

# Sainsbury's ASDA

## Proposed Sainsbury's and Asda Merger

### Fundamental change to grocery sector in the last ten years

The UK grocery market is more competitive than ever before. Shoppers have more choice and they want great quality and service at the lowest possible price.

That's the basis for the proposed combination of Sainsbury's and Asda. To lower costs and offer customers better prices, quality, range, service and convenience.

The benefits of this combination to the UK are clear. Together, we will create a stronger UK business which will help lower the cost of living for UK customers and support UK suppliers.

### Customers' shopping habits and expectations of value

The way people shop has changed dramatically as a result of both the changing retail landscape and changing lifestyles. Customers now expect ever lower prices and better quality, range, convenience and service.

People now shop more often and in more places, with new technologies and channels opening up an increasing number of options. The "main weekly shop" is a thing of the past for most families – recent figures show that customers now shop an average of 3.9 times a week.

New ways of shopping explain why "big box" supermarket stores are under pressure. They are increasingly competing with more convenient, medium-sized and smaller shops which can offer attractive prices, quality and flexibility.

Discounters are now mainstream grocery competitors. The average basket size at a traditional supermarket contains 13 items versus 16 at a discounter.

**'Customers now expect ever lower prices and better quality, range, convenience and service'**

We estimate the UK market for retail food and grocery to be

**£140bn**

### Surge in shopping choices

The competitive landscape has transformed in the past decade. The concept of the "Big 4" grocers is now outdated.

There are now many major multiple chains:

 Sainsbury's

  Waitrose


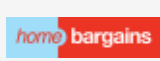

 

Convenience options include:

 Sainsbury's Local 


 

Bargain stores have expanded too:



New grocery options, such as food delivery (Just Eat, Deliveroo, UberEats) and meal kits (HelloFresh, Gousto) are all competing for the same customers. Ocado and Amazon are expanding too.

# Sainsbury's ASDA

## Market disrupted by the growth of new entrants

Aldi and Lidl have had the biggest impact on the sector in the last decade and have redefined 'value', particularly in fresh food and own-brand products. They have improved their customer store experience and expanded rapidly, forcing traditional retailers to cut their cost bases in response.

The combined market share of Aldi and Lidl has grown by more than two and a half times in the last seven years, from 4.3% in 2011 to 10.9% in 2018. The proportion of spend at discounters by customers doing their "main shop" reached nearly 50% in 2018, more than the 42% for traditional retailers. They are now significant grocery players, with a combined market share that is larger than Morrisons.

The rise of the discounters, growth of convenience stores, online channels, and home delivery services have all contributed to a new retail landscape.



>2,000

Aldi and Lidl stores projected to be open by 2022



Aldi and Lidl have a combined volume share of

20.5% 16.6%

fresh food

packaged food

## Protecting and nurturing our suppliers

Our supplier base is highly concentrated, and a small number of large companies account for the vast majority of what we buy. The basis for the proposed merger is to lower prices for customers across Sainsbury's and Asda and to improve the customer offer of both brands. This will be possible, in part, by harmonising our buying terms with a small set of large – often multinational – companies.

This is not a zero sum game. In this highly competitive market, we believe that our focus on reducing prices will offer a unique opportunity for suppliers to make their supply chains more efficient, serve a wider customer base and ultimately grow their businesses as we grow ours.

Our small and medium-sized suppliers are critical to our businesses. Sourcing from small suppliers and farmers will remain at the heart of our customer offer.

Sainsbury's and Asda are already bound by the Groceries Supply Code of Practice (GSCOP) and we will continue to ensure suppliers are treated fairly. We want to further strengthen our relationships with our suppliers.

'By keeping both brands distinctive and competitive, customers will get even more of what they love and value from both'

## Merger rationale

The scale and pace of change has had a dramatic impact on supermarkets, which have responded by reducing costs and improving their customer offering quickly. But, to be competitive in the long term, we must do more. Standing still in this challenging retail environment is not an option.

The merger will allow us to lower prices and to compete more effectively against larger, multinational competitors. We have committed to lowering prices of everyday items by around 10% and to investing in greater quality, range, service and convenience to deliver a more compelling customer proposition overall.

At the same time, by keeping both brands distinctive and competitive, customers will get even more of what they love and value from both. For example, the merger will enable us to offer Argos to Asda customers.

The proposed merger is pro-competitive for the UK grocery market. We expect it to stimulate greater competition from our rivals, leading to a dynamic and market-wide strengthening of competition, to the firm benefit of customers.

'A unique opportunity for smaller suppliers to grow their businesses as we grow ours'

## The review by the Competition and Markets Authority

The Competition and Markets Authority (CMA) is undertaking an objective, independent and evidence-based review and we will continue to engage constructively with it.

We will not prejudge the outcome of the process but we are confident that the proposed combination of Sainsbury's and Asda creates clear benefits for UK customers and for the wider economy.

