



Case M-007

Groceries Market Study

Findings and recommendations

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1 Overview

- 1.1 This document provides a summary of the Jersey Competition Regulatory Authority (**the Authority**)’s findings and recommendations for the groceries market study.¹ It follows the consultation published in June 2023 which set out draft findings and recommendations.
- 1.2 The market study was carried out against published terms of reference, which identified the key areas to consider:
 - the market characteristics, including consumer demand, market structure and market outcomes; and
 - the nature of competition across the grocery market supply chain.In addition to these two areas, the study also reviewed:
 - the features or otherwise of the grocery market potentially impacting competition; and
 - the comparative data and findings from previous market studies carried out by the Authority and wider international developments.
- 1.3 In the delivery of this market study the Authority was supported by experts from Frontier Economics.² Published alongside this document is a Frontier Economics report “M-007 Groceries Market Study: Final Report” (**final report**).³ The final report sets out the detail behind the findings of the study and recommendations summarised in this document, and builds on wider developments and consultation feedback on the Frontier Economics draft report.
- 1.4 This document is structured as follows:
 - Background (chapter 2);
 - Market study findings and recommendations (chapter 3); and
 - Next steps (chapter 4).
- 1.5 It also includes one annex, which provides an overview of the responses to the consultation and the Authority’s consideration of them.

¹ All case documents can be found at: <https://www.jcra.je/cases/2022/m-007-groceries-market-study/>

² Frontier Economics is one of the largest economic consultancies in Europe and uses cutting edge economics to solve complex business and policy problems, and works with leading private and public sector organisations. Frontier has extensive experience in Jersey and in the grocery sector. Further information about Frontier is available at www.frontier-economics.com.

³ Authority document number JCRA 23/55

2 Background

2.1 This section contains three subsections, which cover in turn:

- The Authority;
- Overview of market studies; and
- The market study process.

The Authority

2.2 The Authority is responsible for promoting competition in the supply of goods and services in Jersey, together with the economic regulation of the ports, postal and telecommunications sectors.

2.3 As an independent regulator, the Authority has ambitious aims to help shape and sustain the Island's economic future, for the benefit of Jersey consumers, citizens and businesses. These aims are captured in the Authority's Strategic Plan.⁴ This plan is the guiding framework within which the Authority shapes, prioritises and delivers its annual Business Plan.

2.4 Competition law and economic regulation seek to achieve economic efficiency and sustainable competition. This allows consumers to have the benefits of fair prices, desirable goods and services and the opportunity to choose what they want to buy. This can be challenging at times in a small market, such as Jersey, given understandable economic constraints. But equally, can present opportunities to consider pragmatic approaches tailored to market needs.

Overview of market studies

2.5 A market study is a flexible tool to explore whether a market, or a feature of a market, is working well for Jersey consumers. Broadly, it considers the relationship between consumer behaviour in a market, the behaviour of businesses in that market, the market's structure and other factors relevant to the performance and/or operation of a market. By looking at these issues, the Authority can determine whether action that can encourage change will help address any actual or potential constraints to competition.

2.6 While the Authority will seek to apply a consistent approach and 'template' to each market study, a market study is not a formal competition investigation, and the Authority has wide discretion in how it frames a market study and the analytical framework it chooses to apply to any market study.

2.7 The outcomes of a market study may be one or more of the following:

- A clean bill of health for the market;
- Consumer/business focused action; and /or
- Recommendations to Government/Authority.

2.8 An important point to note is that the focus of a market study is not the actions of any specific business or firm, but rather the functioning of the market as a whole. It should be noted that, if

⁴ See: <https://www.icra.je/strategic-plans/strategic-plan/strategic-plan/>

as part of a study, evidence emerged to suggest a more formal investigation were to be required under Competition Law, the appropriate tool would be competition enforcement, not a market study. In this scenario the market study would be stopped and a formal investigation launched.

- 2.9 Consistent with the Authority's Strategic Plan, market studies are used to address issues with competition in those markets where change would most benefit Islanders.

The market study process

- 2.10 The groceries market was selected for study as:

- groceries represent a significant proportion of household expenditure;
- in the context of the current economic climate, increasing inflation and the 'cost of living' debate, consumers are facing additional expenditure pressures;
- there have been structural and other changes in the market since the last market study into Groceries in 2014, including market entry and the emergence of online shopping; and
- recent external environmental factors may have also impacted on the market and businesses operating within it, for example, Brexit and the Covid-19 pandemic.

