Findings on product and geographic market in previous CC inquiries

Introduction

1. This appendix sets out the findings that the CC has made in three previous inquiries into grocery retailing in the UK in recent years: the market investigation in 1999/2000, the Safeway merger inquiry in 2003 and the Somerfield merger inquiry in 2004. We summarize the product market and geographic market findings of these reports in terms of store size and store fascia. These findings have remained substantially the same throughout these inquiries, although there are a few minor variations that we note.

Findings on product market in previous CC inquiries

Store size

2. The CC's market investigation in 1999/2000 found that only stores larger than 1,400 sq metres carry a range of products sufficient to meet the needs of shoppers conducting a weekly one-stop shop for groceries. As a result, it was considered that stores larger than 1,400 sq metres in size compete with each other for these shoppers, and are not competitively constrained by smaller stores. It also found that all grocery outlets, including those both larger and smaller than 1,400 sq metres, are able to meet consumers' requirements for secondary, or top-up, shopping, and thus compete for these shoppers.

3. The Safeway merger inquiry in 2003 assessed the potential impact of an acquisition of Safeway by either Asda, Morrisons, Sainsbury's or Tesco. The inquiry adopted the findings of the 2000 investigation in relation to the 1,400 sq metre threshold for one-stop shopping. However, for the purpose of its initial assessment of the local effects of the proposed mergers, it also considered stores below the 1,400 sq metre threshold where these had a net sales area that was at least 75 per cent of the area of the Safeway store under consideration.

4. The Safeway inquiry considered, in more detail than the 2000 investigation, the status of stores smaller than 1,400 sq metres. In terms of shopping missions, the Safeway report distinguished between convenience shopping, which it considered to be primarily for products that would be consumed within 2 to 24 hours of purchase, and secondary shopping. It stated that convenience stores (smaller than 280 sq metres in size) cater primarily for convenience shopping, while stores of 280 to 1,400 sq metres provide for secondary shopping. However, it also considered that all stores compete for secondary shopping. For the purpose of its initial assessment of the local effects of the proposed mergers on these mid-range stores, the CC decided that any store larger than 75 per cent of the smallest Safeway store should be considered as well as all one-stop shops.

5. The Somerfield merger inquiry in 2005 adopted the findings of the Safeway inquiry in relation to the product market and, in particular, found separate product markets for secondary and convenience shopping.

Store fascia

6. In the 2000 investigation, the CC found that Asda, Booths, Co-op, Morrisons, Safeway, Sainsbury's, Somerfield, Tesco and Waitrose were all competitors in the market for one-stop shopping (ie in stores larger than 1,400 sq metres). The CC excluded both M&S, which had a number of food halls in this size category, and Budgens, which had one store in this size bracket, from the relevant product market.[1]

7. The Safeway merger inquiry found that for stores larger than 1,400 sq metres (or up to 75 per cent of this size in certain local markets), Asda, Budgens, Booths, Co-op, Morrisons, Sainsbury's, Somerfield, Tesco and Waitrose were all effective competitors to Safeway. For stores in the 280 to 1,400 sq metre size band, the CC included all these fascias as well as Iceland. However, in 2005 the Somerfield inquiry excluded Iceland from the set of competitor fascias for secondary shopping, as it considered that its competitive offering had changed since the Safeway report.

8. In each of these investigations, the CC excluded the LADs (Aldi, Lidl and Netto) from the relevant product market for both one-stop and secondary shopping.

Findings on the geographic market in previous CC inquiries

9. The CC's 2000 investigation found that shopping patterns were essentially local, with most consumers travelling no more than 10 minutes to a supermarket in urban areas and no more than 15 minutes in non-urban areas.

10. The Safeway inquiry adopted the CC's findings from 2000 for one-stop shopping, but also noted that there were national dimensions of competition. In relation to mid-range stores, the Safeway inquiry applied a smaller isochrone for the purposes of its competitive analysis, namely a 5-minute isochrone in urban areas and a 10-minute isochrone in rural areas. However, it noted that these isochrones might under- or overestimate the relevant geographic market depending on the size of the mid-range store in question and, in particular, whether it was closer to the size of a convenience store or a one-stop shop.

11. The findings of the Safeway inquiry, in relation to the geographic market, were adopted by the CC for the Somerfield inquiry. In making this finding, the CC noted that the extent of the geographic market in previous CC inquiries had been essentially based on the travel time that would encompass 80 per cent of a store's revenue. It noted that while this was to some extent arbitrary, it was a measure that had been widely adopted by the industry.

[1]M&S was excluded as it offered only own-label goods, lacked the full food product range needed for one-stop shopping, generally did not offer flat car parking and had a much more limited range of non-food grocery products than the CC considered necessary to meet one-stop shopping needs.