

UK Groceries Market(s) – Background Information

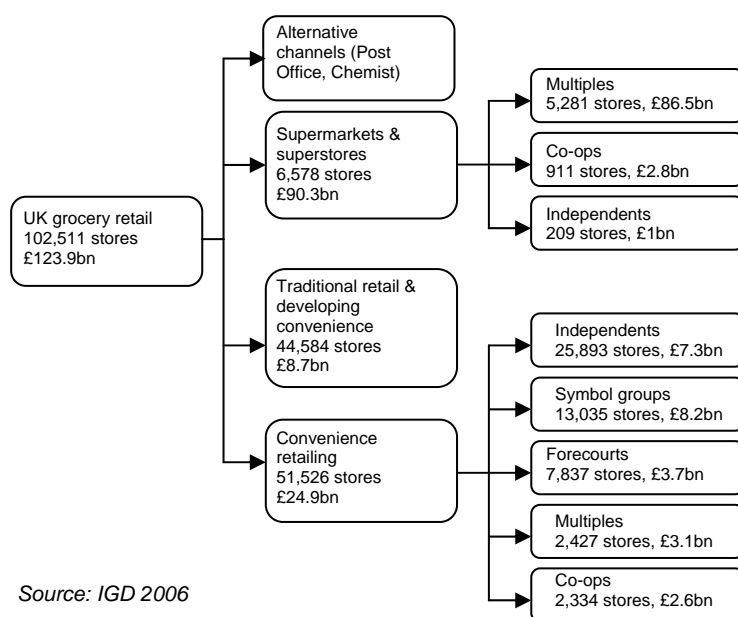
1. This document provides a summary of publicly available information on UK grocery retailers and their suppliers.

UK Grocery Retailers

2. Grocery sales in the UK are made through various types of retailer: grocery multiples; co-operative societies; symbol groups (where independently owned stores can subscribe to a particular brand / wholesaler); independent retailers and petrol station forecourts. Some of these retailers, in particular the multiple chains, also stock non-grocery products.
3. In 2005, total sales through grocery retailers stood at £120bn in 2005, £95bn of which was on grocery products. Sales through supermarkets and superstores accounted for almost 75% of total sales, with the remainder being through 'convenience stores' and traditional retailers¹. The total spend in grocery stores is summarised in Figure 1 below.

¹ Convenience stores are typically defined as being below 280sqft in size, as different trading restrictions apply. Traditional retailers include specialist retailers such as butchers, bakers etc.

Figure 1: Structure of Grocery Retailing



4. The largest retailers, by revenue, are Tesco, Asda, Sainsbury's and Morrisons. Between them, they own 85% of stores over 1,400sqft in size, which are often referred to as 'one stop shops'. The market shares of these grocery multiples, and other grocery retailers, are set out in Table 1 below.

Table 1. Revenue shares of grocery retailers, 2001 and 2006.

	2001	2006
Tesco	24.6	30.6
Asda	14.4	16.5
Sainsbury's	17.7	15.9
Morrisons	5.3	11.2
Safeway	10.7	0.0
Somerfield	3.8	4.1
Waitrose	3.0	3.7
Discounters	3.4	5.2
Co-ops	5.5	4.6
Independents	5.1	3.0
Other	6.5	5.2

Source: TNS 52 week grocery data (June 2006)

5. The gap between Tesco and the other 'Big 4' grocery multiples has increased over the past five years. Morrison's share has also increased, although this has been largely due to the acquisition of Safeway in 2003 (a proportion of these stores were then sold on to Somerfield).

6. The expansion of Tesco has not been restricted to its traditional supermarket formats. Both Tesco and Sainsbury have made significant acquisitions of convenience stores, with the symbol groups (e.g. Spar) also expanding in the convenience sector at the expense of specialists and independents. Revenue shares within the convenience sector are set out in Table 2 below.

Table 2. Revenue shares in the convenience sector, 2003 and 2005.

	2003	2005
Independent stores	32	26
Symbol groups	28	31
Forecourts	19	20
Co-ops	10	11
Grocery multiples	3	10
Convenience specialists	8	2

Source: Mintel (2005), Convenience Retailing

7. These shares are all reported on a national level. Despite increases in national concentration, real food prices have been falling over the past five years, as reported in the OFT's reference decision (and reproduced in Figure 2 below).