- 2.11 Taking these factors into account, the terms of reference were issued with the launch of the study in November 2022.⁵ Frontier Economics were appointed to support the market study after a competitive procurement process based on proven expertise, strategic fit and value for money.

- 2.12 In addition, to further inform the market study, the Authority commissioned independent consumer research; to be conducted by Jersey-based 4insight, drawing views from Islanders, as well as inviting written and telephone responses. The research was designed to discover where consumers buy their groceries, how often, and the average weekly spend. Another aim of the study was understanding what factors influence consumers when deciding where to shop, both in physical stores and online. This was incorporated into the draft report and an overview of the research was published alongside the consultation.⁶

- 2.13 Alongside the consumer research, the following steps were also taken to help develop the draft report:

- Interviews were undertaken (mostly via video call) with key stakeholders in Jersey, covering the main on-island grocery retailers as well as smaller players and, government and consumer bodies. To broaden the study perspective, interviews were also held with UK operators not present in the Jersey grocery market.
- Retailer interviews were followed up with questionnaires (for the retailers), this provided the opportunity to provide evidence for the study.
- Analysis of price comparison data, both from the Jersey Consumer Council price comparison website and UK based retailers (also using price comparison websites).

⁵ See: <https://www.jcra.je/cases/2022/m-007-groceries-market-study/groceries-market-study-terms-of-reference/>

⁶ See: <https://www.jcra.je/media/598750/groceries-market-study-4insight-consumer-research-report.pdf>

- Public information, data and fact gathering to provide evidence to develop the analysis, and to consider issues raised in the stakeholder interviews.
- 2.14 The consultation period began on 6 June 2023 and closed on 21 July 2023. The Authority received three formal responses to the consultation, from the Co-operative Society, Jersey Consumer Council and Public Health Jersey. The Authority welcomes all respondents' submissions on the draft report and consultation, and also the positive engagement throughout the consultation process with each of the key stakeholders. Public versions of the responses are available on the Authority website.
- 2.15 Following closure of the consultation, the analysis contained in the draft report was updated and consideration was given to wider developments in grocery markets internationally. Most notably, in July 2023 the Competition Markets Authority (CMA) in the United Kingdom concluded that, consistent with the Authority's view of Jersey, *"the evidence we have seen indicates that recent high price inflation for groceries to date does not appear to have been driven at an aggregate level by weak or ineffective competition between retailers."*⁷
- 2.16 Annex A to this document sets out a high-level summary of stakeholders' responses and some of the key issues raised in the consultation. Annex A also provides an outline summary of the Authority's comments on the main issues arising in stakeholder's responses.

⁷ See:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1172290/Competition_choice_and_rising_prices_in_groceries.pdf

3 Market study: findings and recommendations

- 3.1 The final report presents a detailed view of the market and the 'state of competition', e.g., market size and structure, consumer demand, supply characteristics and pricing comparisons. The overarching summary indicates that the market is working, with no clear or material competition policy concerns.
- 3.2 Consistent with previous Authority studies into groceries, the report suggests there is potential scope for measures designed to improve the competitive process. For example, in respect of market entry and structure, and in respect of consumer information and consumers' ability to effectively exercise choice.
- 3.3 While the report indicates that on-island pricing for groceries remains generally above those in the UK, it also sets out reasoning for price differences. Again, the analysis and reasoning appear consistent with previous Authority studies - higher on-island prices are largely explained by a higher cost base on-island (relative to the UK).
- 3.4 These findings were consistent with those expressed by stakeholders. The final report builds on the comments received during consultation and the representations made during engagement with stakeholders. The Authority's recommendations are effectively drawn from the findings of the study. For example, one of the Authority's main findings relates to the need for greater price transparency to encourage greater price based competition.
- 3.5 Box 1 below sets out the findings and recommendations. Implementing the options will require both work and support by the Authority and other key stakeholders and they are designed to make competition more effective and help improve the price, quality and range of groceries available to Jersey consumers.

Box 1: Findings and recommendations

The final report sets out that there are no immediate competition issues for Jersey's grocery market. This is based on the following:

- Profits for grocery retailers are in line with expectations and benchmarks.
- Jersey's grocery market continues to evolve with new entrants, and development of online groceries.
- While Jersey has experienced food price inflation, it is in line with inflation elsewhere.
- Given market fundamentals, there are barriers to new entrants, in particular lower price operators.
- Price differences between Jersey and the UK tend to reflect higher on-island operating costs (primarily freight and labour) and tax differences, and not a lack of competition.

