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Cc Marie-Louise Coster

10.05.06

Dear Mr Jenkins

Grocery Market – Proposed Decision to make a market investigation reference

We write to formally express the support of [] for the OFT decision to make a market investigation reference in respect of the UK grocery market, and to place on record our comments for the benefit of the consultation process.

It is our understanding that the market investigation reference may, depending on the outcome of the investigation, ultimately lead the OFT to refer the trading practices of the 'big four' multiple grocers to the competition commission. If such referral is made then we would also welcome the CC review.

Our reading of the OFT paper (OFT838) published in March 2006 leads us to believe that the four principal areas under investigation are:

1. Supermarkets are alleged to be buying-up tracts of development land and placing restrictive covenants upon the same;
2. The supermarkets are alleged to be utilising their enormous global buying power to squeeze wholesalers and smaller independents out of existence, ultimately reducing choice to the consumer;
3. Below-cost selling and price-flexing maybe distorting competition. There may be an argument to suggest that, although this may benefit the consumer in the short term, ultimately it may be damaging to the quality of products available in the market and may contribute to 2 (above);

4. The supermarkets' entry into the convenience sector may have contributed to lower prices to the consumer, but has it reduced choice too?


Our concerns and comments are principally related to points 2 and 3 detailed above, but also have some bearing on 4.

We would like to utilise this letter to provide a brief précis of the issues as we see them, but it is not our intention to dwell overlong on any of these points as doubtless they are already familiar to you.

Whilst the independently owned franchise outlets that operate within our estate are predominantly niche off-trade stores, our business is underpinned by convenience grocery. In fact, this element of our business is becoming ever more important to our retailers as the percentage margin achievable from our core alcohol range becomes increasingly tight. Indeed, our primary reason for welcoming the OFT's decision is related to precisely this problem facing our retailers.

There has been precious little inflation in the actual retail price of alcohol in the off-trade for a number of years despite annual hikes in duty, manufacturers' price increases and inflation in overheads associated with running a business (minimum wage, fuel, utilities etc).

Normally a retailer might reasonably expect the consumer to bear at least some of these operational increases (especially duty, which is after all a consumer tax). This has not noticeably been the case in our market, or indeed in our own business. On the face of it this can only be good news for the consumer, but there is an argument to suggest that in the long-term this will not be the case.

Our alcohol prices are driven, in part, by its overt positioning within the marketplace as a discounter ([] clearly explains to the consumer what he or she should expect to find within our outlets!) However, a discount price position can only be judged in relation to an overall market price position and without a doubt that market price position is established by the multiple grocers as they utilise the BWS category as a weapon in the seemingly interminable price-war that they appear to be waging upon one another.

As mentioned above it is doubtless that, in the short term, this is good news for the consumer. The product is available far more cheaply than it might otherwise be.

In the longer term, however, this trend could spell extremely bad news indeed for the consumer. The constant driving-down of alcohol prices and the concomitant erosion of brands (particularly wine brands, but this is also true of beers and spirits) may perhaps force the supplier to 'cut corners' in terms of the quality of product that they can afford bring to market. There is perhaps a danger too of new product development being stifled, or at least limited. We would suggest that as part of the consultation process the OFT might consider approaching a number of key

suppliers in the alcohol market (e.g. – Coors Brewers, InBev UK, Scottish & Newcastle, Carlsberg UK, Constellation Wines Europe) in order to ascertain their views upon this matter.

The casualties of the supermarkets' price-war on alcohol may well also include many smaller retailers who simply cannot afford to continue to compete as the multiple grocers 'loss lead' on key brands. This has already begun to happen; the number of independent retailers in the UK is in decline.

The demise of smaller retailers is, we believe, ultimately also bad for the consumer as it will reduce choice and contribute to the total homogenisation of the shopping experience available to UK customers.

Finally, whilst it is not one of our principal reasons for adding a note of our support to the OFT's decision to make the market investigation reference, we would also welcome the review of the two-market approach which we have always believed to be fundamentally flawed.

Whilst it may perhaps be academically helpful to view the 'one stop shopping' available in supermarkets and the 'secondary shopping' (that includes most convenience stores) as being separate markets, they are in reality not only interrelated but are actually different aspects of precisely the same market.

It is our hope that these brief comments might be helpful in contributing another retailer's view to the OFT's consultation process. If we can be of any further assistance in contributing our views to this or any other matter then we would be pleased to do so.

Yours sincerely