

Sainsbury's/Asda

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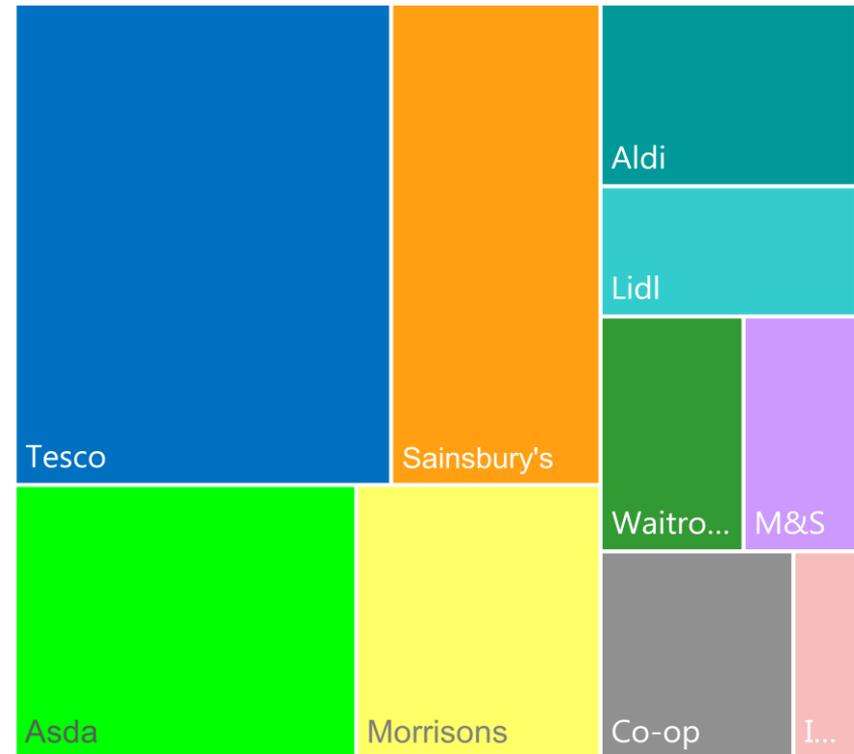
ACE Conference

14 November 2019

Introduction

- UK's second- and third-largest supermarket chains (together the largest)
- Competing in:
 - Supermarket groceries;
 - Convenience groceries;
 - Online delivered groceries;
 - General merchandise;
 - Petrol retailing
- Today: focus on unilateral effects in supermarket groceries

Shares of supply



National and local flexing

- **Parties compete in many ways**
 - National uniform flexing (P)
 - Some local flexing (QRS)
- **CMA: two assessments**
 - National (one decision)
 - Local (hundreds of decisions)
- National incentives reflect the aggregation of local competition

National assessment

- Range of evidence:
- Internal documents
- Survey of 100 areas and 10,000 shoppers
- Analysis of retail offering
- Third party views
- Switching data
- GUPPI (2.5 and 3.3%)

