
- Categories that are generally shopped on this mission are produce, meat, bakery and dairy and other more impulse-type categories (crisps and snacks and BWS)
- Consumers can shop these stores for this shopping mission several times a week
- Consumers will shop these stores using baskets

The distressed top-up:

- The most conveniently located stores satisfy this mission. These tend to be smaller high-street and neighbourhood located stores
- Stores that satisfy this mission tend to be operated by independents, franchisees (such as Londis, Spar, Budgens), although the high street players such as Somerfield, the Coop, the Limited Assortment Discounters and Iceland also compete in this market
- The focus on this mission is on essentials (milk, bread, tobacco) and impulse products such as crisps, soft drinks, batteries etc.

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2. Please provide an account of the current nature and extent of competition in grocery retailing. Please include the following within your response:

- Provide details of all those companies that you regard as actual competitors in the supply of groceries in the candidate product-market segments in question 1.
- For each competitor please describe how competitive it is in terms of price, quality of service, product range, innovation and any other relevant factors. Please respond separately for different store formats, where relevant.

How has this situation changed since the CC's 2000 report and the 2003 report on the Safeway merger and what are the reasons for the change? Do you expect this situation to change over the next 3 years?

Please give your reasons for your answers.

Companies we regard as actual competitors.

We see competition varying by shopping mission

Main shop - one-stop shop:

Somerfield does not actively compete in the one-stop main shop market; this market is the domain of the major multiple grocery retailers of Tesco, Asda, Sainsbury's, Morrisons and larger Waitrose stores. As our stores are generally located on high streets or in neighbourhoods, they are not large enough to stock the range of products required to satisfy the needs of the true one-stop shopper

- Under x% of our stores have a net sales area over 20,000 ft²

Main shop – fractured main shop:

The fractured main shop tends to lend itself to older consumers that choose to shop the high street or their neighbourhood stores. This is largely due to social reasons (interaction with both friends on the high street or in their neighbourhood and colleagues in stores) and also through necessity (being more dependent on public transport). The location of our stores has a high street and neighbourhood bias. Consequently, we find that we over-index vs. other grocery retailers in this market.

This can be seen in our customer research:

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Given these customers tend to shop the high street or their neighbourhood (tending to buy their groceries from a local grocery shop, health & beauty products from high street or neighbourhood chemist, meat from the local butcher, fresh bread from local baker, withdraw money from high street bank and regularly use the post office), our main competitors are other high street and neighbourhood based grocery retailers.

There are clearly a few instances where we will compete with some of the smaller, high street or neighbourhood located major multiple grocery retailers – however these tend to be by exception rather than as a rule.

Top-up shop – planned top-up:

Planned top-up is a mission that is shopped by all customers. What drives choice of store is mainly location. However, other indicators such as product choice, quality, availability and price also come into play. This market we see as having a similar set of competitors as the fractured main shop, although will also include franchise grocery shops (e.g. Spar Londis, Budgens) and some other local independent shops. In addition, given that top-up generally requires a smaller range of products to satisfy the mission, Tesco Express, and to a lesser degree Sainsbury's Local, tend to compete with us where located close to our stores.

Top-up shop – distressed top-up:

Distressed top-up is likewise a mission shopped by all customers. This mission is satisfied by the most conveniently located store. As a result, competitors in this market are the same as for the planned top-up mission.