

Submission to the CC supermarkets enquiry

Labour Behind the Label is a membership organisation bringing together consumers, trades unions and labour rights organisations in the UK to support garment workers' efforts worldwide to improve their working conditions. We make this submission in our capacity as a consumer organisation, with several thousand supporters ourselves and with member organisations representing further tens of thousands of consumers.

We are concerned that, if it maintains a strict interpretation of the terms of reference and investigates only the supermarkets' grocery activities, the resulting investigation will not fully analyse the changing role of supermarkets and their impact on consumers, nor will it fully grasp the dynamics of issues within the grocery market itself. Supermarkets are increasingly players in the garment sector, where their impact is being felt in falling wholesale prices and the collapse of some high street competitors. Crucially, clothing and other non-food items are expanding parts of an increasingly holistic "one-stop" offer, which as identified by the OFT as likely to lead to a reduction in choice for consumers:

[I]n some locations consumers have a more limited choice of outlets, and concerns have also been raised over the impact of the decline of independent retailers on the overall choice and range available in the convenience retailing sector.

Non-food represents almost a third of Asda's sales, and was £7bn of Tesco's sales in 2004; half of all new space opened by the latter company last year was for non-food. In the value clothing market, Asda's market share by value has exceeded 20%, and high street chains are folding as a result of this dominance. Asda and Marks & Spencer make up a quarter of the clothing retail sector, which they compete to lead with shares of around 12% each by volume. The top three clothing retailers by volume are supermarkets, commanding almost one-third of clothing retailing by volume.

LBL has three main concerns.

1. Below-cost selling and cross-subsidisation by supermarkets are not limited to grocery products.

Clothing items have become Known-Value Items (KVIs) for supermarkets, and the marketing logic behind Tesco's flagship £3 jeans is no different to their low-priced milk or bread. We believe that the concerns raised and acknowledged by the OFT are incomplete if limited solely to grocery. Supermarkets are taking advantage of their dominance of the grocery sector to pull in clothing sales, and conversely the cheap clothing prices made possible by their huge buyer power extend the scope of their "one-stop" offer.

As the OFT's decision stated:

Legitimate competition concerns and harm to consumers could nevertheless arise if price discrimination, in the form of below-cost selling or price flexing, in some areas is used:

- *to take advantage of an existing position of market power – for example, where prices in a location reflected lack of local competition and choice for consumers; or*
- *in a predatory way, to force competitors out of the market and create or reinforce a position of market power.*

Grocery retailers have an existing position of market power in groceries, and are taking advantage of this to enter into the garment sector. The synergies that exist in the creation of the "one-stop shop" will clearly work in both directions, leading to an unfair advantage for supermarkets because they retail in both food and non-food. As Mintel retail analyst Richard Perks stated at the end of 2004, "the driver in the European food retailing market has generally been the development of non-foods."

The increased competition in the 'value' end of the clothing retail sector since the entry of the supermarkets has already led to the collapse of several discount clothing companies, including the Ethel Austin and QS/Bewise chains, and concerns about other retailers such as Matalan. Asda enjoys a 20.5% share of this market by value, and Tesco 12.1%. The latter's clothing sales are increasing in double digits.

2. The anti-competitive and distorting effects of supermarket buyer power apply beyond the grocery sector

LBL also believes that the buyer power of these supermarkets, especially Tesco and Asda which both have significant retail operations overseas, is having similar distorting effects on the production market. Wal-Mart's preference for production in China is one example, as is its domination of the Bangladeshi clothing export market. We believe that an investigation such as that proposed for groceries would

be incomplete without considering how these companies' buyer powers impacts on non-food, especially clothing, production. Supermarket clothes cost one half the high street average per item, and a clear subject for investigation must be how the use of buying power to achieve these deep price cuts is distorting the upstream supply market.

The OFT decision states that:

First, the strength of buyer power of the Big Four might distort competition in the upstream supply market. For example, where suppliers are in a weak position relative to supermarkets, their incentives to invest or innovate in new products might be distorted if, for example, the supermarkets use their buyer power to reduce prices paid to them.

A study of UK clothing retailers by Dr Peter Gibbon raises concerns about the anti-competitive activities of UK supermarket retailers with regards to clothing suppliers:

One [company interviewed], a supermarket, was the only respondent which stated that it had a rule of thumb concerning the share of capacity which it required from individual full manufacturing suppliers (40-70%), and a second (also a supermarket) stated that the presence of another large customer would disqualify a potential supplier from consideration.

This study found that supermarkets' preference was to reduce their numbers of suppliers, thus taking advantage of their buying power to impose conditions on them that distort the wholesale market.

3. Supermarkets' impacts on overseas suppliers are an important topic to address

Finally, LBL is concerned that, as consumers' preference for selecting clothing on ethical grounds increases, their choice in this matter is becoming more difficult and confused by the impact of supermarkets on supply chain working conditions. Supermarkets' buying practices inevitably force down working conditions through a downward pressure on prices, something that will inevitably lead to a downward turn in working conditions in the sector as a whole.

A recent spate of fatal industrial accidents in Bangladesh, an export market lead by Asda-WalMart and Tesco, demonstrates the impact of supermarket buying practices such as squeezed prices and the flight to China on working conditions across the sector.