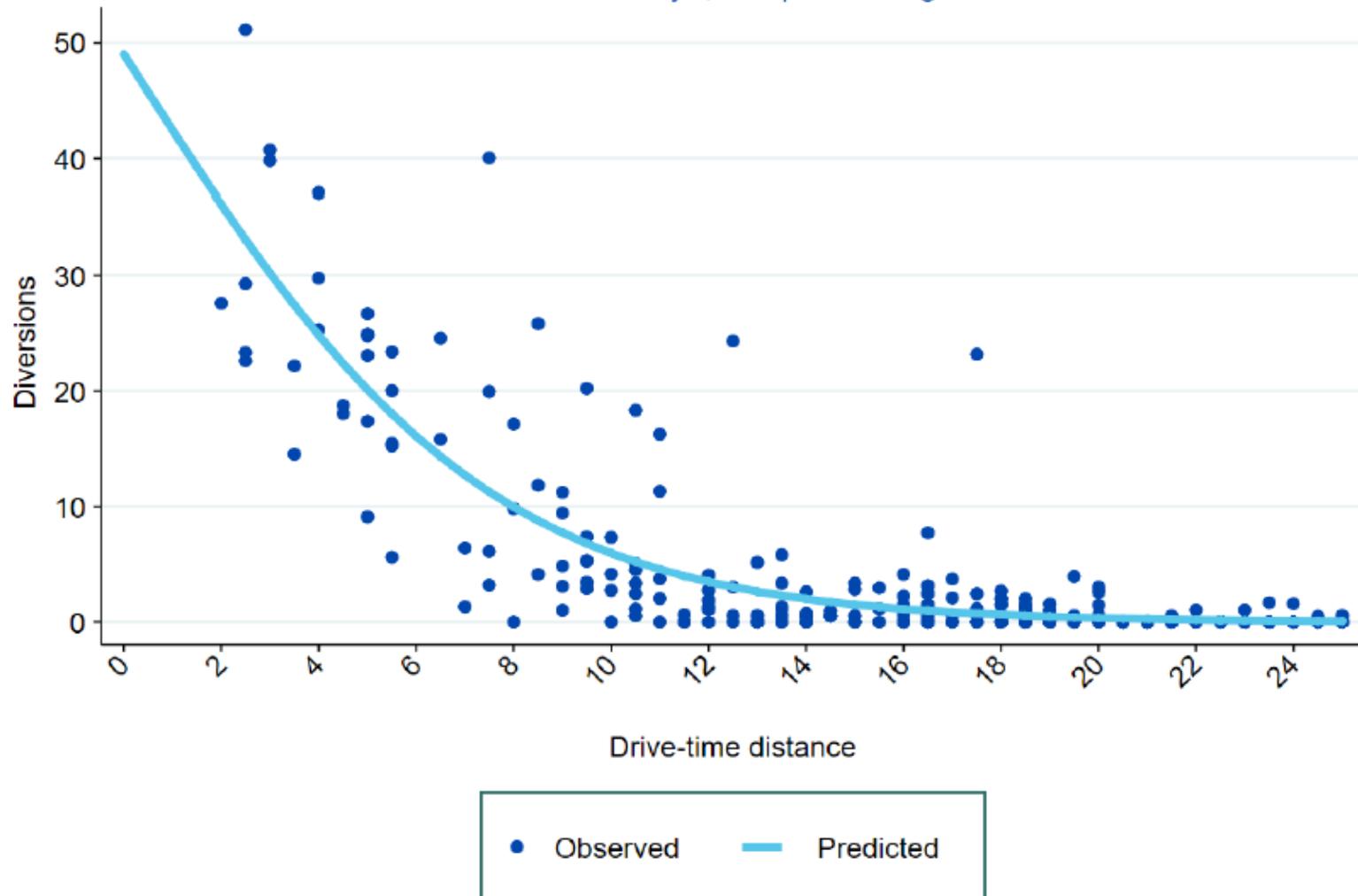
National assessment

- Varying competitive constraint from different retailers
- The other Big 3
 - Considerably greater strategic focus in internal documents
 - Special focus in commercial target setting and price benchmarking
 - Greatest destination for switching
- Discounters:
 - Recognised expansion from 6% to 13% (combined)
 - But: different retail proposition and lesser focus in documents

