10 October 2018

Mr Stuart McIntosh, Panel Inquiry Chair and the Merger Inquiry Group
Competition and Markets Authority
Victoria House
Southampton Row
London WC1 4AD

Dear Mr McIntosh and colleagues

Proposed merger between J Sainsbury plc and ASDA Group Limited

We welcome the opportunity to engage with the CMA and the Inquiry Group on our proposed merger.

The UK grocery sector has fundamentally changed since the 2003 Competition Commission Safeway report and the 2008 Groceries Market Investigation. During the recession that followed the 2008 financial crisis and consequent period of decline in take home pay, customers have increasingly sought – and found – greater value in the grocery market. Changes to lifestyles, attitudes and demographics mean that people want better value and greater convenience and frequent shopping has become the new norm. Technological developments in mobile and online shopping have fundamentally altered the way people shop, increased choice and intensified the strength of competition that our two businesses face.

Whilst both our businesses are working hard to ensure we remain competitive, we want to bring our businesses together so that we can better meet these changed customer demands. Our merger will unlock significant cost savings which would not otherwise be available, a large proportion of which will be passed directly to customers through lower prices. This would not only make us more competitive on price; it would also enable us to invest to enhance the value, quality, range, service and convenience for our customers. We need to make these investments to keep pace with the transformative changes in the UK grocery market over the last decade and in the years to come.

Predecessors of the CMA have considered the historic trend for large weekly shops at "big box" stores, often located on the edge or out of town centres (and the Competition Commission's 2003 decision was heavily focused on competition in that segment). However, in the 15 years since that report, the market has changed fundamentally. Today, people are more likely to buy food for dinner on the way home from work, use online home delivery and do smaller-than-historical "main" shopping trips for key items and top-up with fresh items as needed, rather than doing a weekly "one-stop-shop" at a larger store.

Grocery retailers have reacted to these changes with speed and responsiveness, as one would expect in such a dynamic and competitive market.

Aldi and Lidl have had the most profound impact. Their rapid expansion both in store numbers and product range and quality, have changed customer perceptions of "value" and "convenience" and they are now mainstream grocery competitors, with over 20% volume share of fresh food. We expect their growth to continue: both have a particularly lean operational model and cost structure, a substantial proportion of which is driven by procurement efficiencies. All UK grocers have had to adapt their strategies in response; Tesco launching Jack's is the latest example of this.

In addition, our stores face increased competition from bargain stores including B&M (which recently acquired Heron Foods), Home Bargains and Poundland. The convenience sector is also expanding rapidly, along with online shopping (including pure-play competitors such as Ocado and Amazon). Amazon, in particular, is increasing its UK e-commerce presence by exploiting its acquisition of Whole Foods and building its Amazon Fresh offering, targeted at its Amazon Prime customer base. Amazon's effect in other retail markets is considerable and we expect it similarly to disrupt the UK grocery sector.

We expect the growth of these innovative and diverse retail grocery formats to continue.

Merging our businesses will enable us to significantly reduce our combined cost base, primarily through harmonising to the better of our respective buying terms. This, in turn, will enable us to reduce the prices we charge our customers to compete more effectively. We expect this to stimulate greater competition from our rivals, leading to a dynamic and market-wide strengthening of competition, to the benefit of customers.

We will also create synergies by bringing Argos into Asda stores which will expand the range of general merchandise, clothing and financial services available to customers. We also see real opportunities for our suppliers, who are crucial to our ability to serve our customers, including increased sales volumes leading to scale efficiencies and efficiencies, for example, in logistics and common ingredient sourcing for own brand products.

We therefore strongly believe that our merger is pro-competitive. It will enable us to respond better to changed consumer behaviour, will directly benefit our customers and will bring wider benefits to the UK economy.

We recognise that this is an important merger, as reflected in the level of public interest. We therefore welcome a thorough and detailed review by the CMA.

We hope and expect that your review will support our view of the positive nature of this transaction. We look forward to working constructively with you and your colleagues.

Yours sincerely

Mike Coupe
Chief Executive,
J Sainsbury plc

Roger Burnley
President and CEO,
Asda Group Limited