AlixPartners

The Assessment of Retailer Mergers

Substantial local complexity?

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St Catherine's College, Oxford

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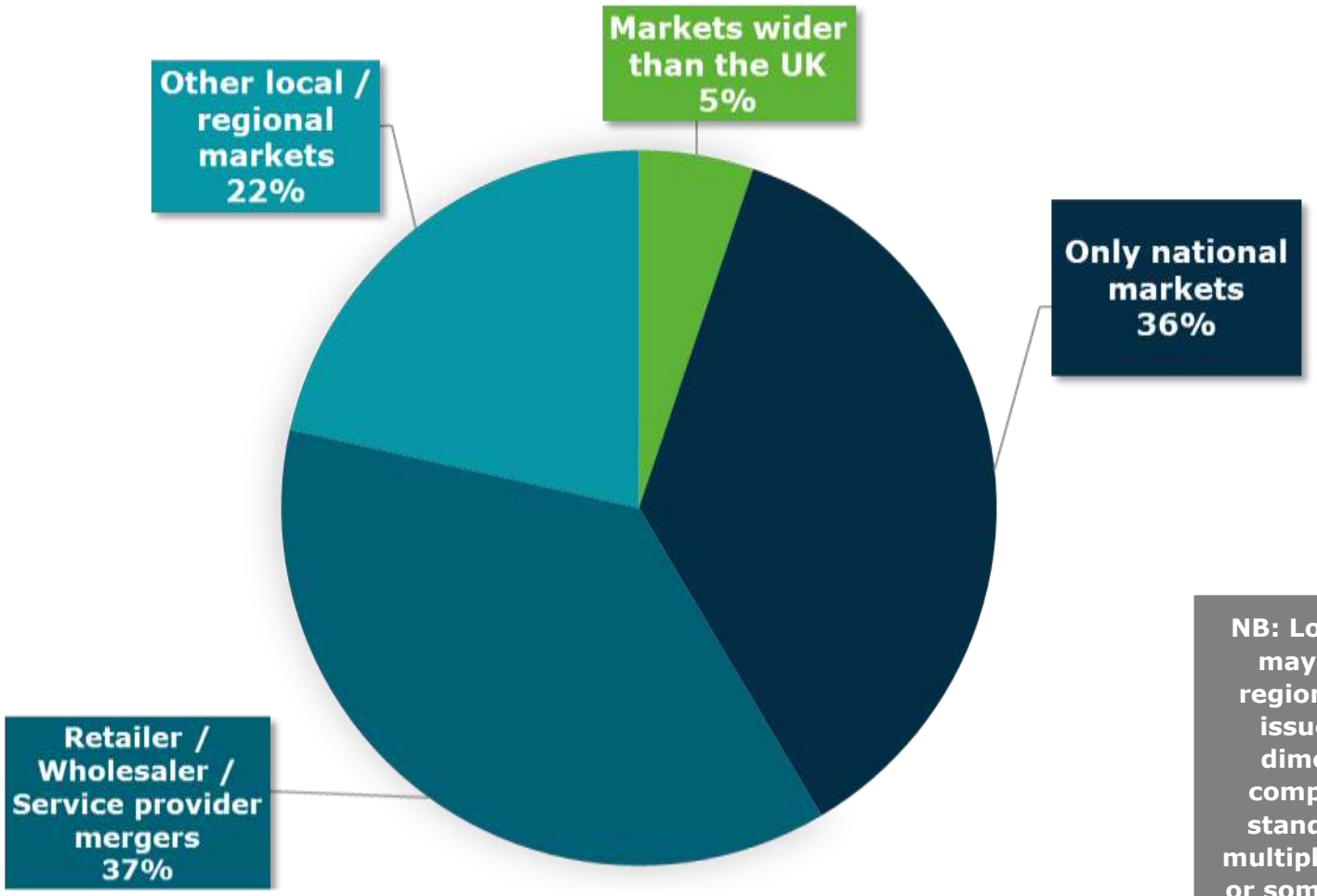
At Phase 1 SLC = substantial local complexity?

Proportion of 135 cases referred or UILs (1 April 2010 to 31 March 2019)



NB: Local mergers may also raise regional-national issues if some dimensions of competition are standard across multiple local areas or some customers procure regionally/nationally

Local catchment areas and filtering

Step 1:
Define the catchment area

- Catchment area = typically 80%
- Customer data drive times
- Where are the parties' stores located and how many overlap?
- If significant overlaps exist – filtering required to focus on those areas with competition concerns

Step 2:
Identify the effective competitor set

- CMA considers:
  - Internal documents (which rivals are tracked/matched?)
  - Store characteristics (which rivals have similar offerings or prices?)
  - Views of rivals
  - Econometric analysis (entry/exit impacts – Phase 2)

Step 3:
Define the measure of concentration

This could involve:

- Counting stores or fascia
- Calculating revenue-based market shares (above 35-40%?)
- Applying different weights to specific retailers

Objective – proxy for high diversion:

- Store or fascia counts most common at Phase 1
- Weighted share of shops (number/ distance) in a number of recent Phase 2 cases

Case study – Sainsbury's ASDA

GUPPI – What is it?

OR

OR

$$\text{GUPPI}_{12} = D_{12}M_2\frac{P_2}{P_1}$$

?

Characteristics:

- Always positive
- Measurement: diversion ratios (surveys/extrapolation); gross margins (halo effect?); relative prices (baskets)

The right GUPPI threshold for a SLC to be expected?

- Sainsbury's/Asda - matter of judgment and a case specific approach
- Before efficiencies: 1.5% for fuel, online and supermarkets, 2% for convenience. Increased by proven groceries efficiency offset of 1.25%
- Very low GUPPI threshold for national groceries SLCs?
- Low market local shares will be an SLC