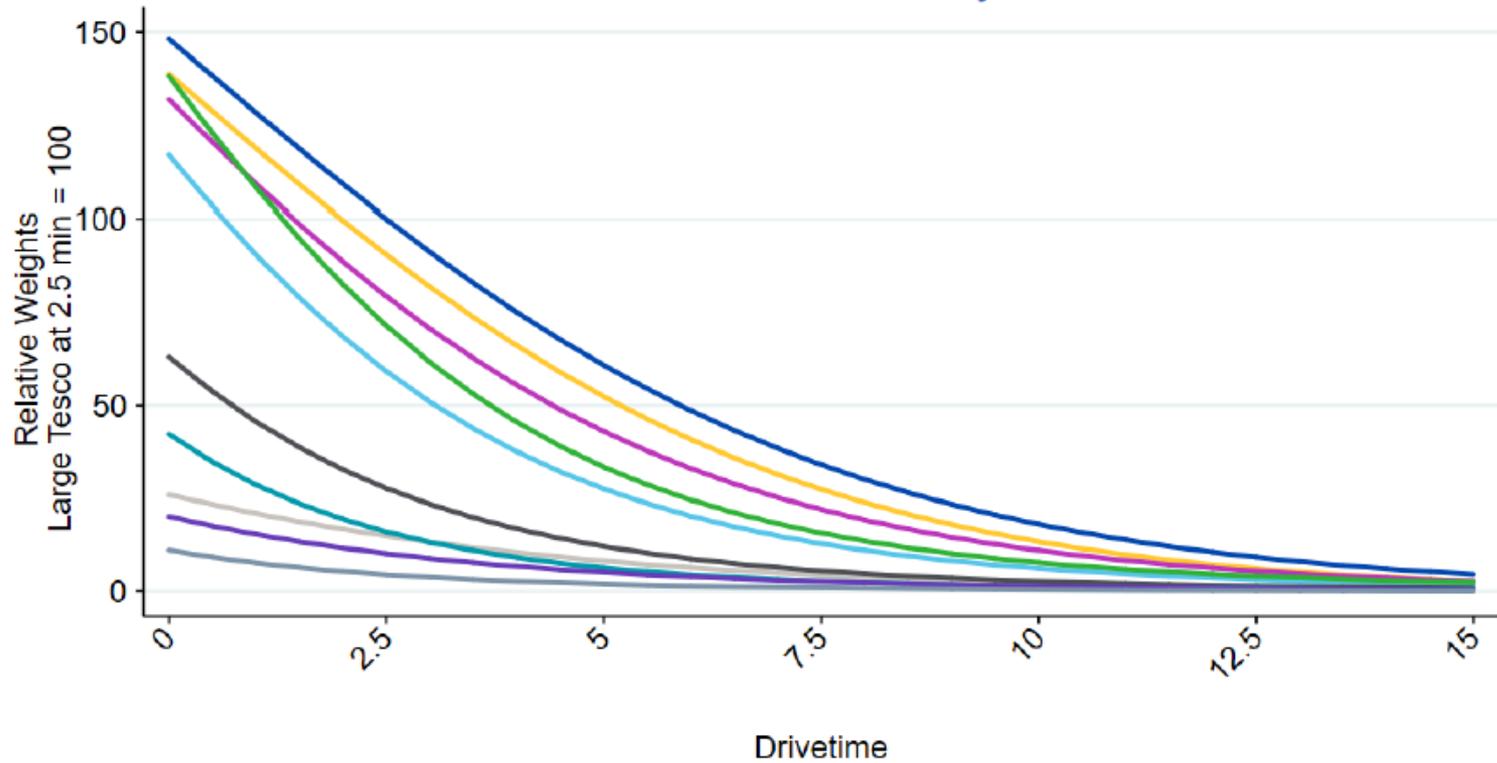
Local assessment

- **Decision rule approach**
 - Very large number of local areas
 - ‘In-the-round’ qualitative decision per local area not feasible
- **GUPPI rule has advantages:**
 - Consistency across local areas
 - Direct account of efficiencies
- **Need diversion estimate per local area**
- **Weighted Share of Shops (WSS)**
 - Diversion proportional to the number of stores
 - Further adjust for relative substitutability, depending on brand and distance
 - Survey of 100 local areas
 - Combined with entry/exit

Centroid: Sainsbury's, Competitor: Large Tesco



Centroid: Sainsbury's



GUPPI threshold

- First principles
- Three factors:
 - Efficiencies: 1.25%
 - Substantiality, uncertainty: 1.5%
 - Total: 2.75%
- No national ‘threshold’
 - But uncertainty was lower for national than local

Debate on the GUPPI threshold

- Should we apply confidence intervals (90%)?
 - Not consistent with legal test
 - Fails to take into account range of evidence
- Competitive responses
 - Empirical evidence consistent with Asda responding to changes in competition equivalent to GUPPI threshold
- How often does the WSS disagree with the survey in the 100 local areas?
 - Correcting for some methodological points, the uncertainty in the WSS did not suggest a higher threshold