The final report then sets out three recommendations, to help ensure competition continues to develop in the grocery market for the benefit of consumers, which can be summarised as follows:

1. Improving price transparency with investment in Jersey Consumer Council's price comparison service, to encourage greater price based competition.
2. Maintain a competitive and dynamic groceries market, by minimising entry barriers, such as planning, and promoting Jersey as a test-bed for innovation.

3. Follow up recommendations from the 2021 market study into Freight Logistics, to increase competition and reduce freight costs.

Further detail on the recommendations can be found in section 8 of the final report.

4 Next steps

- 4.1 The recommendations from the study are for the consideration of policymakers in Government and the Authority will closely follow further policy developments in this area and seek updates on implementation of the recommendations. Alongside this, the Authority will continue to monitor indicators of retail competition on an ongoing basis to ensure the study findings remain robust.
- 4.2 As set out in the Authority's 2023 Business Plan the Authority's market studies regime aims to address issues with competition in those markets where change would most benefit Islanders. Already in 2022, alongside the work on groceries, the Authority has completed a market study into school uniforms. Further studies are planned and will be announced in due course.

Annex: Consultation response annex

The responses to the consultation presented a variety of perspectives on the draft findings and options for recommendations. Respondents' contributions on each of the matters raised in the consultation were helpful for the Authority in making its decision to adopt the findings and recommendations in the final report. The table below provides a high-level summary of responses grouped by the key elements of the consultation referred to by respondents. The table also sets out the Authority's high-level response to the points raised.

Respondents should note that not all of the comments made by each stakeholder will be captured in the table below. However, the Authority has given careful consideration to every written submission, and where appropriate, taken full account of them in the Authority's recommendations.

Table 1: Consultation response summary table

Element of the consultation	High-level overview of respondents' comments	Authority's response
Draft findings of the study	Respondents generally accepted the draft findings set out in the consultation, and in some instances offered some additional context on the findings.	The Authority has reviewed the additional information and commentary provided by respondents on the draft findings. Given that responses either accepted the draft findings, or provided very specific pieces of additional information for the Authority's consideration, the final report did not require any significant updates, new analysis or additional findings. Where appropriate, previous analysis has been updated to incorporate new data.
Option for recommendation 1: Increase funding to improve Jersey Consumer Council's price comparison service	<p>Respondents were broadly supportive of this option for a recommendation. There was agreement that more price transparency would benefit Jersey consumers. However, respondents also suggested that:</p> <ul style="list-style-type: none"> • it is important that the service provides accurate, up-to-date information; • the service should aim to cover a wide range of fascia and stores; and • the service could benefit from incorporating information beyond the shelf-edge price, such as promotions and nutritional information. 	The Authority notes the view, consistent with its own analysis, of the benefits of greater price transparency. Where respondents' suggestions related to the functionality of the service, the Authority has shared the relevant information with the Jersey Consumer Council.

Element of the consultation	High-level overview of respondents' comments	Authority's response
	<p>Jersey Consumer Council was supportive of this recommendation. The Council agreed the service could be developed and enhanced, for example by:</p> <ul style="list-style-type: none"> • increasing the range of products and local stores surveyed; • potentially comparing prices to other jurisdictions, such as the UK; or • possibly increasing the frequency of surveys of other products and services, which are currently done on an ad-hoc basis. 	
<p>Option for recommendation 2: Minimise any additional entry barriers, and promote Jersey as a testbed for innovation</p>	<p>Respondents did not have strong views on the need to minimise barriers to entry. One respondent suggested that the Authority should consider barriers to entry to be relatively low, while another suggested the Authority focus on removing barriers for particular types of retailer. All of the respondents were supportive of promoting Jersey as a testbed for innovation.</p>	<p>The Authority notes the broad support for this recommendation, consistent with the analysis and evidence set out in the study.</p>
<p>Option for recommendation 3: Continue to consider the Authority's recommendations in its 2021 Freight Logistics Market Study</p>	<p>All of the respondents were supportive of this option for recommendation. Freight costs are viewed to be relatively high for grocery retailers, and respondents suggested that lowering these costs would ultimately benefit consumers.</p>	<p>The Authority notes the broad support for this recommendation, consistent with the analysis and evidence set out in the study. The Authority, through its role as the regulator of port operations in Jersey, is supporting the implementation of the Freight Logistics Market Study recommendations and is seeking updates on implementation of the wider recommendations.</p>