

Circulation: NFU colleagues and NFU members

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J Sainsburys plc & Asda Group Limited Merger Blocked by the CMA

Summary

The Competition and Markets Authority (CMA) has prohibited the proposed merger between J Sainsbury plc and Asda Group Limited. This decision was taken following a 12 month investigation which found there a likelihood that the merger would result in a substantial lessening of competition¹ (SLC) in a number of grocery markets in the UK, including online and fuel.

What is the NFU Position?

Throughout the investigation, the NFU had reiterated and demonstrated the key areas of concern regarding the impact this proposed merger would have on member businesses. This focused principally on;

- The potential further consolidation of the grocery supply chain which may impact availability and choice of product to consumers
- The risk of abusive market power by the proposed new entity which could make unreasonable demands on suppliers and transfer excessive risks and unexpected costs onto primary producers
- The effect of competition will outweigh any consumer benefit derived through lower prices

The NFU wrote to the CMA on three occasions as well as giving verbal evidence and submitting our own written evidence. [This can be accessed here](#)

Investigation Findings

A wide ranging investigation was undertaken by the CMA which included 60,000 shopper's views and a substantial weight of evidence provided by suppliers, trade bodies and retail competitors. The CMA also considered customer shopping patterns, geographic store locations, customer demographic data on consumer shopping behaviour and general market trends.

The CMA found extensive competition concerns which may lead to price rises, or a worsening of quality, range or service for customers. Some of these concerns arose due to;

- Both Sainsburys and Asda being significant players nationally and are both close competitors to each other.
- Their stores overlap in locations representing around 77% of all Sainsburys stores and 85% of Asda stores.

¹ An SLC occurs when rivalry is substantially less intense after a merger than would otherwise have been the case, resulting in a worse outcome for customers (through, for example, higher prices, reduced quality or reduced choice)

- Shoppers tended to switch grocery buying between both parties, less so than other retail alternatives.
- The new entity would have a grocery market share of 29%, making it the largest grocery retailer by share of sales. This added to the evidence which showed a closeness of competition between the parties and the absence of sufficient post-merger competition constraints.
- The CMA found that the scale of business and reduced competition within the market as a result of this merger meant there was a likelihood of pressure to increase prices that the CMA considers would be substantial.
- A loss of competition between the two parties as a result of the merger would incentivise the ability to reduce quality, range and service in stores.
- The CMA viewed Asda's convenience stores a significant risk for increasing prices. This was not the case for Sainsburys, due to the small proportion this represents of its wider estate.
- The merger would have created the largest retailer of fuel by volume in the UK.
- It was found that Sainsburys consumers using online shopping were more likely to use Waitrose or Ocado as alternatives whereas Asda online shoppers tended to switch to Sainsburys as an alternative. This would therefore result in Asda shoppers being disadvantaged by the reduction in choice following the merger.
- The scale of efficiencies proposed by the new entity to lower prices for consumers was more than outweighed by the negative impact of the reduction in competition.

The CMA viewed that prohibition of the merger in its entirety would be the only effective remedy and a proportionate measure in response to the large number of SLCs found.

What will the NFU do now?

In light of this decision, the NFU will be seeking a meeting with both Sainsburys and Asda to fully understand what this decision will mean to both businesses moving forward.