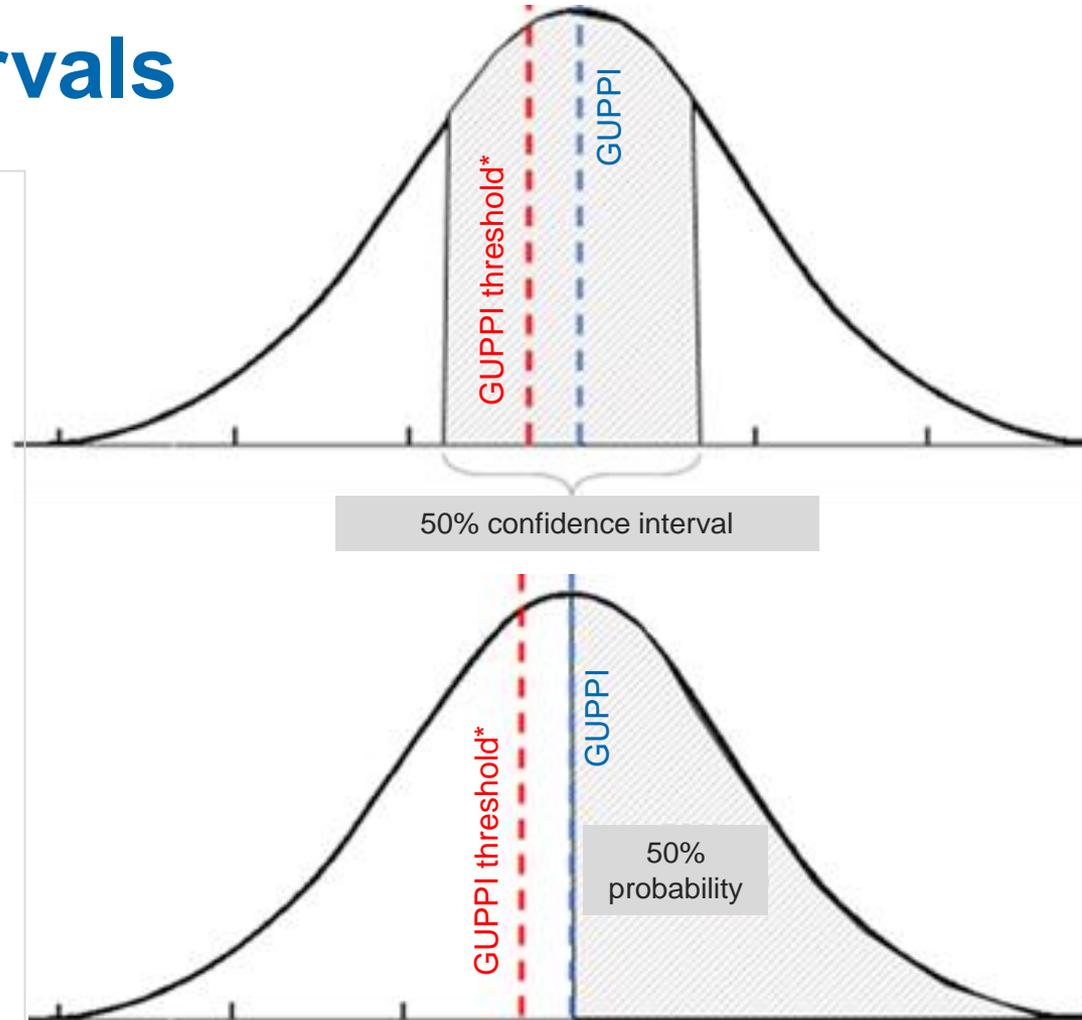
Debate on the GUPPI threshold

- ‘Critical diversion is only 13-14%’
 - No reason this could not imply profitable price increases
 - Even at a 5% GUPPI, diversion of 13-14% can suggest UPP (if margin $\approx 40\%$)
- Misses the big picture
 - The CMA considered a range of evidence and sense-checks
 - Reduces uncertainty in a way that cannot be captured in a formula
 - Less uncertainty about national (more about *which* local areas)
 - Ample allowance for uncertainty – akin to £600m extra efficiencies
 - The story was consistent across the evidence
 - Competition between Sainsbury’s and Asda was significant
 - The efficiencies case was insufficient to offset this

Back-up

1. Confidence intervals

- *'GUPPI should be statistically different (90%) from the threshold'*
- UK test is balance of probabilities
- >50% probability of SLC
- Some allowance to reduce risk of false positives (Type I error)
- CMA allowance: more than doubled the efficiencies allowance