Figure 2. Trend in real food prices since 2000



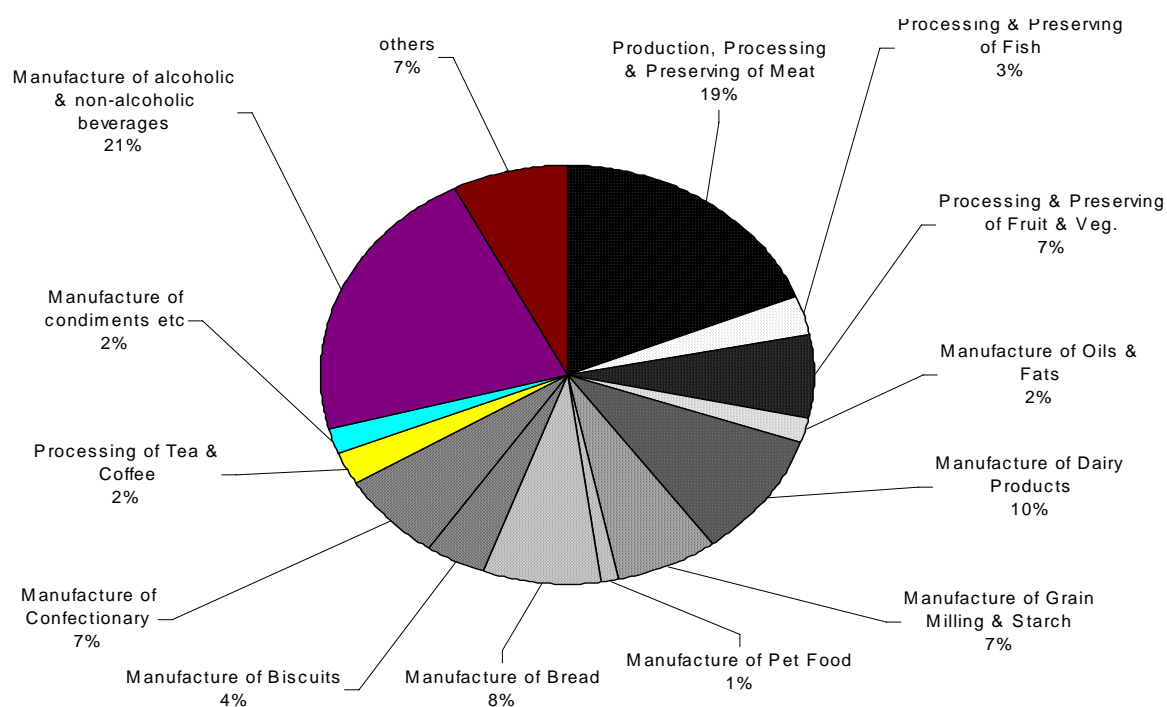
Source: OFT calculations based on ONS RPI data

UK Grocery Suppliers

8. Suppliers to the UK grocery retailers include primary producers (eg farmers), processors, manufacturers and wholesalers. Many of the grocery retailers source their products through the same suppliers. This may be at a local, national or international level.

9. The major supplying industries to the grocery retailers are drinks, meat, and dairy. Suppliers' total revenues by product type are shown in Figure 3 below.

Figure 3. Suppliers' total revenues by product type, 2004



Source: ONS Annual Business Inquiry

10. Detailed figures on the share of grocery purchases attributable to each fascia are unavailable at present. These are often approximated using the shares of grocery sales to consumers.

11. Given the distribution of market shares in Table 1 the buyer market might be characterised as oligopsonistic². Suppliers may then choose, either contractually or for practical purposes, to tie themselves into exclusive provision agreements with one of the leading retailers.

12. The supply base itself varies in concentration across industries. Analysis of DEFRA statistics show that UK primary producers in meat and horticulture (fruit and vegetable) production are relatively concentrated whilst dairy and cereals are

² Note that in some product categories, in addition to grocery retailing, suppliers' sales channels include the food services sector (restaurants, catering, canteens etc) and the wholesaling sector (which acts as an intermediary to each of these final consumption industries).

produced on a much broader base of smaller farms (though these are often indirect suppliers to the supermarkets).

13. Rather than purchase directly from suppliers many of the smaller grocery retailers purchase principally from intermediate wholesalers, either via cash and carry or delivered wholesaling services. The grocery wholesaling industry in the UK is worth £16.8bn, of which just over half is cash and carry (IGD 2006). Cash and carry wholesaling appears to be in slow decline, however, while delivered wholesaling revenues have been increasing over the last ten years. About a third of wholesalers provide a full range of products, others are specialists notably in cigarettes, alcohol or fruit and vegetables.