2. Competitive responses

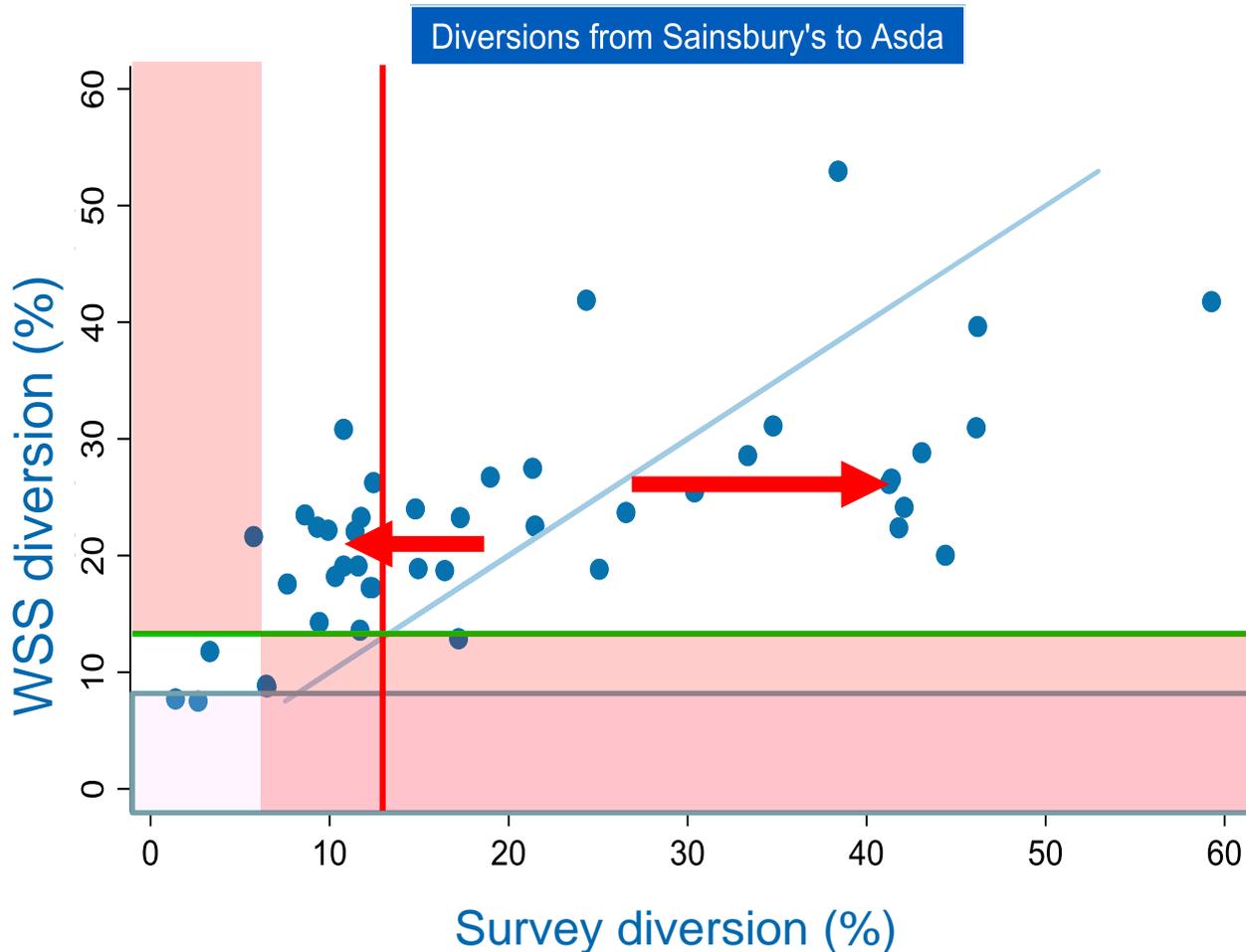
- Asda measures the impact of rival supermarket entry on its sales;
- At a certain level of impact, it responds by increasing store budgets
- → can look at correlation between:
 - WSS of new entrants
 - Impact on Asda's sales and, therefore, competitive responses
- Analysis showed that our GUPPI threshold was consistent with changes in local competition that Asda would respond to

3. Fascia count / diversion sense-checks

Argument - Critical diversion is:

- *only 13-14%.*
- *consistent with a market with 8 symmetric competitors.*
- Nothing inconsistent with 13-14% leading to net UPP
 - Can happen even using a 5% GUPPI
 - Why use GUPPI and then return to diversion ratios?
 - What does fascia counting add?
 - Key question is: does UPP outweigh DPP?

4. Survey cross-check



- Undersampling of low WSS areas
- Errors on both sides (uncertainty about *which* local areas is less relevant for national)
- WSS uncertainty is double-counted (correcting for this, higher threshold is not supported)